CANADA POST CORPORATION

2014 Second Quarter Financial Report

For the period ended June 28, 2014

CANADA POST POSTES CANADA

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the second quarter ended June 28, 2014, and for the first two quarters of 2014 for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 and 26 weeks ended June 28, 2014. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 28, 2014, 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, 2013. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to August 21, 2014, unless otherwise noted.

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

Materiality

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

Forward-looking statements

The unaudited interim condensed consolidated financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends," and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management on page 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 August 21, 2014, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

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

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc., and Innovapost Inc. With 66,000 employees, the Canada Post Group of Companies is one of Canada's largest employers. In 2013, our employees delivered approximately 9.4 billion pieces of mail, parcels and messages to 15.5 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,300 retail post offices. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport and has a single shareholder, the Government of Canada.

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

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $3 billion for the first two quarters of 2014 (78% of total revenue) and $5.9 billion for the full year ended December 31, 2013 (78% of total revenue). The Corporation manages its consolidated operations and determines its operating segments on the basis of the legal entities. There are four reportable operating segments: Canada Post, Purolator, Logistics, and Innovapost.

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

(in millions of dollars)

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

The Canada Post Group of Companies' 2014 Corporate Plan, approved by the Government of Canada, projects a loss before tax of $274 million for the year ending December 31, 2014, mainly as a result of the long-term structural challenges in the Canada Post segment. At the end of the second quarter of 2014, the Group of Companies' financial results were tracking ahead of plan – achieving a profit before tax of $49 million for the first two quarters ended June 28, 2014. The Group of Companies' positive results were driven by an increase in revenue, especially in Canada Post's Transaction Mail and Parcels lines of business, as well as lower employee benefit costs in the Canada Post segment.

Transaction Mail revenue was stronger than expected at the end of the second quarter of 2014 driven primarily by the new tiered pricing structure introduced at the end of March coupled with the lower-than-anticipated Domestic Lettermail™ erosion. Erosion was positively affected by provincial elections in Ontario and Quebec and the changes in purchasing patterns from the reissue of Permanent™ stamps in the second quarter of 2014. While Transaction Mail volumes are expected to continue to decline, the rate of erosion going forward remains uncertain.

Employee benefit expenses will be lower than planned in 2014 as a result of the beneficial impacts of an increase in the discount rate to 5.0% as at December 31, 2013 (which is higher than the discount rates of 4.4% as at December 31, 2012 and 4.3% as at June 28, 2014), and a higher-than-expected pension asset return of 16.9% in 2013 in the Canada Post Registered Pension Plan.

Despite the uncertainty around volume erosion, improvements to the bottom line are expected to continue for the remainder of the year. At the same time, Canada Post continues to implement its Five-point Action Plan to meet its objective of self-sustainability.

Significant changes and business developments

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

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

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

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

Community mailboxes

Canada Post has begun converting households that receive mail at the door, to community mailbox delivery. During the second quarter of 2014, Canada Post received its first shipments of CMB equipment, worked on finalizing site plans, and continued discussions with municipalities and residents to ensure a smooth conversion. First installations began in July, and the remaining initial conversions, involving approximately 100,000 addresses in 11 communities across Canada, are expected to be completed by the end of 2014. Planning for 2015 is progressing and to date, community announcements have been issued for approximately 250,000 of the 1.17 million conversions planned for 2015. In total, the five-year national initiative will involve five million addresses.

A new approach to Lettermail pricing

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

Expanding convenience through postal franchises

In retail initiatives, Canada Post continued to streamline the network of corporate post offices where customer traffic patterns warrant, including changing the hours of operation, and by opening new dealer-managed (franchise) outlets to provide added convenience to customers.

Streamlining operations

Canada Post continued to streamline internal operations in the second quarter of 2014. We announced changes to the national mail processing network to improve efficiencies and reduce costs by increasing the use of high-speed mail processing equipment. This change will involve moving originating Lettermail and Addressed Admail™ that can be machine-sorted from Ottawa, London, and Hamilton to larger facilities in Montréal and Toronto. In addition, originating Lettermail, currently being handled at the Saint John Mail Processing Plant, will transfer to the larger Halifax Mail Processing Plant in the fall of 2014, as part of the changes being introduced to the mail processing network in the Maritimes.

Addressing the cost of labour

On the labour front, Canada Post and the Public Service Alliance of Canada/Union of Postal Communications Employees signed a new four-year collective agreement on May 12, 2014. The agreement provides modest wage increases in the first two years and no increases in the final two years. For existing employees, the offer also preserves job security provisions and the defined benefit pension plan. Employees hired after the new collective agreement is signed will receive a lower starting annual wage rate and be eligible for a defined contribution pension plan. As well, Canada Post is currently in negotiations with the Association of Postal Officials of Canada on a new collective agreement to replace the last agreement, which expired on March 31, 2014.

