CANADA POST POSTES CANADA

CANADA POST CORPORATION

2017 **First Quarter** Financial Report

For the period ended April 1, 2017

Contents

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the first quarter ended April 1, 2017, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 weeks ended April 1, 2017. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 1, 2017, which were prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2016. 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 25, 2017, unless otherwise noted.

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

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Materiality

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

Forward-looking statements

The unaudited interim condensed consolidated financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends," and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management on page 9 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 25, 2017, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

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

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. The Group of Companies is one of Canada's largest employers providing jobs to close to 64,000 people. During 2016, employees delivered almost 8.4 billion pieces of mail, parcels and messages to 16 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,200 retail post offices in the country. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Public Services and Procurement and has a single shareholder, the Government of Canada.

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

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $1.6 billion for the first quarter of 2017 (79.1% of total revenue) and $6.2 billion for the full year ended December 31, 2016 (78.1% of total revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

Canada Post is at a critical point in its history. As the trend toward online communication is increasing, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in Transaction Mail, our largest line of business. In 2016, we delivered 3.2 billion pieces of Domestic Lettermail, 1.8 billion (or 37%) less than we did in the peak year of 2006.

While our largest line of business (Transaction Mail) is not expected to rebound, we have been able to capitalize on the opportunity that the internet has created for us – to deliver more packages as Canadians are buying more items online. By partnering with retailers and e-tailers, and innovating to create greater convenience for online shoppers, Canada Post has reinvented itself to continue to play a key role in the lives of Canadians in the digital era and remains the country's number one parcel delivery company. Though parcels and direct marketing represent opportunity for Canada Post, their growth will not be enough to offset the decline in the core Lettermail business, fund its pension obligations or allow the Corporation to invest in its network and customer service.

In 2016, the Government of Canada began a three-phased review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. In the first phase, an independent four-person task force collected information and conducted analysis with the help of external experts. The task force's comprehensive discussion paper, issued in September, reaffirmed the challenges facing the postal system and the path the Corporation was taking to secure its future. In the second phase, a parliamentary committee held public consultations with Canadians about the options proposed by the task force. The committee submitted its recommendations to the government in December. In the third phase, the government is weighing all the work that has been done. Canada Post remains engaged with officials as the government does the important work of making decisions about the future of postal services. The government is expected to announce its recommendations in the spring of 2017. Canada Post will review them and work with all stakeholders to determine the best path forward.

Canada Post is continuing with its strategies of growing its Parcels business, strengthening its Direct Marketing business, and pursuing improved efficiency, productivity and cost-competitiveness in its operations. Although the impacts of these strategies are sizeable, they alone will not allow the Corporation to achieve financial self-sustainability. The Government of Canada review of the postal service should provide the Corporation with the operational flexibility that will allow it to return to financial self-sustainability.

Financial highlights

For the first quarter ended April 1, 2017, the Canada Post Group of Companies reported a profit before tax of $65 million, compared to a profit before tax of $35 million in the same period in 2016. The $30-million increase in the Group of Companies' 2017 first quarter results was driven primarily by positive results in the Purolator segment, which reported a profit before tax of $17 million in the first quarter of 2017 due to business growth, compared to a loss before tax of $12 million in the same period in 2016. The Canada Post segment's profit before tax was $44 million for the first quarter of 2017, consistent with the profit before tax in the first quarter of 2016.

The Canada Post segment generated revenue of $1,620 million in the first quarter of 2017, a decrease of $6 million compared to the same period in 2016.

Parcel revenue and volumes increased in the first quarter of 2017 compared to the same period in 2016 – by $45 million or 10.8%, and six million pieces or 12.5%. Strong results for Parcels were driven by continuous growth in e-commerce and efforts to deliver competitive offerings.

Transaction Mail revenues and volumes continued to decline in the first quarter of 2017, compared to the same period in 2016 – by $32 million or 3.8%, and 56 million pieces or 5.9%. Volumes continue to be adversely affected by mail erosion driven by electronic substitution.

Direct Marketing revenue and volumes decreased in the first quarter of 2017 compared to the same period in 2016 – by $10 million or 3.4%, and three million pieces or 0.3%, as commercial customers continue to reduce their marketing expenditures and redirect some of them to other media channels.

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 our financial performance and, if it weren't for temporary pension relief on special payments, they would put pressure on our cash resources. In February 2014, the Government of Canada provided relief to Canada Post from the requirement to make special payments to the Canada Post Corporation Registered Pension Plan (RPP) from 2014 to 2017. On April 29, 2017, the Government issued proposed regulations to further ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985,* would be amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. This change could delay upcoming special payments for Canada Post. The Corporation is assessing the impact of these proposed regulatory changes.

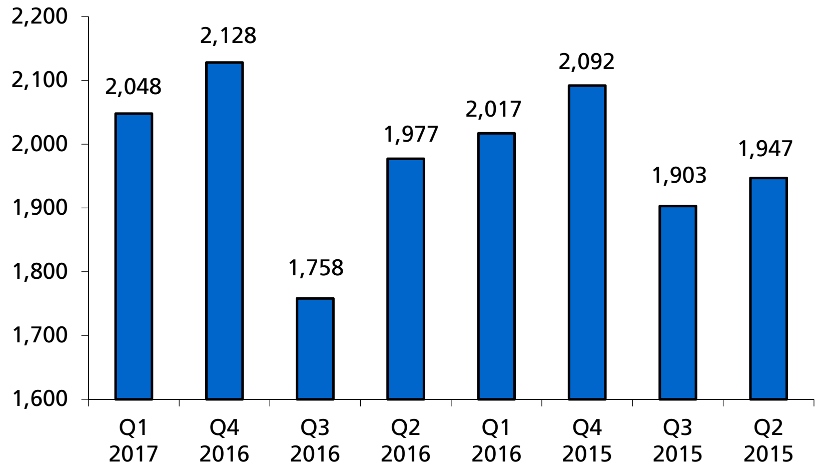
Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the first quarter of 2017, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $319 million, net of tax, recorded in other comprehensive income and worsening the Group of Companies' equity balance to negative $574 million as at April 1, 2017. These remeasurement losses in the first quarter of 2017 were mostly the result of a decrease in discount rates offset by better than expected pension asset returns.

The prior year's discount rates and other actuarial assumptions, as well as pension asset balances, are used to calculate the current year's employee benefit expense, and thereby affect the Corporation's operating results. These factors led to a minor decrease in the employee benefit expense of $12 million or 2.0%[1] in the first quarter of 2017, compared to the same period in 2016, which positively affected the Canada Post segment's profitability in the first quarter of 2017. These results demonstrate how changing discount rates, investment returns and other actuarial assumptions can cause significant volatility in the Corporation's financial statements.

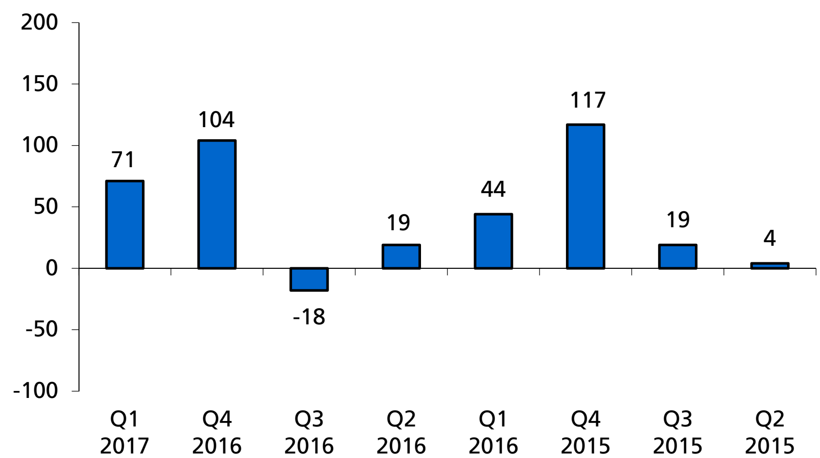
1. Adjusted for paid days, where applicable

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

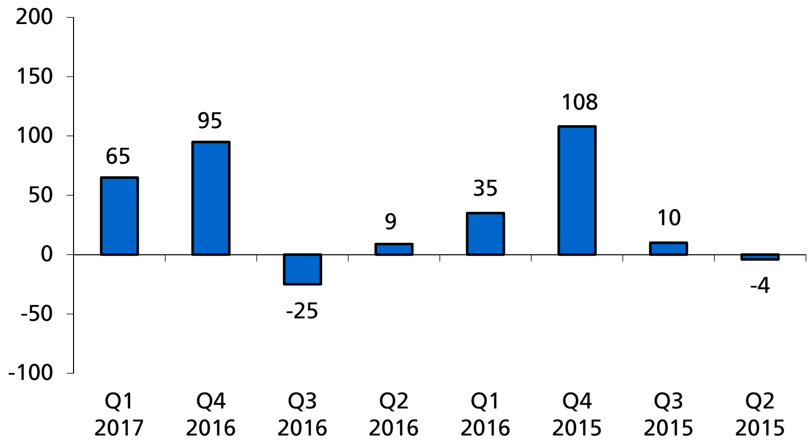
Quarterly consolidated revenue from operations
(in millions of dollars)



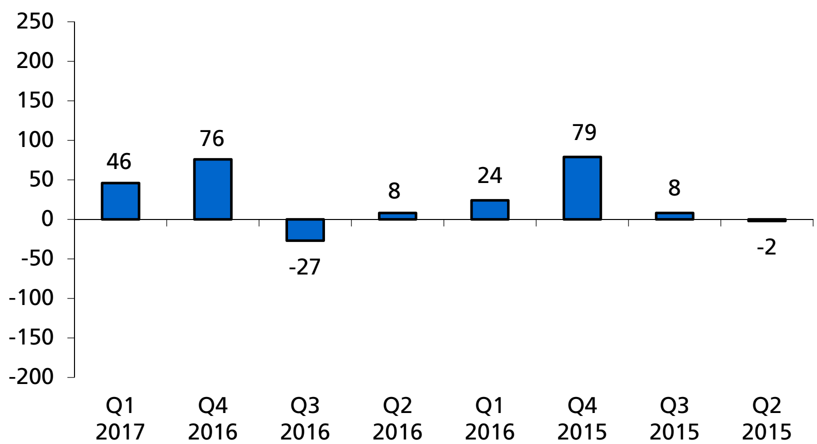
Quarterly consolidated profit (loss) from operations
(in millions of dollars)



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



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



The following table presents the Corporation's consolidated performance for the first quarter of 2017, compared to the same period in the prior year.

(in millions of dollars)	13 weeks ended				
	April 1, 2017	April 2, 2016	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations page 16.
Revenue from operations	2,048	2,017	31	1.6	Mainly due to higher revenue in the Purolator segment due to business growth. Revenue growth in the Canada Post segment was flat.
Cost of operations	1,977	1,973	4	1.8[1]	Mainly a result of increased expenses in the Purolator and Logistics segments, offset by one less paid day in the first quarter of 2017, compared to the same period in 2016.
Profit from operations	71	44	27	61.9	Mainly due to positive results in the Purolator segment, from business growth.
Profit before tax	65	35	30	86.0	
Net profit	46	24	22	93.5	
Comprehensive loss	(270)	(1,011)	741	73.3	Mainly due to higher than targeted pension asset returns, offset by a decrease in discount rates.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 10.
Cash provided by operating activities	165	110	55	50.6	Mainly due to lower income tax payments.
Cash provided by (used in) investing activities	118	(91)	209	–	Mainly due to higher proceeds from the sales of securities, as well as lower acquisitions of securities and capital assets.
Cash used in financing activities	(6)	(62)	56	90.0	Mainly due to the repayment in the first quarter of 2016 of non-redeemable bonds that matured in March.

1. Adjusted for paid days, where applicable.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

Canada Post is at a critical point in its history. The increasing trend toward online communication means Canadian households and businesses are not using our Lettermail™ services to the same extent. This has led to a significant drop in Transaction Mail, our largest line of business. In 2016, we delivered 3.2 billion pieces of Domestic Lettermail, 1.8 billion (or 37%) less than we did in the peak year of 2006. Transaction Mail is not expected to rebound.

Canada Post has reinvented itself and remains the country's number one parcel delivery company. We have achieved this by pivoting our operations, innovating to gain competitive advantage, partnering with retailers and e-tailers, and focusing on providing a superior customer experience. Though Parcels and Direct Marketing represent opportunities for Canada Post, their growth is not expected to entirely offset the financial impact of the decline in the core Lettermail business and enable funding of its pension obligations, nor to enable necessary investment in the network. Canada Post needs to move to a more competitive cost structure to ensure its long-term financial self-sustainability.

Our current strategy focuses on transforming our network to grow the Parcels and Direct Marketing lines of business and to reinforce our brand by supporting Canadians' changing postal needs. Another part of the strategy is meeting our service commitments to provide a superior customer experience.

During Canada Post's continued implementation of this growth strategy, the Government of Canada launched in 2016 a three-phased review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. The first two phases are complete and the government is reviewing all reports and comments. It expects to announce a decision about the future of postal services in the spring of 2017. Canada Post will review its recommendations and work with all stakeholders to determine the best path forward.

Our core businesses and strategy are described in Section 2 – Core Businesses and Strategy of the 2016 Annual MD&A. There were no material changes to the strategy during the first quarter of 2017.

3 Key Performance Drivers

A discussion of our key achievements in 2017

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

As discussed in Section 2.3 – Our strategy and strategic priorities of the 2016 Annual MD&A, our main strategic priorities are focused on growing our Parcels and Direct Marketing lines of businesses.

Performance results for 2017 will be updated at the end of the year and included as part of the 2017 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 2016 Annual MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2016, and various bargaining activities are summarized in Section 4.1 – Our employees – Labour relations of the 2016 Annual MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

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

As a part of the 2016 collective agreement, the Corporation and CUPW-UPO established a Labour-Management Relationship Committee with the objective of promoting more effective open and continuous involvement between the parties and enhance communication, in order to improve labour relations. The committee, which is composed of at least two representatives of each party, met for the first time in May 2017.

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

On September 1, 2016, the parties signed a memorandum of understanding in which they agreed to enter into a joint pay equity study to assess whether a gender-based wage gap exists under *the Canadian Human Rights Act* for the Rural and Suburban Mail Carriers' female predominant occupational group or groups. The study is being coordinated by a committee made up of representatives from Canada Post and CUPW and their respective pay equity consultants. If there is a wage gap, the two parties will endeavour to negotiate a resolution. If the parties are unable to reach a mutually agreeable solution, the matter will be referred to binding arbitration.

The Minister of Labour appointed an arbitrator February 2, 2017. Between April and June, the parties will hold focus groups with employees as part of the study that will be led by the pay equity consultants. Any wage gap adjustment would be retroactive to January 1, 2016.

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

The collective agreement between Canada Post and PSAC/UPCE expired August 31, 2016. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees in areas such as finance and engineering. This agreement provides for strike or lockout.

A notice to bargain was filed by PSAC/UPCE August 10, 2016, and the parties met in October 2016 to exchange opening statements, which included a summary of each party's proposals for this round of negotiations. In the first quarter of 2017, the parties held a total of four meetings. Meetings have occurred in May and more are planned for late July. Canada Post remains fully committed to negotiating a new four-year collective agreement that is fair for employees, while meeting its business challenges and the needs of its customers.

In the meantime, the terms of the current collective agreement continue to apply under the *Canada Labour Code.*

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees expired December 31, 2016. On March 29, 2017, Purolator and the Teamsters reached a tentative agreement. The new five-year agreement was ratified by members on April 28, 2017.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the first quarter of 2017, there were no changes in internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Risks and Risk Management

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

Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). A description of the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2016 Annual MD&A. Updates to these risks for the first quarter of 2017 are provided below.