In February 2014, the Government of Canada provided relief to Canada Post from the requirement to make special payments to its Registered Pension Plan (RPP) from 2014 to 2017. The relief period allows time for Canada Post, along with its unions and other representatives of Plan members to evaluate all options, including plan design changes to make the RPP financially sustainable. Canada Post has begun to explore and discuss with stakeholders the options to address the pension challenge and is also studying and evaluating other jurisdictions' approaches to modifying the design of their pension plans. As well, on June 23, 2014, Canada Post submitted comments to the Department of Finance's Consultation Paper – *Pension Innovation for Canadians: The Target Benefit Plan*, issued in April 2014.

Financial highlights

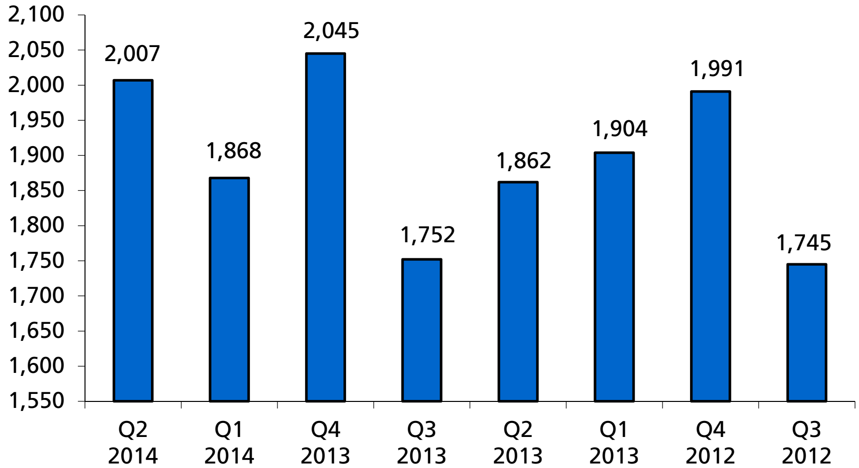
For the second quarter ended June 28, 2014, the Canada Post Group of Companies reported a profit from operations of $96 million, compared to a loss from operations of $72 million in the same period in 2013. For the first two quarters of 2014, the Group of Companies recorded a profit from operations of $68 million, compared to a loss from operations of $123 million in the first two quarters of 2013. The Group of Companies' positive results were driven by an increase in revenue, especially in Canada Post's Transaction Mail and Parcels lines of businesses, as well as lower employee benefit costs at Canada Post, due to the positive impacts of strong pension asset returns in 2013 and an increase in the discount rates used to calculate benefit plan costs in 2014. Transaction Mail revenue increased primarily from the change in purchasing patterns due to the reissue of Permanent™ stamps and price increases from the introduction of a new tiered pricing structure for Lettermail, both of which took effect March 31, 2014, while Parcels revenue growth reflects the continued strength of the business-to-consumer e-commerce delivery market.

The Canada Post segment reported a profit from operations of $62 million for the second quarter of 2014, compared to a loss from operations of $100 million for the second quarter of 2013. For the first two quarters of 2014, Canada Post reported a profit from operations of $44 million, compared to a loss from operations of $141 million for the same period in 2013. The improved results were primarily due to higher Transaction Mail and Parcels revenue and lower employee benefit costs. Canada Post generated revenue of $1,559 million in the second quarter of 2014 and $3,027 million in the first two quarters of 2014, an increase of $124 million or 10.4% and $79 million or 3.5% respectively compared to the same periods in 2013. Overall revenue increases were driven by Lettermail price increases and the change in purchasing patterns due to the reissue of Permanent stamps, both of which took effect March 31, 2014, and growth in Parcels driven by the continued strength of the business-to-consumer e-commerce delivery market. Transaction Mail volumes declined by 38 million pieces or 2.3% in the second quarter of 2014 and by 117 million pieces or 4.7% in the first two quarters of 2014 compared to the same periods in 2013. Volumes continued to be adversely affected by mail erosion driven by electronic substitution. However, erosion was less than anticipated in the second quarter due in part to the positive impact of provincial elections in Ontario and Quebec and the changes in purchasing patterns from the reissue of Permanent stamps at the beginning of the second quarter of 2014. The reissue was done in conjunction with the release of the new tiered pricing structure for Lettermail. Revenue and volumes were also helped by the continued success in the Parcels line of business. Parcel volumes increased by almost 2 million pieces or 6.5% in the second quarter of 2014 and by over 1 million pieces or 2.5% in the first two quarters of 2014, while Parcels revenue for the second quarter and first two quarters increased by $31 million or 11.3% and $54 million or 9.2% respectively compared to the same periods in 2013.

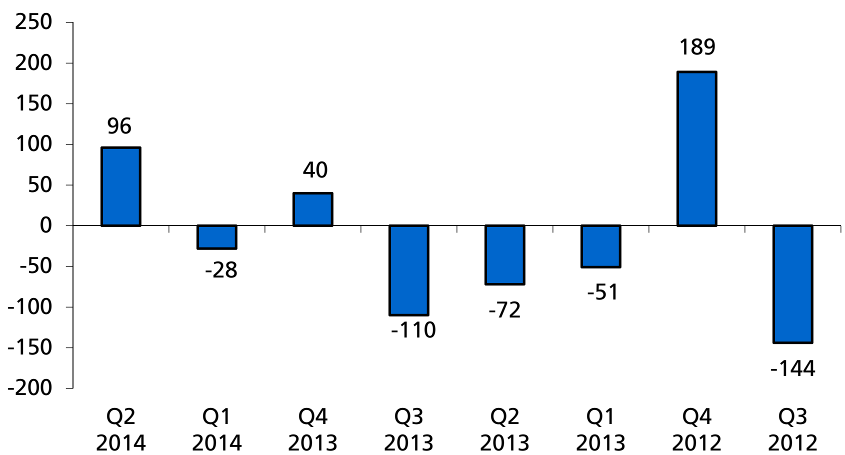
Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect the Corporation's financial performance and, if not for temporary pension relief on special payments, would put immediate pressure on its cash resources. 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 second quarter of 2014, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $692 million, net of tax, recorded in other comprehensive income (loss). These remeasurement losses were mostly the result of a decrease in discount rates in the second quarter of 2014, partially negating increases in 2013. These losses reduced the Group of Companies' equity balance to negative $1.7 billion as at June 28, 2014. Prior year's discount rates and other actuarial assumptions, as well as asset balances, are used to calculate the current year's employee benefits, thereby affecting the Corporation's operating results. Strong pension asset returns in 2013 and an increase in the discount rates as at December 31, 2013, partially offset by changes in mortality rates in 2013 (to reflect the fact that plan members are living longer), helped reduce non-cash employee benefit expenses by over $100 million in the first two quarters of 2014 compared to the same period in 2013, and contributed to the Corporation's profit from operations. These results demonstrate how changing discount rates, investment returns, and other actuarial assumptions can cause significant volatility in the Corporation's financial statements.

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

Quarterly consolidated revenue from operations
(in millions of dollars)

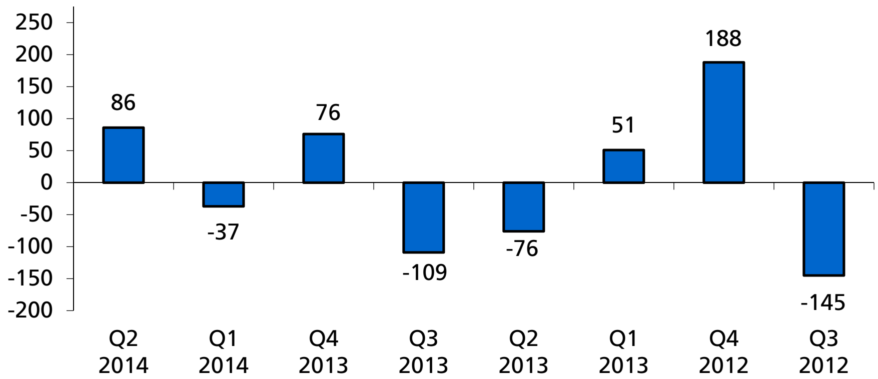


Quarterly consolidated profit (loss) from operations[1]
(in millions of dollars)

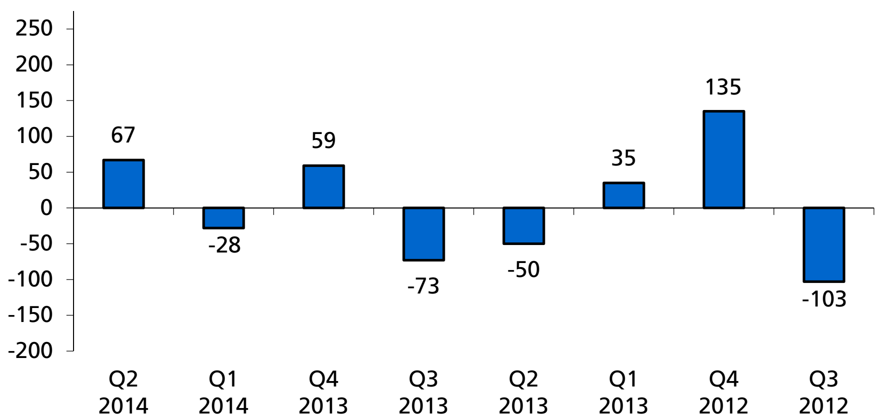


1. The amounts for 2012 have been restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the annual consolidated financial statements for the year ended December 31, 2013.