Where appropriate, Canada Post has recorded provisions for some of the following claims. Should the ultimate resolution of these actions differ from management's assessments and assumptions, this could result in a material future adjustment to the Corporation's financial position and results of operations.

CPAA pay equity complaint

The Canadian Postmasters and Assistants Association (CPAA) initially filed a complaint with the Canadian Human Rights Commission (CHRC) in 1982, alleging discrimination by the Corporation concerning work of equal value. That complaint was settled in 1985, after which a second identical complaint was filed by the CPAA in 1992. The 1992 complaint was settled by the parties in 1997. Nonetheless, in 2012, the CPAA requested its reactivation. In 2014, the Commission investigator concluded that, while agreements between the parties resolved pay equity issues for the period subsequent to 1997, the prior period (1992-97) remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. In early 2015, the Commission rendered a decision, agreeing with the investigator, that the matter should proceed to the Tribunal on its merits. Canada Post's application for judicial review of that decision was dismissed by the Federal Court in July 2016. In August 2015, Canada Post also brought forward a motion to the Tribunal to dismiss the complaint. In a decision released September 1, 2016, the Tribunal ruled that Canada Post's motion for dismissal was premature and directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016, in order that the matter could proceed to its merits. Statements of particulars have subsequently been exchanged.

In the meantime, the CPAA has taken the position that the Tribunal should not be limited by the 1992-97 dates, and rather should assess liability against Canada Post to present day. A motion will be heard by the Tribunal on June 19, 2017, at which time it will hear arguments from the parties on this issue.

Federal Court review of Canada Post's decision to convert door-to-door delivery to CMB delivery

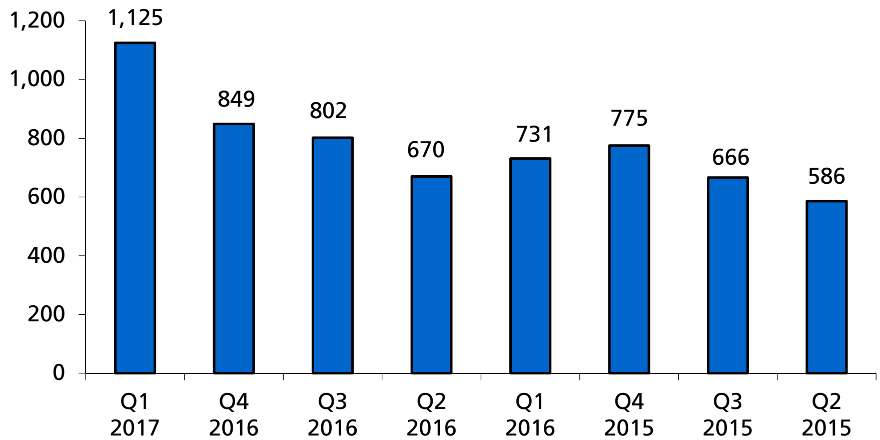
An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014. By motion to the Federal Court, a number of Montréal urban communities were granted intervenor status in September 2015. A hearing on the application has not yet been scheduled. The Parties have agreed and the Court has sanctioned that the matter be put in abeyance to allow the government to complete the review of Canada Post. The program to convert existing customers with door-to-door delivery to community mailbox delivery was suspended in October 2015.

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 $1,125 million as at April 1, 2017 – an increase of $276 million compared to December 31, 2016, mainly due to an increase in cash provided by investing activities and operating activities.

6.2 Operating activities

		13 weeks ended	
(in millions of dollars)	April 1, 2017	April 2, 2016	Change
Cash provided by operating activities	165	110	55

Cash provided by operations in the first quarter of 2017 increased by $55 million compared to the same period in 2016. The positive change in 2017 cash flow, compared to the same period in 2016, was driven primarily by lower income taxes paid in the Canada Post segment, due to timing.

6.3 Investing activities

		13 weeks ended	
(in millions of dollars)	April 1, 2017	April 2, 2016	Change
Cash provided by (used in) investing activities	118	(91)	209

Cash used in investing activities increased by $209 million in the first quarter of 2017 compared to the same period in 2016. The change was due mainly to higher proceeds from the sales of securities, as well as lower acquisitions of securities and capital assets.

Capital expenditures

	13 weeks ended		
(in millions of dollars)	April 1, 2017	April 2, 2016	Change
Canada Post	16	19	(3)
Purolator	3	8	(5)
Logistics	1	2	(1)
Intersegment and consolidation	(1)	(2)	1
Canada Post Group of Companies	**19**	**27**	**(8)**

Capital expenditures for the Group of Companies decreased by $8 million in the first quarter of 2017, when compared to the same period in 2016. The decrease in 2017 was mainly due to reduced spending in the Purolator and Canada Post segments.

6.4 Financing activities

	13 weeks ended		
(in millions of dollars)	April 1, 2017	April 2, 2016	Change
Cash used in financing activities	(6)	(62)	56

Cash used in financing activities decreased by $56 million in the first quarter of 2017 compared to the same period in 2016, due mainly to the repayment of non-redeemable bonds that matured in the first quarter of 2016.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $23 billion as at December 31, 2016, making it one of the largest single-employer sponsored pension plans in Canada. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan of the 2016 Annual MD&A. An update follows.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* under which the Corporation is exempt from making special contributions to the RPP from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, the aggregate amount of relief is limited to 15% of the fair value of plan assets, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis. On April 29, 2017, the Government issued proposed regulations to further ease the burden of solvency deficit payments for federally-regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985,* would be amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. This change could delay upcoming special payments for Canada Post. The Corporation is assessing the impact of these proposed regulatory changes. Also, in 2016, the Government of Canada undertook a review of Canada Post, which includes an examination of the sustainability of the RPP.

The current estimate of the financial position of the RPP as at December 31, 2016, is a going-concern surplus of approximately $1.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.7 billion (using the three-year average solvency ratio basis). The solvency deficit of the RPP (using market value of plan assets) decreased from an estimated $6.5 billion at December 31, 2016, to an estimated $5.8 billion at the end of the first quarter of 2017, mainly due to a gain on asset returns in the first quarter. These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2016, will be filed by the end of June 2017 and results may differ significantly from these estimates.

Current service contributions amounted to $67 million for both first quarters of 2017 and 2016. The employer's current service contributions for 2017 are estimated at $271 million. Without relief as outlined in the regulations under the *Pensions Benefits Standards Act, 1985* and the *Canada Post Corporation Pension Plan Funding Regulations* significant special payments would be required in 2017.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the first quarter of 2017, remeasurement losses for the RPP, net of tax, amounted to $221 million for the RPP. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

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 2017, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $1,811 million of unrestricted liquid investments on hand as at April 1, 2017, 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. Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $213 million of unrestricted cash on hand and undrawn credit facilities of $119 million as at April 1, 2017, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

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

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at April 1, 2017, amounted to $997 million and $56 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2016 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2016 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 2016 Annual MD&A.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. For more information on foreign exchange risk, refer to Note 11 – Fair Values and Risks Arising From Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 1, 2017. There were no material changes to market risk during the first quarter of 2017.

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 2017.

Liquidity risk

Liquidity risk is the risk that the Group of Companies will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. There were no material changes to liquidity risk during the first quarter of 2017.

6.8 Contractual obligations and commitments

Contractual obligations and commitments are explained in Section 6.8 – Contractual obligations and commitments of the 2016 Annual MD&A. There were no material changes to contractual obligations and commitments during the first quarter of 2017.

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in the support of 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 2016 Annual MD&A. For more information on related party transactions, refer to Note 14 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 1, 2017.