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



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



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

The following table presents the Corporation's consolidated performance for the second quarter and the first two quarters of 2014, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				26 weeks ended				
	June 28, 2014	June 29, 2013	Change	%	June 28, 2014	June 29, 2013	Change	%	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 8 – Discussion of Operations (page 16).
Revenue from operations	2,007	1,862	145	9.5[1]	3,875	3,766	109	3.7[1]	Increase in revenue primarily from Canada Post segment's Transaction Mail and Parcels.
Cost of operations	1,911	1,934	(23)	(1.2)	3,807	3,889	(82)	(2.1)	Decrease in cost of operations mainly the result of lower employee benefit expenses in the Canada Post segment.
Profit (loss) from operations	96	(72)	168	–	68	(123)	191	–	
Investing and financing income (expense), net	(10)	(4)	(6)	(108.0)	(19)	98	(117)	–	Decrease in the first two quarters of 2014 mainly due to a $109-million gain on the sale of the Vancouver Mail Processing Plant in the Canada Post segment in the first quarter of 2013.
Profit (loss) before tax	86	(76)	162	–	49	(25)	74	–	
Net profit (loss)	67	(50)	117	–	39	(15)	54	–	
Comprehensive income (loss)	(619)	1,049	(1,668)	–	(1,371)	1,362	(2,733)	–	Remeasurement losses on pension and other employee benefit plans recorded in the second quarter and first two quarters of 2014 mainly due to 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	205	95	110	115.2	131	53	78	150.7	Positive cash flow variances primarily driven by stronger revenues in the second quarter of 2014 compared to 2013.
Cash (used in) provided by investing activities	(42)	(93)	51	55.0	(36)	53	(89)	–	Changes in cash flow mostly due to the timing of the sale of investments and capital assets.
Cash used in financing activities	(6)	(4)	(2)	(72.2)	(12)	(9)	(3)	(36.0)	No material change.

1. Adjusted for trading days, where applicable.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

Canada Post faces the same challenges as its global counterparts – managing the decline in core Transaction Mail volumes, while still maintaining an extensive and growing delivery network as required by the service mandate. Competition is increasing in all lines of business and the exclusive privilege on letters up to 500 grams is losing its value in a digital world. Growth of the e-commerce market has generated opportunities and increased competition. Canada Post also faces challenges as a result of an inflexible and expensive cost structure, and significant changes are required to improve its cost competitiveness. To remain sustainable in the long term, we have developed strategic priorities that will help us address our operational sustainability and grow the business, while meeting the evolving postal needs of Canadians.

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

3 Key Performance Drivers

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

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

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

Key performance measures include the following:

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

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

4 Capabilities

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

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

4.1 Labour relations

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

Canada Post segment

Pay equity update

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

Labour relations activities

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

On May 12, 2014, Canada Post and PSAC/UPCE signed a new collective agreement. The four-year agreement contains modest wage increases in the first two years and no increases in the final two years. For existing employees, the agreement also preserves job security provisions and the defined benefit pension plan. Employees hired after May 12, 2014, will receive a lower starting annual wage rate, and less vacation and job security. In addition, they will be eligible to a defined contribution pension plan in lieu of the defined benefit plan. The four-year agreement will help to provide stability to the Corporation as it adapts to the changing postal needs of Canadians.

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

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

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

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

Association of Postal Officials of Canada (APOC)

The five-year collective agreement with APOC expired March 31, 2014. The Association represents supervisors and supervisory support groups, such as trainers, route measurement officers and sales employees. Negotiations for a new collective agreement began March 24, 2014. After some initial meetings in April, the parties resumed negotiations and made significant progress on a number of important issues. Canada Post presented APOC with a global offer after meeting during the week of July 21, 2014. The offer includes a response to the proposals that have been brought forward by APOC and also narrows down the key changes that the Corporation is seeking in the next collective agreement. APOC has agreed to respond on September 10, 2014. The APOC collective agreement provides for final offer selection arbitration as a means of resolving outstanding issues when a negotiated settlement cannot be reached. The process is used in place of a strike or lockout.

Canadian Postmasters and Assistants Association (CPAA)

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

Purolator segment

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

As a result of bargaining that began in December 2013, Purolator reached a tentative agreement with Unifor (formerly the Communications, Energy and Paperworkers Union of Canada and the Canadian Auto Workers) on April 24, 2014. The agreement, ratified May 4, 2014, governs the employment relationship with approximately 300 administrative and clerical employees in Quebec and will expire December 31, 2018.

Logistics segment – SCI Group

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

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the second quarter of 2014, 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

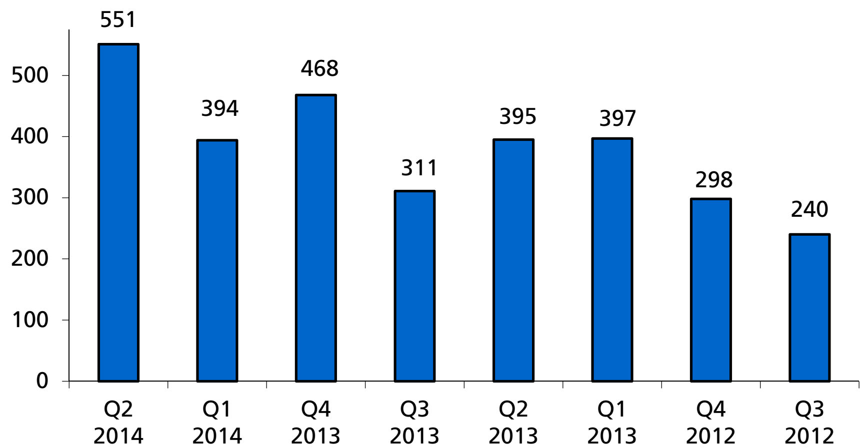
Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). A description of the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2013 Annual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

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $551 million as at June 28, 2014 – an increase of $83 million compared to December 31, 2013. The increase is mainly due to cash provided by operating activities, and is supported by the temporary relief from making special payments to the Canada Post Registered Pension Plan, which was obtained from the Government of Canada in February 2014.

6.2 Operating activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	June 28, 2014	June 29, 2013	Change
Cash provided by operating activities	205	95	110	131	53	78

Cash provided by operations in the second quarter of 2014 increased by $110 million and by $78 million in the first two quarters of 2014, compared to the same periods in the prior year. The positive changes in cash flow were primarily driven by stronger revenues and lower employee benefit payments, partially offset by changes in non-cash working capital.

6.3 Investing activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	June 28, 2014	June 29, 2013	Change
Cash (used in) provided by investing activities	(42)	(93)	51	(36)	53	(89)

Cash flow from investing activities improved by $51 million in the second quarter of 2014 compared to the same period in 2013, mostly due to $35 million higher net proceeds from the sale of investments and $16 million in lower net capital asset acquisitions. For the first two quarters of 2014, cash flow from investing activities decreased by $89 million, mainly the result of much lower proceeds ($156 million) from the sale of assets, partially offset by $16 million lower net acquisition of investments and $51 million lower acquisitions of capital assets. The first quarter of 2013 included proceeds of $152 million from the sale of the Vancouver Mail Processing Plant.

Capital expenditures

(in millions of dollars)	13 weeks ended June 28, 2014	13 weeks ended June 29, 2013	Change	26 weeks ended June 28, 2014	26 weeks ended June 29, 2013	Change
Canada Post	54	77	(23)	91	148	(57)
Purolator	7	5	2	12	8	4
Logistics	4	1	3	5	2	3
Intersegment and consolidation	(1)	0	(1)	(2)	(1)	(1)
Canada Post Group of Companies	**64**	**83**	**(19)**	**106**	**157**	**(51)**

Capital expenditures for the Group of Companies declined by $19 million in the second quarter of 2014 and by $51 million in the first two quarters of 2014, when compared to the same periods last year. The reductions were mainly due to a decrease in spending on Postal Transformation in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	13 weeks ended June 28, 2014	13 weeks ended June 29, 2013	Change	26 weeks ended June 28, 2014	26 weeks ended June 29, 2013	Change
Cash used in financing activities	(6)	(4)	(2)	(12)	(9)	(3)

There were no significant changes in financing activities in the second quarter and first two quarters of 2014, when compared to the same periods in 2013.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of over $19 billion as at December 31, 2013, making it one of the largest single-employer pension plans in Canada. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan of the 2013 Annual MD&A and in the 2014 first quarter MD&A. An update is provided below.

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

On June 25, 2014, Canada Post filed the actuarial valuation of the RPP as at December 31, 2013, with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). The actuarial valuation as of December 31, 2013, disclosed a going-concern deficit of $296 million (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.3 billion[1] (using the three-year average solvency ratio basis).

Current service contributions amounted to $63 million and $124 million respectively for the second quarter and first two quarters of 2014, compared to $81 million and $158 million respectively for the same periods in 2013. The estimated amount of current service contributions for 2014 is approximately $252 million.

On December 14, 2012, the *Jobs and Growth Act, 2012,* Bill C-45, was enacted, enabling changes to the public service pension plans. Consequently, effective January 1, 2013, the cap for the employees' share of current service costs was increased from 40% to 50%. The Board of Directors of Canada Post has approved changes to the RPP, and the Corporation has moved to 50/50 cost sharing. CUPW filed a grievance challenging the decision to raise the rate of employee contributions, alleging that it is a violation of the terms of the collective agreement. This grievance has not been scheduled for arbitration.

In addition, some of the unions formally requested that OSFI replace Canada Post as administrator of the RPP. Canada Post filed submissions with OSFI in support of its continuation as administrator of the RPP. At OSFI's request and pending its decision, Canada Post, the unions and other Plan member representatives are working on a communication and consultation framework to address matters affecting the rights and interests of Plan members.