6.10 Contingent liabilities

Contingent liabilities are described in Note 10 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 1, 2017. There were no material changes to contingent liabilities during the first quarter of 2017.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between April 1, 2017, and December 31, 2016

(in millions of dollars)

ASSETS	April 1, 2017	Dec. 31, 2016	Change	%	Explanation of change
Cash and cash equivalents	1,125	849	276	32.5	Refer to Section 6 – Liquidity and Capital Resources page 10.
Marketable securities	899	1,038	(139)	(13.4)	Mainly due to timing due to the maturation of short-term investments.
Trade and other receivables	786	829	(43)	(5.2)	Primarily due to decreased receivables that resulted from higher sales in December 2016.
Other assets	130	110	20	18.5	Mainly due to an increase in prepaid expenses in the Purolator segment and higher income tax installments for 2017 made in the Canada Post segment.
Total current assets	**2,940**	**2,826**	**114**	**4.0**	
Property, plant and equipment	2,621	2,672	(51)	(1.9)	Mainly due to depreciation exceeding acquisitions in the Canada Post segment.
Intangible assets	112	117	(5)	(4.3)	Mainly due to amortization of software assets exceeding acquisitions.
Segregated securities	532	523	9	1.7	Mainly due to unrealized gains and interest income.
Pension benefit assets	128	135	(7)	(5.5)	Due to remeasurement losses on post-employment benefit plans mainly due to a decrease in discount rates, partially offset by positive investment returns.
Deferred tax assets	1,494	1,384	110	8.0	Mainly due to the increase of temporary differences from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	8	5	3	54.7	No material change.
Total non-current assets	**5,025**	**4,966**	**59**	**1.2**	
Total assets	**7,965**	**7,792**	**173**	**2.2**	

(in millions of dollars)

LIABILITIES	April 1, 2017	Dec. 31, 2016	Change	%	Explanation of change
Trade and other payables	443	548	(105)	(19.1)	Mainly due to lower trade and sales tax payables and a reduction in accrued bond interest in the Canada Post segment.
Salaries and benefits payable and related provisions	537	487	50	10.2	Mainly due to increased statutory deductions payable, partially offset by decreases to accrued salaries, benefits and overtime in the Canada Post segment.
Provisions	77	70	7	10.4	Mainly due to an increase in grievance provisions in the Canada Post segment.
Income tax payable	2	3	(1)	(19.3)	No material change.
Deferred revenue	114	115	(1)	(1.6)	No material change.
Loans and borrowings	19	22	(3)	(12.7)	No material change.
Other long-term benefit liabilities	62	62	–	–	No change.
Total current liabilities	**1,254**	**1,307**	**(53)**	**(4.0)**	
Loans and borrowings	1,034	1,037	(3)	(0.3)	No material change.
Pension, other post-employment and other long-term benefit liabilities	6,225	5,726	499	8.7	Mainly due to remeasurement losses on post-employment benefit plans in the Canada Post segment mostly attributable to a decrease in discount rates, partially offset by positive investment returns.
Other liabilities	26	26	(0)	(2.0)	No material change.
Total non-current liabilities	**7,285**	**6,789**	**496**	**7.3**	
Total liabilities	**8,539**	**8,096**	**443**	**5.5**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	47	44	3	6.0	Mainly due to net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(1,802)	(1,530)	(272)	(17.8)	Mainly due to remeasurement losses on post-employment benefit plans as a result of a decrease in discount rates, partially offset by positive investment returns.
Equity of Canada	**(600)**	**(331)**	**(269)**	**(81.7)**	
Non-controlling interests	26	27	(1)	(1.7)	
Total equity	**(574)**	**(304)**	**(270)**	**(89.0)**	
Total liabilities and equity	**7,965**	**7,792**	**173**	**2.2**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

The following table shows the Group of Companies' consolidated results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services. The quarterly results can also be affected by the number of business (trading) and paid days, which can vary by quarter. Additional business days result in increased revenue, while additional paid days result in increased cost of operations. In the first quarter of 2017, there was the same number of business days and one less paid day compared to the same period in 2016. This represents a timing difference and that will be eliminated by the end of 2017.

(in millions of dollars)	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015
Revenue from operations	2,048	2,128	1,758	1,977	2,017	2,092	1,903	1,947
Cost of operations	1,977	2,024	1,776	1,958	1,973	1,975	1,884	1,943
Profit (loss) from operations	**71**	**104**	**(18)**	**19**	**44**	**117**	**19**	**4**
Investing and financing income (expense), net	(6)	(9)	(7)	(10)	(9)	(9)	(9)	(8)
Profit (loss) before tax	**65**	**95**	**(25)**	**9**	**35**	**108**	**10**	**(4)**
Tax expense (income)	19	19	2	1	11	29	2	(2)
Net profit (loss)	**46**	**76**	**(27)**	**8**	**24**	**79**	**8**	**(2)**

8.2 Consolidated results from operations

Consolidated results for the first quarter of 2017

			13 weeks ended	
(in millions of dollars)	April 1, 2017	April 2, 2016	Change	%
Revenue from operations	2,048	2,017	31	1.6
Cost of operations	1,977	1,973	4	1.8[1]
Profit from operations	**71**	**44**	**27**	**61.9**
Investing and financing income (expense), net	(6)	(9)	3	27.6
Profit before tax	**65**	**35**	**30**	**86.0**
Tax expense	19	11	8	69.3
Net profit	**46**	**24**	**22**	**93.5**
Other comprehensive loss	(316)	(1,035)	719	69.4
Comprehensive loss	**(270)**	**(1,011)**	**741**	**73.3**

1. Adjusted for paid days, where applicable.

The Canada Post Group of Companies reported a profit before tax of $65 million for the first quarter of 2017, compared to a profit before tax of $35 million in the first quarter of 2016. The increase in profit before tax in 2017 was driven primarily by the Purolator segment. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated revenue from operations

For the first quarter of 2017, revenue from operations increased by $31 million when compared to the same quarter in 2016, primarily due to growth from the Purolator segment. In the Canada Post segment, Lettermail™ erosion and a decrease in Direct Marketing revenue were partially offset by Parcels growth. A detailed discussion of revenue by segment follows in sections 8.4 to 8.6.

Consolidated cost of operations

The cost of operations grew slightly by $4 million in the first quarter of 2017, when compared to the same quarter in the prior year, driven by increased costs in the Purolator and Logistics segments due to business growth. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

The consolidated tax expense for the first quarter of 2017 increased by $8 million, compared to the same period in the prior year, primarily driven by an increase in the Group of Companies' profit before tax.

Consolidated other comprehensive income (loss)

In the first quarter of 2017, the consolidated other comprehensive loss amounted to $316 million. This loss was due mainly to remeasurement losses on pension and other post-employment plans resulting from a decrease in discount rates, offset by higher than targeted pension asset returns. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income (loss).

8.3 Operating results by segment

Segmented results – Profit (loss) before tax

				13 weeks ended
(in millions of dollars)	April 1, 2017	April 2, 2016	Change	%
Canada Post	44	44	–	(0.6)
Purolator	17	(12)	29	–
Logistics	4	4	–	0.5
Other	–	(1)	1	–
Canada Post Group of Companies	**65**	**35**	**30**	**86.0**

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

8.4 Canada Post segment

The Canada Post segment recorded a profit before tax of $44 million in the first quarter of 2017, consistent with the profit before tax in the first quarter of 2016.

Canada Post results for the first quarter of 2017

		13 weeks ended		
(in millions of dollars)	April 1, 2017	April 2, 2016	Change	%
Revenue from operations	1,620	1,626	(6)	(0.4)
Cost of operations	1,570	1,574	(4)	1.3[1]
Profit from operations	**50**	**52**	**(2)**	**(5.0)**
Investing and financing income (expense), net	(6)	(8)	2	27.6
Profit before tax	**44**	**44**	**–**	**(0.6)**
Tax expense	12	13	(1)	(7.5)
Net profit	**32**	**31**	**1**	**2.2**

1. Adjusted for paid days, where applicable.

Revenue from operations

Canada Post earned revenue from operations of $1,620 million in the first quarter of 2017 – a slight decrease of $6 million or 0.4% when compared to the same quarter in 2016. The decline was due primarily to Lettermail erosion and a drop in Direct Marketing revenue in the first quarter of 2017, compared to the same period in 2016, partially offset by continued solid growth in Parcels.