1. The solvency deficit when using the market value of plan assets is $5.0 billion.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the second quarter and first two quarters of 2014, remeasurement losses, net of tax, amounted to $541 million and $1,080 million respectively for the Canada Post RPP. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

6.6 Liquidity and capital resources

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

Liquidity

During the second quarter of 2014, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $932 million of unrestricted liquid investments on hand as at June 28, 2014, and $100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

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

The Corporation's subsidiaries had a total of $110 million of unrestricted cash on hand and undrawn credit facilities of $141 million as at June 28, 2014, ensuring sufficient liquidity to support their operations over at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4,* 2009-10, which received royal assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $100 million for cash management purposes in the form of short-term borrowings as at June 28, 2014. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund.

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at June 28, 2014, amounted to $1,056 million and $64 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources in the 2013 Annual MD&A.

Dividends

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

6.7 Risks associated with financial instruments

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. During the 26 weeks ended June 28, 2014, the Group of Companies continued its economic hedge programs to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. For more information on foreign exchange risk, please refer to Note 13 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 28, 2014. There were no material changes to market risk during the second quarter of 2014.

Credit risk

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

Liquidity risk

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

6.8 Contractual obligations and commitments

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

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in supporting the Government of Canada's public policies. These transactions are not materially different from what is reported in Section 6.9 – Related party transactions of the 2013 Annual MD&A. For more information on related party transactions, refer to Note 12 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 28, 2014.

6.10 Contingent liabilities

Contingent liabilities are described in Note 9 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 28, 2014. There were no material changes to contingent liabilities during the second quarter of 2014.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between June 28, 2014, and December 31, 2013

(in millions of dollars)

ASSETS	June 28, 2014	Dec. 31, 2013	Change	%	Explanation of change
Cash and cash equivalents	551	468	83	17.7	Refer to Section 6 – Liquidity and Capital Resources (page 10).
Marketable securities	491	570	(79)	(13.9)	Primarily due to the drawdown of short-term investments in the Canada Post segment.
Trade and other receivables	766	779	(13)	(1.5)	No material change.
Income tax receivable	10	6	4	57.9	Primarily due to an expected refund in the Purolator segment.
Other assets	117	92	25	26.9	Mainly due to an increase in prepaid expenses.
Total current assets	**1,935**	**1,915**	**20**	**1.0**	
Property, plant and equipment	2,657	2,707	(50)	(1.9)	Primarily due to depreciation exceeding acquisitions in the Canada Post segment.
Intangible assets	122	129	(7)	(5.3)	Primarily due to amortization of software assets exceeding acquisitions.
Segregated securities	546	510	36	7.1	Mainly due to unrealized gains and interest income.
Pension benefit assets	158	177	(19)	(10.7)	Mainly due to actuarial losses partially offset by payments.
Deferred tax assets	1,563	1,093	470	43.1	Primarily due to the increase of temporary differences resulting from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and post-employment benefits.
Goodwill	130	130	0	0.0	No change.
Other assets	7	6	1	12.4	No material change.
Total non-current assets	**5,183**	**4,752**	**431**	**9.1**	
Total assets	**7,118**	**6,667**	**451**	**6.8**	

(in millions of dollars)

LIABILITIES AND EQUITY	June 28, 2014	Dec. 31, 2013	Change	%	Explanation of change
Trade and other payables	536	620	(84)	(13.6)	Primarily due to decreased trade payables, goods received, and international settlements in the Canada Post segment.
Salaries and benefits payable and related provisions	563	580	(17)	(2.9)	No material change.
Provisions	71	81	(10)	(11.7)	Mainly attributable to the settlement of a lease retirement obligation in 2013 and a decrease in other corporate and miscellaneous provisions in the Canada Post segment.
Income tax payable	8	1	7	378.8	Primarily due to an expected tax liability for the Canada Post segment.
Deferred revenue	116	145	(29)	(19.8)	Primarily attributable to a reduction in stamp deferrals related to the 2014 stamp rate increases.
Loans and borrowings	20	23	(3)	(13.2)	No material change.
Other long-term benefit liabilities	71	71	0	0.0	No change.
Total current liabilities	**1,385**	**1,521**	**(136)**	**(8.9)**	
Loans and borrowings	1,100	1,108	(8)	(0.7)	No material change.
Pension, other post-employment and other long-term benefit liabilities	6,348	4,382	1,966	44.9	Primarily resulting from actuarial losses in the Canada Post segment.
Deferred tax liabilities	3	3	(0)	(2.1)	No material change.
Provisions	2	2	0	19.3	No material change.
Other liabilities	16	16	(0)	(3.2)	No material change.
Total non-current liabilities	**7,469**	**5,511**	**1,958**	**35.5**	
Total liabilities	**8,854**	**7,032**	**1,822**	**25.9**	
Equity					
Contributed capital	1,155	1,155	0	0.0	No change.
Accumulated other comprehensive income	37	18	19	110.0	Mainly due to net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(2,952)	(1,564)	(1,388)	(88.7)	Primarily due to net actuarial losses resulting from asset and accrued benefit remeasurement.
Equity of Canada	**(1,760)**	**(391)**	**(1,369)**	**(349.8)**	
Non-controlling interests	24	26	(2)	(10.1)	
Total equity	**(1,736)**	**(365)**	**(1,371)**	**(375.1)**	
Total liabilities and equity	**7,118**	**6,667**	**451**	**6.8**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