Quarterly revenue by line of business

		13 weeks ended		
(in millions of dollars)	April 1, 2017	April 2, 2016	Change	%
Transaction Mail	817	849	(32)	(3.8)
Parcels	466	421	45	10.8
Direct Marketing	276	286	(10)	(3.4)
Other revenue	61	70	(9)	(13.3)
Total	**1,620**	**1,626**	**(6)**	**(0.4)**

Transaction Mail

Transaction Mail revenue of $817 million for the first quarter of 2017 was made up of the following three product categories: Domestic Lettermail ($742 million), Outbound Letter-post ($33 million), and Inbound Letter-post ($42 million).

In the first quarter of 2017, Transaction Mail revenue decreased by $32 million or 3.8%, while volumes decreased by 56 million pieces or 5.9% compared to the same period in 2016. For Domestic Lettermail, the largest product category, revenue and volumes decreased by $29 million or 3.8% and 51 million pieces or 5.7%, respectively.

Volume declines were primarily driven by ongoing erosion due to electronic substitution. Demand for mail continues to steadily drop given the continued increase in the use of digital alternatives by households and businesses, the implementation of pay-for-paper initiatives by some of our largest customers, and the highly competitive environment.

Parcels

Parcels revenue of $466 million for the first quarter of 2017 was made up of the following four product categories: Domestic Parcels ($337 million), Outbound Parcels ($55 million), Inbound Parcels ($69 million), and Other ($5 million).

Parcels revenue increased by $45 million or 10.8%, while volumes increased by over six million pieces or 12.5% when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued its growth as revenue increased by $36 million or 12.1%, and volumes grew by over four million pieces or 10.7%.

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

Direct Marketing

Direct Marketing revenue of $276 million for the first quarter of 2017 was made up of the following four categories: Canada Post Personalized Mail™ ($132 million), Canada Post Neighbourhood Mail™ ($96 million), Publications Mail™ ($39 million), Business Reply Mail™ and Other mail ($9 million).

In the first quarter of 2017, Direct Marketing revenue decreased by $10 million or 3.4%, while volumes dropped by three million pieces or 0.3% when compared to the same period in 2016. Neighbourhood Mail, the largest volume product category, saw revenue grow by $1 million or 0.4% and volumes grow by 12 million pieces or 1.5% compared to the same period in 2016. The declines in the other categories were caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels. Publications Mail revenue and volumes also were lower by $6 million or 12.9% and 10 million pieces or 13.9%, respectively, due to a decline in mail publication subscriptions.

Other revenue

Other revenue totalled $61 million in the first quarter of 2017 – a decrease of $9 million or 13.3%, when compared to the same period in the prior year, mainly due to fluctuations in foreign currencies.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,570 million in the first quarter of 2017 – a small decrease of $4 million or 1.3%[1] when compared to the same quarter last year. The decrease in the first quarter of 2017 was due mainly to one less paid day compared to the first quarter of 2016.

			13 weeks ended	
(in millions of dollars)	April 1, 2017	April 2, 2016	Change	%[1]
Labour	788	783	5	2.2
Employee benefits	314	326	(12)	(2.0)
Total labour and employee benefits	**1,102**	**1,109**	**(7)**	**0.9**
Non-labour collection, processing and delivery	232	223	9	5.6
Property, facilities and maintenance	67	66	1	3.0
Selling, administrative and other	108	114	(6)	(3.7)
Total other operating costs	**407**	**403**	**4**	**2.6**
Depreciation and amortization	61	62	(1)	(0.5)
Total	**1,570**	**1,574**	**(4)**	**1.3**

1. Adjusted for paid days, where applicable.

Labour

Labour costs totalled $788 million in the first quarter of 2017, an increase of $5 million or 2.2%[1] when compared to the same period in 2016. The increase was due to wage increases, partially offset by the impact of one less paid day in the first quarter of 2017.

Employee benefits

Employee benefits decreased by $12 million or 2.0%[1] for the first quarter of 2017, when compared to the same period in 2016. The drop was largely due to the impact of favorable asset returns in 2016, used to calculate benefit plan costs in 2017, a decrease in the inflation adjustment and one less paid day in the first quarter of 2017. These positive impacts were offset by a decrease in the 2016 discount rate used to calculate benefit plan costs in 2017 and updated demographic assumptions.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $9 million or 5.6%[1] for the first quarter of 2017 when compared to the same period in 2016, mainly due to higher transportation and maintenance expenses, partially offset by lower international settlement costs.

Property, facilities and maintenance

The cost of facilities remained relatively consistent when compared to the same period in 2016.

Selling, administrative and other

Selling, administrative and other expenses decreased by $6 million or 3.7%[1] for the first quarter of 2017, when compared to the same period last year, due to reduced costs of products and lower program expenses.

Depreciation and amortization

Depreciation and amortization expenses were $61 million for the first quarter of 2017 and remained relatively consistent when compared to the same period in 2016.

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1. Adjusted for paid days, where applicable.

8.5 Purolator segment

The Purolator segment recorded a net profit of $11 million for the first quarter of 2017, an increase of $20 million from the loss incurred in same period in 2016.

Purolator results for the first quarter of 2017

	13 weeks ended			
(in millions of dollars)	April 1, 2017	April 2, 2016	Change	%
Revenue from operations	386	350	36	10.4
Cost of operations	369	362	7	3.5[1]
Profit (loss) from operations	**17**	**(12)**	**29**	**–**
Investing and financing income (expense), net	–	–	–	–
Profit (loss) before tax	**17**	**(12)**	**29**	**–**
Tax expense (income)	6	(3)	9	–
Net profit (loss)	**11**	**(9)**	**20**	**–**

1. Adjusted for paid days, where applicable.

Revenue from operations

Purolator generated revenue from operations of $386 million in the first quarter of 2017 – an increase of $36 million or 10.4% when compared to the same period in 2016. The increase in the first quarter of 2017 was due mainly to increased volumes from new business.

Cost of operations

Total labour costs

Total labour costs were $193 million in the first quarter of 2017. The increase of $3 million or 3.1%[1] in the first quarter of 2017 when compared to the same period in 2016, was driven by business growth, offset by one less paid day.

Total non-labour costs

Total non-labour costs were $176 million in the first quarter of 2017 – an increase of $4 million or 4.0%[1] when compared to the same period in 2016. The increase was driven primarily by business growth and higher fuel costs.

1. Adjusted for paid days, where applicable.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $3 million of net profit to the consolidated results for the first quarter of 2017, an increase of 0.4% when compared to the same period in the prior year.

Logistics results for the first quarter of 2017

	13 weeks ended			
(in millions of dollars)	April 1, 2017	April 2, 2016	Change	%
Revenue from operations	66	63	3	3.6[1]
Cost of operations	62	59	3	5.6
Profit from operations	**4**	**4**	**–**	**0.7**
Investing and financing income (expense), net	–	–	–	–
Profit before tax	**4**	**4**	**–**	**0.5**
Tax expense	1	1	–	0.9
Net profit	**3**	**3**	**–**	**0.4**

1. Adjusted for trading days.

Revenue from operations

SCI generated revenue from operations of $66 million in the first quarter of 2017 – an increase of $3 million or 3.6%[1] when compared to the same period in 2016. Increases in the first quarter of 2017 were driven mainly by volume growth from current clients and new services.

Cost of operations

Total labour costs

Total labour costs were $32 million in the first quarter of 2017 – an increase of $1 million or 3.3% when compared to the same period in 2016. Increases in the first quarter of 2017 were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $30 million in the first quarter of 2017 – an increase of $2 million or 8.0% when compared to the same period in 2016. Increases in the first quarter of 2017 were primarily the result of growth from existing clients and new business.

8.7 Consolidated results to plan

While an interim 2017-2021 Corporate Plan was filed with the Minister responsible for Canada Post, it was not advanced for Governor-in-Council consideration in light of the Government's current review of Canada Post.

1. Adjusted for trading days, where applicable.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2017 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 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 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 2016 Annual MD&A and Note 4 – Critical Accounting Estimates and Judgments of the 2016 consolidated financial statements, which are contained in the *Canada Post Corporation 2016 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations effective January 1, 2017

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2017, resulted in no changes in accounting policies for the Corporation's interim condensed consolidated financial statements:

Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7) • The IASB issued amendments to IAS 7 requiring entities to provide disclosures about changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). IAS 7 is to be applied prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted. Although there will be no change to the consolidated financial statements, a reconciliation of liabilities arising from financing activities will be disclosed in the notes to the consolidated financial statements for the year ending December 31, 2017.

Annual Improvements to IFRS – 2014-2016 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2014-2016 cycle. The standards and topics covered by the amendments were as follows: IFRS 1 "First-time Adoption of International Financial Reporting Standards" deletes short-term exemptions for first-time adopters; IFRS 12 "Disclosure of Interests in Other Entities" clarifies the scope of the standard by specifying that the disclosure requirements, except those in certain paragraphs, apply to an entity's interests that are classified as held for sale, held for distribution or discontinued operations; IAS 28 "Investments in Associates and Joint Ventures" clarifies that the election to measure, at fair value through profit or loss, an investment in an associate or a joint venture held by a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments for IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendment to IFRS 12 is effective for annual periods beginning on or after January 1, 2017. The adoption of these improvements had no impact on the interim condensed consolidated financial statements.

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

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

Standard or amendment	Effective for annual periods beginning on or after
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019

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 25, 2017

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	Notes	April 1, 2017	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**$ 1,125**	$ 849
Marketable securities		**899**	1,038
Trade and other receivables		**786**	829
Other assets	**4**	**130**	110
Total current assets		**2,940**	2,826
Non-current assets			
Property, plant and equipment	**5**	**2,621**	2,672
Intangible assets	**5**	**112**	117
Segregated securities		**532**	523
Pension benefit assets	**6**	**128**	135
Deferred tax assets		**1,494**	1,384
Goodwill		**130**	130
Other assets		**8**	5
Total non-current assets		**5,025**	4,966
Total assets		**$ 7,965**	$ 7,792
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 443**	$ 548
Salaries and benefits payable and related provisions	**9**	**537**	487
Provisions		**77**	70
Income tax payable		**2**	3
Deferred revenue		**114**	115
Loans and borrowings		**19**	22
Other long-term benefit liabilities	**6**	**62**	62
Total current liabilities		**1,254**	1,307
Non-current liabilities			
Loans and borrowings		**1,034**	1,037
Pension, other post-employment and other long-term benefit liabilities	**6**	**6,225**	5,726
Other liabilities		**26**	26
Total non-current liabilities		**7,285**	6,789
Total liabilities		**8,539**	8,096
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**47**	44
Accumulated deficit		**(1,802)**	(1,530)
Equity of Canada		**(600)**	(331)
Non-controlling interests		**26**	27
Total equity		**(574)**	(304)
Total liabilities and equity		**$ 7,965**	$ 7,792
Contingent liabilities	**10**		

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**April 1, 2017**	April 2, 2016
Revenue from operations		**$ 2,048**	$ 2,017
Cost of operations			
Labour		**985**	979
Employee benefits	**6**	**370**	378
		1,355	1,357
Other operating costs	**12**	**547**	539
Depreciation and amortization	**5**	**75**	77
Total cost of operations		**1,977**	1,973
Profit from operations		**71**	44
Investing and financing income (expense)			
Investment and other income	**13**	**5**	3
Finance costs and other expense	**13**	**(11)**	(12)
Investing and financing expense, net		**(6)**	(9)
Profit before tax		**65**	35
Tax expense	**7**	**19**	11
Net profit		**$ 46**	$ 24
Other comprehensive income (loss)			
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of available-for-sale financial assets	**8**	**$ 3**	$ 7
Foreign currency translation adjustment	**8**	**–**	(1)
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans	**8**	**(319)**	(1,041)
Other comprehensive loss		**(316)**	(1,035)
Comprehensive loss		**$ (270)**	$ (1,011)
Net profit (loss) attributable to			
Government of Canada		**$ 45**	$ 25
Non-controlling interests		**1**	(1)
		$ 46	$ 24
Comprehensive loss attributable to			
Government of Canada		**$ (269)**	$ (1,006)
Non-controlling interests		**(1)**	(5)
		$ (270)	$ (1,011)

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

Interim Condensed Consolidated Statement of Changes in Equity

For the 13 weeks ended April 1, 2017 (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, 2016	**$ 1,155**	**$ 44**	**$ (1,530)**	**$ (331)**	**$ 27**	**$ (304)**
Net profit	**–**	**–**	**45**	**45**	**1**	**46**
Other comprehensive income (loss)	**–**	**3**	**(317)**	**(314)**	**(2)**	**(316)**
Comprehensive income (loss)	**–**	**3**	**(272)**	**(269)**	**(1)**	**(270)**
Balance at April 1, 2017	**$ 1,155**	**$ 47**	**$ (1,802)**	**$ (600)**	**$ 26**	**$ (574)**

For the 13 weeks ended April 2, 2016 (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, 2015	$ 1,155	$ 48	$ (2,354)	$ (1,151)	$ 27	$ (1,124)
Net profit (loss)	–	–	25	25	(1)	24
Other comprehensive income (loss)	–	6	(1,037)	(1,031)	(4)	(1,035)
Comprehensive income (loss)	–	6	(1,012)	(1,006)	(5)	(1,011)
Balance at April 2, 2016	$ 1,155	$ 54	$ (3,366)	$ (2,157)	$ 22	$ (2,135)

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

Interim Condensed Consolidated Statement of Cash Flows

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**April 1, 2017**	April 2, 2016
Cash flows from operating activities			
Net profit		**$ 46**	$ 24
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**5**	**75**	77
Pension, other post-employment and other long-term benefit expense	**6**	**216**	223
Pension, other post-employment and other long-term benefit payments	**6**	**(136)**	(132)
Tax expense	**7**	**19**	11
Net interest expense	**13**	**6**	9
Change in non-cash operating working capital:			
Decrease in trade and other receivables		**43**	40
Decrease in trade and other payables		**(94)**	(87)
Increase in salaries and benefits payable and related provisions		**50**	70
Increase in provisions		**8**	4
Net increase in other non-cash operating working capital		**(14)**	(12)
Other income not affecting cash, net		**(7)**	(7)
Cash provided by operations before interest and tax		**212**	220
Interest received		**7**	6
Interest paid		**(22)**	(25)
Tax paid		**(32)**	(91)
Cash provided by operating activities		**165**	110
Cash flows from investing activities			
Acquisition of securities		**(415)**	(461)
Proceeds from sale of securities		**552**	397
Acquisition of capital assets		**(19)**	(27)
Cash provided by (used in) investing activities		**118**	(91)
Cash flows from financing activities			
Repayment of loans and borrowings		**–**	(55)
Payments on finance lease obligations		**(6)**	(7)
Cash used in financing activities		**(6)**	(62)
Net increase (decrease) in cash and cash equivalents		**277**	(43)
Cash and cash equivalents, beginning of period		**849**	775
Effect of exchange rate changes on cash and cash equivalents		**(1)**	(1)
Cash and cash equivalents, end of period		**$ 1,125**	$ 731

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

Notes to Interim Condensed Consolidated Financial Statements

For the 13 weeks ended April 1, 2017
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation 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 *Canada Post Corporation 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 *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada.

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

In December 2013, the Corporation was issued an order pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board approval before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council.

In July 2015, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation is reviewing its travel, hospitality, conference and event expenditure policies, guidelines and practices to align them with those of the Treasury Board. The Corporation is also detailing business processes and system requirements for an overall solution that will optimize compliance with the travel directive, good governance and the efficiencies required to achieve the commercial and core mandate of the Corporation. Implementation of the directive is expected to be completed in 2017.

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, 2016.

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors May 25, 2017.

Basis of presentation • These 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 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2016, except for the application of new standards, amendments and interpretations effective January 1, 2017, disclosed in Note 3 of these interim condensed consolidated financial statements. 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."