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

(in millions of dollars)	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012[1]	Q3 2012[1]
Revenue from operations	2,007	1,868	2,045	1,752	1,862	1,904	1,991	1,745
Cost of operations	1,911	1,896	2,005	1,862	1,934	1,955	1,802	1,889
Profit (loss) from operations	**96**	**(28)**	**40**	**(110)**	**(72)**	**(51)**	**189**	**(144)**
Investing and financing income (expense), net	(10)	(9)	36	1	(4)	102	(1)	(1)
Profit (loss) before tax	**86**	**(37)**	**76**	**(109)**	**(76)**	**51**	**188**	**(145)**
Tax expense (income)	19	(9)	17	(36)	(26)	16	53	(42)
Net profit (loss)	**67**	**(28)**	**59**	**(73)**	**(50)**	**35**	**135**	**(103)**

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

8.2 Consolidated results from operations

Consolidated results for the second quarter and first two quarters of 2014

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	%	June 28, 2014	June 29, 2013	Change	%
Revenue from operations	2,007	1,862	145	9.5[1]	3,875	3,766	109	3.7[1]
Cost of operations	1,911	1,934	(23)	(1.2)	3,807	3,889	(82)	(2.1)
Profit (loss) from operations	**96**	**(72)**	**168**	**–**	**68**	**(123)**	**191**	**–**
Investing and financing income (expense), net	(10)	(4)	(6)	(108.0)	(19)	98	(117)	–
Profit (loss) before tax	**86**	**(76)**	**162**	**–**	**49**	**(25)**	**74**	**–**
Tax expense (income)	19	(26)	45	–	10	(10)	20	–
Net profit (loss)	**67**	**(50)**	**117**	**–**	**39**	**(15)**	**54**	**–**
Other comprehensive income (loss)	(686)	1,099	(1,785)	–	(1,410)	1,377	(2,787)	–
Comprehensive income (loss)	**(619)**	**1,049**	**(1,668)**	**–**	**(1,371)**	**1,362**	**(2,733)**	**–**

1. Adjusted for trading days, where applicable.

The Canada Post Group of Companies reported a profit before tax of $86 million for the second quarter of 2014 compared to a loss before tax of $76 million in the second quarter of 2013. For the first two quarters of 2014, the profit before tax was $49 million, an improvement of $74 million compared to the same period in 2013. Improvements in profit before tax in 2014 were primarily driven by the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.7.

Consolidated revenue from operations

For the second quarter of 2014, revenue from operations increased by $145 million or 9.5% when compared to the same quarter in 2013. For the first two quarters of 2014, revenue from operations increased by $109 million or 3.7% when compared to the same period in 2013. Overall, improvements to revenue resulted primarily from increases in Canada Post's Transaction Mail and Parcels lines of business. A detailed discussion of revenue by segment follows in sections 8.4 to 8.7.

Consolidated cost of operations

The cost of operations decreased by $23 million or 1.2% in the second quarter of 2014 when compared to the same quarter last year. For the first two quarters of 2014, costs of operations decreased by $82 million or 2.1% when compared to the same period last year. The decrease was mainly the result of lower employee benefit expenses in the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.7.

Consolidated investing and financing income (expense)

Net investing and financing expense increased by $6 million in the second quarter of 2014 compared to the same period in 2013. In the first two quarters of 2014, net investing and financing expense was $19 million compared to income of $98 million in the same period in 2013. The change primarily resulted from the sale of the Vancouver Mail Processing Plant in January 2013, which generated a gain on sale of $109 million.