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 4 of the Corporation's annual consolidated financial statements for the year ended December 31, 2016.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2017

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2017, resulted in no changes in accounting policies for the Corporation's interim condensed consolidated financial statements:

Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7) • The IASB issued amendments to IAS 7 requiring entities to provide disclosures about changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). IAS 7 is to be applied prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted. Although there will be no change to the Consolidated Financial Statements, a reconciliation of liabilities arising from financing activities will be disclosed in the Notes to Consolidated Financial Statements for the year ending December 31, 2017.

Annual Improvements to IFRS – 2014-2016 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2014-2016 cycle. The standards and topics covered by the amendments were as follows: IFRS 1 "First-time Adoption of International Financial Reporting Standards" deletes short-term exemptions for first-time adopters; IFRS 12 "Disclosure of Interests in Other Entities" clarifies the scope of the standard by specifying that the disclosure requirements, except those in certain paragraphs, apply to an entity's interests that are classified as held for sale, held for distribution or discontinued operations; IAS 28 "Investments in Associates and Joint Ventures" clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or another qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments for IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendment to IFRS 12 is effective for annual periods beginning on or after January 1, 2017. The adoption of these improvements had no impact on the interim condensed consolidated financial statements.

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

There were no new 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 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2016.

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

4. Other Current Assets

As at	**April 1, 2017**	December 31, 2016
Income tax receivable	$ 27	$ 18
Prepaid expenses	101	90
Assets held for sale	2	2
Total other current assets	**$ 130**	$ 110

As at April 1, 2017, all of the properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2016	$ 315	$ 2,057	$ 286	$ 1,330	$ 547	$ 409	$ 944	$ 91	$ 5,979
Additions	–	2	2	2	1	2	1	5	15
Retirements	–	–	–	(2)	–	(31)	–	–	(33)
Transfers	–	2	8	6	–	–	3	(19)	–
April 1, 2017	**$ 315**	**$ 2,061**	**$ 296**	**$ 1,336**	**$ 548**	**$ 380**	**$ 948**	**$ 77**	**$ 5,961**
Accumulated depreciation									
December 31, 2016	$ –	$ 1,063	$ 223	$ 827	$ 349	$ 338	$ 507	$ –	$ 3,307
Depreciation	–	14	3	18	13	6	11	–	65
Retirements	–	–	–	(2)	–	(30)	–	–	(32)
April 1, 2017	**$ –**	**$ 1,077**	**$ 226**	**$ 843**	**$ 362**	**$ 314**	**$ 518**	**$ –**	**$ 3,340**
Carrying amounts									
December 31, 2016	$ 315	$ 994	$ 63	$ 503	$ 198	$ 71	$ 437	$ 91	$ 2,672
April 1, 2017	**$ 315**	**$ 984**	**$ 70**	**$ 493**	**$ 186**	**$ 66**	**$ 430**	**$ 77**	**$ 2,621**

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2016	$ 734	$ 21	$ 25	$ 780
Additions	–	5	–	5
April 1, 2017	**$ 734**	**$ 26**	**$ 25**	**$ 785**
Accumulated amortization				
December 31, 2016	$ 640	$ –	$ 23	$ 663
Amortization	10	–	–	10
April 1, 2017	**$ 650**	**$ –**	**$ 23**	**$ 673**
Carrying amounts				
December 31, 2016	$ 94	$ 21	$ 2	$ 117
April 1, 2017	**$ 84**	**$ 26**	**$ 2**	**$ 112**

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

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

(a) Net defined benefit liability

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

As at	**April 1, 2017**	December 31, 2016
Pension benefit assets	**$ 128**	$ 135
Pension benefit liabilities	$ 2,551	$ 2,176
Other post-employment and other long-term benefit liabilities	3,736	3,612
Total pension, other post-employment and other long-term benefit liabilities	$ 6,287	$ 5,788
Current other long-term benefit liabilities	**$ 62**	$ 62
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 6,225**	$ 5,726

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended		**April 1, 2017**			April 2, 2016	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 125	$ 26	$ 151	$ 123	$ 27	$ 150
Interest cost	263	36	299	266	38	304
Interest income on plan assets	(242)	–	(242)	(238)	–	(238)
Other administration costs	4	–	4	4	–	4
Defined benefit expense	150	62	212	155	65	220
Defined contribution expense	4	–	4	3	–	3
Total expense	154	62	216	158	65	223
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Component included in employee benefits expense	**$ 154**	**$ 57**	**$ 211**	$ 158	$ 60	$ 218
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (500)	$ –	$ (500)	$ 425	$ –	$ 425
Actuarial losses	825	101	926	861	104	965
Component included in other comprehensive loss	**$ 325**	**$ 101**	**$ 426**	$ 1,286	$ 104	$ 1,390

(c) Total cash payments

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

For the 13 weeks ended	**April 1, 2017**	April 2, 2016
Benefits paid directly to beneficiaries for other benefit plans	$ 39	$ 36
Employer regular contributions to pension benefit plans	82	79
Employer special contributions to pension benefit plans	11	14
Cash payments for defined benefit plans	132	129
Contributions to defined contribution plans	4	3
Total cash payments	**$ 136**	$ 132

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

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2017 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2016. These estimated total contributions take into consideration the Corporation's exemption from making special contributions into its Registered Pension Plan from 2014 to 2017, as permitted by the *Canada Post Corporation Pension Plan Funding Regulations*. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standard Act, 1985*. Under these regulations, the aggregate amount of relief is limited to 15% of the fair value of plan assets, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

7. Income Taxes

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

For the 13 weeks ended	**April 1, 2017**	April 2, 2016
Current tax expense	$ 23	$ 22
Deferred tax income relating to origination and reversal of temporary differences	(4)	(11)
Tax expense	**$ 19**	$ 11

8. Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended April 1, 2017	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at December 31, 2016	$ 39	$ 5	$ 44		
Gains (losses) arising	$ 4	$ –	$ 4	$ (426)	$ (422)
Income taxes	(1)	–	(1)	107	106
Net	**$ 3**	**$ –**	**$ 3**	**$ (319)**	**$ (316)**
Accumulated balance as at April 1, 2017	**$ 42**	**$ 5**	**$ 47**		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended April 2, 2016	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at December 31, 2015	$ 43	$ 5	$ 48		
Gains (losses) arising	$ 9	$ (1)	$ 8	$ (1,390)	$ (1,382)
Income taxes	(2)	–	(2)	349	347
Net	$ 7	$ (1)	$ 6	$ (1,041)	$ (1,035)
Accumulated balance as at April 2, 2016	$ 50	$ 4	$ 54		

9. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matters have evolved over the past year:

(a) The implementation of the 2013 memorandum of agreement between the Public Service Alliance of Canada (PSAC) and the Corporation regarding the Canadian Human Rights Tribunal (Tribunal) decision related to its pay equity complaint continues. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement under the memorandum of agreement. The five-year time frame started July 28, 2016.

(b) In October 2012, the Corporation received notice from the Canadian Human Rights Commission (Commission) that the Canadian Postmasters and Assistants Association (CPAA) had requested the reactivation of its pay equity complaint, originally filed in 1982. The report of the Commission's investigator, which was released December 8, 2014, found that pay equity issues for the period of 1992 to 1997 remained unresolved. The Commission then referred this matter to the Tribunal without further investigation. Although the Corporation sought to have the matter dismissed for lack of evidence, the Federal Court and the Tribunal determined that the Corporation move forward to its merits. The parties exchanged statements of particulars in late 2016 and are addressing CPAA's additional disclosure requests. In 2017, CPAA raised the issue that the applicable time period for the complaint should not be 1992 to 1997, but rather 1992 to the present. The Corporation disagrees and the Tribunal will have to decide the issue before proceeding further. The parties are considering attempting a mediated settlement but any mediation would only proceed following the determination of the time period issue by the Tribunal.

(c) On September 1, 2016 Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender based wage gap exists for the female predominant occupational groups of rural and suburban mail carriers. The study will be coordinated by a committee made up of representatives of Canada Post and CUPW. During the study, an analysis will be conducted to determine whether a wage gap exists under the *Human Rights Act*. If there is a wage gap, the two parties will endeavor to negotiate a resolution to the said wage gap. If the parties are unable to reach a mutually agreeable solution, the matter will be referred to binding arbitration. Any wage gap adjustment will be retroactive to January 1, 2016.

It is currently not possible for the Corporation to predict the final outcome of the various pay equity and related matters. Where appropriate, the Corporation has recorded a provision in salary and benefits payable and related provisions and such provision is measured at management's best estimate of the expenditure to be incurred. The Corporation may adjust any such provision in its net profit for subsequent periods as required. These matters will continue to evolve, but further detailed information is not provided as it could be prejudicial to the Corporation.

10. Contingent Liabilities

(a) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014, with a number of Montréal urban communities granted intervenor status. A hearing on the application has not yet been scheduled, and the matter is currently held in abeyance pending the results of the independent review of Canada Post. The outcome of this challenge is currently not determinable, and as a result no provision has been recorded in the consolidated financial statements.

(b) In the normal course of business, the Group of Companies enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies indemnifies 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 from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(c) 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.

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

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

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.

11. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

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

As at April 1, 2017	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 841	$ 284	$ –	**$ 1,125**
Marketable securities	$ –	$ 899	$ –	**$ 899**
Segregated securities	$ –	$ 532	$ –	**$ 532**
Liabilities measured at fair value				
Trade and other payables: risk management financial liabilities	$ –	$ 2	$ –	**$ 2**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,213	$ –	**$ 1,213**

As at December 31, 2016	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets measured at fair value				
Cash and cash equivalents	$ 713	$ 136	$ –	$ 849
Marketable securities	$ –	$ 1,038	$ –	$ 1,038
Segregated securities	$ –	$ 523	$ –	$ 523
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,262	$ –	$ 1,262

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

There were no transfers between levels of the fair value hierarchy during the period ended April 1, 2017.

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

Financial risk factors

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

(a) Market risk

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

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

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

As at April 1, 2017

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$62	$ 83	$1.32/US$	April 12 – December 14, 2017	Sell forward	$ –
Euro	€41	58	$1.41/€	April 13 – December 15, 2017	Sell forward	(1)
British pound	£9	15	$1.63/£	April 13 – December 15, 2017	Sell forward	–
Japanese yen	¥1,284	15	$0.012/¥	April 13 – December 15, 2017	Sell forward	(1)
Chinese renminbi	CN¥109	20	$0.187/CN¥	April 13 – December 15, 2017	Sell forward	–
Total		**$ 191**				**$ (2)**

As at December 31, 2016

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$21	$ 28	$1.32/US$	January 12, 2017	Sell forward	$ –
Euro	€14	20	$1.43/€	January 13, 2017	Sell forward	–
British pound	£3	5	$1.67/£	January 13, 2017	Sell forward	–
Japanese yen	¥430	5	$0.012/¥	January 13, 2017	Sell forward	–
Chinese renminbi	CN¥36	7	$0.191/CN¥	January 13, 2017	Sell forward	–
Total		$ 65				$ –

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

For the 13 weeks ended	**April 1, 2017**			April 2, 2016		
	Foreign exchange gains (losses)	**Derivative losses**	**Total**	Foreign exchange gains (losses)	Derivative gains (losses)	Total
Unrealized	$ 1	$ (2)	$ (1)	$ (11)	$ 12	$ 1
Realized	(1)	–	(1)	4	(2)	2
Total	**$ –**	**$ (2)**	**$ (2)**	$ (7)	$ 10	$ 3

(b) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring 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 what management believes are high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

Refer to notes 18 and 19 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2016, for the Corporation's current authorized borrowing facilities.

12. Other Operating Costs

For the 13 weeks ended	**April 1, 2017**	April 2, 2016
Non-labour collection, processing and delivery	$ 343	$ 322
Property, facilities and maintenance	99	92
Selling, administrative and other	105	125
Other operating costs	**$ 547**	$ 539

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

13. Investing and Financing Income (Expense)

For the 13 weeks ended	April 1, 2017	April 2, 2016
Interest revenue	$ 5	$ 3
Investment and other income	**$ 5**	$ 3
Interest expense	$ (11)	$ (12)
Finance costs and other expense	**$ (11)**	$ (12)
Investing and financing expense, net	**$ (6)**	$ (9)

14. Related Party Transactions

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

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

For the 13 weeks ended	April 1, 2017	April 2, 2016
Related party revenue	**$ 72**	$ 72
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	**$ 6**	$ 9

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

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

As at	April 1, 2017	December 31, 2016
Due to/from related parties		
Included in trade and other receivables	**$ 26**	$ 20
Included in trade and other payables	**$ 9**	$ 11
Deferred revenue from related parties	**$ 2**	$ 2

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 13 weeks ended April 1, 2017, 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 $2 million (April 2, 2016 – $2 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 weeks ended April 1, 2017, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million (April 2, 2016 – $3 million). As at April 1, 2017, $2 million (December 31, 2016 – $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)

15. Segmented Information

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

For the 13 weeks ended April 1, 2017, the IT business unit earned intercompany revenue of $53 million (April 2, 2016 – $67 million), incurred cost of operations of $53 million (April 2, 2016 – $67 million), and earned net profit of nil (April 2, 2016 – nil). Total assets and liabilities at April 1, 2017, were $125 million and $75 million, respectively (December 31, 2016 – $120 million and $70 million, respectively).

As at and for the 13 weeks ended April 1, 2017

	Canada Post	**Purolator**	**Logistics**	**Other**	**Total**
Revenue from external customers	$ 1,609	$ 382	$ 57	$ –	$ 2,048
Intersegment revenue	11	4	9	(24)	–
Revenue from operations	$ 1,620	$ 386	$ 66	$ (24)	$ 2,048
Labour and employee benefits	$ 1,102	$ 193	$ 32	$ 28	$ 1,355
Other operating costs	407	163	28	(51)	547
Depreciation and amortization	61	13	2	(1)	75
Cost of operations	$ 1,570	$ 369	$ 62	$ (24)	$ 1,977
Profit from operations	$ 50	$ 17	$ 4	$ –	$ 71
Investment and other income	$ 5	$ –	$ –	$ –	$ 5
Finance costs and other expense	(11)	–	–	–	(11)
Profit before tax	$ 44	$ 17	$ 4	$ –	$ 65
Tax expense	12	6	1	–	19
Net profit	$ 32	$ 11	$ 3	$ –	$ 46
Total assets	$ 7,324	$ 848	$ 120	$ (327)	$ 7,965
Acquisition of capital assets	$ 16	$ 3	$ 1	$ –	$ 20
Total liabilities	$ 8,171	$ 355	$ 47	$ (34)	$ 8,539

As at and for the 13 weeks ended April 2, 2016

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,619	$ 345	$ 53	$ –	$ 2,017
Intersegment revenue	7	5	10	(22)	–
Revenue from operations	$ 1,626	$ 350	$ 63	$ (22)	$ 2,017
Labour and employee benefits	$ 1,109	$ 190	$ 31	$ 27	$ 1,357
Other operating costs	403	158	26	(48)	539
Depreciation and amortization	62	14	2	(1)	77
Cost of operations	$ 1,574	$ 362	$ 59	$ (22)	$ 1,973
Profit (loss) from operations	$ 52	$ (12)	$ 4	$ –	$ 44
Investment and other income	$ 4	$ –	$ –	$ (1)	$ 3
Finance costs and other expense	(12)	–	–	–	(12)
Profit (loss) before tax	$ 44	$ (12)	$ 4	$ (1)	$ 35
Tax expense (income)	13	(3)	1	–	11
Net profit (loss)	$ 31	$ (9)	$ 3	$ (1)	$ 24
Total assets	$ 7,403	$ 841	$ 115	$ (338)	$ 8,021
Acquisition of capital assets	$ 19	$ 8	$ 2	$ –	$ 29
Total liabilities	$ 9,729	$ 421	$ 51	$ (45)	$ 10,156

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