Consolidated tax expense (income)

The consolidated tax expense for the second quarter and first two quarters of 2014 increased by $45 million and $20 million respectively, compared to the same periods in the prior year, primarily driven by higher profits across the Group of Companies.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss amounted to $686 million in the second quarter of 2014 and $1,410 million for the first two quarters of 2014, mainly due to remeasurement losses on the pension and other post-employment plans. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continues to have a significant impact on the Group of Companies' other comprehensive income.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	%	June 28, 2014	June 29, 2013	Change	%
Canada Post	53	(104)	157	–	26	(36)	62	–
Purolator	27	25	2	12.4	16	13	3	26.4
Logistics	4	2	2	124.8	6	3	3	93.0
Innovapost	0	(0)	0	–	0	0	(0)	–
Intersegment and consolidation	2	1	1	1.9	1	(5)	6	–
Canada Post Group of Companies	**86**	**(76)**	**162**	**–**	**49**	**(25)**	**74**	**–**

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

8.4 Canada Post segment

The Canada Post segment recorded a profit before tax of $53 million in the second quarter of 2014, compared to a loss before tax of $104 million in the second quarter of 2013. The improvement in profit before tax in the second quarter was mainly due to Domestic Lettermail™ rate action, growth in Parcels revenue and a reduction in post-employment benefits expense. After the first two quarters of 2014, the profit before tax was $26 million – an improvement of $62 million over the same period in 2013, primarily driven by Domestic Lettermail rate action, growth in Parcels revenue, a reduction in post-employment benefits expense and productivity improvements, partially offset by an increase in program expense and the sale of the Vancouver Mail Processing Plant in January 2013, which generated a gain on sale of $109 million.

Canada Post results for the second quarter and first two quarters of 2014

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	%	June 28, 2014	June 29, 2013	Change	%
Revenue from operations	1,559	1,435	124	10.4[1]	3,027	2,948	79	3.5[1]
Cost of operations	1,497	1,535	(38)	(2.4)	2,983	3,089	(106)	(3.4)
Profit (loss) from operations	**62**	**(100)**	**162**	**–**	**44**	**(141)**	**185**	**–**
Investing and financing income (expense), net	(9)	(4)	(5)	(109.7)	(18)	105	(123)	–
Profit (loss) before tax	**53**	**(104)**	**157**	**–**	**26**	**(36)**	**62**	**–**
Tax expense (income)	11	(33)	44	–	3	(14)	17	–
Net profit (loss)	**42**	**(71)**	**113**	**–**	**23**	**(22)**	**45**	**–**

1. Adjusted for trading days, where applicable.

Revenue from operations

Canada Post earned revenue from operations of $1,559 million in the second quarter of 2014 – an increase of $124 million or 10.4% when compared to the same quarter in 2013. For the first two quarters of 2014, Canada Post generated revenue of $3,027 million, an increase of $79 million or 3.5% compared to the same period in 2013. Overall, revenue increased due to higher rates introduced in a new tiered pricing structure for Lettermail, the change in purchasing patterns from the reissue of Permanent™ stamps, the positive impact of provincial elections in Ontario and Quebec in the second quarter of 2014, and the continued growth in Parcels revenue.

Quarterly revenue by line of business

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	%[1]	June 28, 2014	June 29, 2013	Change	%[1]
Transaction Mail	823	732	91	14.3	1,600	1,559	41	3.5
Direct Marketing	308	310	(2)	0.7	595	612	(17)	(2.1)
Parcels	353	322	31	11.3	694	640	54	9.2
Other revenue	75	71	4	7.7	138	137	1	1.9
Total	**1,559**	**1,435**	**124**	**10.4**	**3,027**	**2,948**	**79**	**3.5**

1. Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of $823 million for the second quarter of 2014 was composed of the following three product categories: Domestic Lettermail ($749 million), Outbound Letter-post ($37 million), and Inbound Letter-post ($37 million).

In the second quarter of 2014, Transaction Mail revenue increased by $91 million or 14.3%, while volumes decreased by 38 million pieces or 2.3% compared to the same period in 2013. Volumes continued to decline in the second quarter due to the impact of volume erosion from the adoption of other alternatives. However, erosion was less than anticipated due to the positive impact of provincial elections in Ontario and Quebec and the change in purchasing patterns from the reissue of Permanent™ stamps. These factors along with price increases, introduced as part of the Corporation's new tiered pricing structure for Lettermail on March 31, 2014, led to the rise in revenue. For Domestic Lettermail, the largest product category, revenue increased by $89 million or 15.2%, and volumes decreased by 33 million pieces or 2.1% in the second quarter of 2014 compared to the same period in 2013. Demand for mail services from our customers, both households and businesses, continues to decline given the many credible alternatives to paper-based communication, the implementation of pay-for-paper initiatives by some of our largest customers, especially in the banking and telecommunications segments, and the highly competitive environment.

In the first two quarters of 2014, Transaction Mail revenue increased by $41 million or 3.5%, while volumes decreased by 117 million pieces or 4.7% compared to the same period in 2013. Revenue increases were primarily driven by the new tiered pricing structure introduced as part of the Five-point Action Plan, and the change in purchasing patterns from the reissue of Permanent stamps, while volume declines were largely caused by the continued shift away from paper-based communications.

Direct Marketing

Direct Marketing revenue of $308 million for the second quarter of 2014 was composed of the following four categories: Addressed Admail™ ($137 million), Unaddressed Admail™ ($110 million), Publications Mail™ ($55 million), and Business Reply Mail™ and Other mail ($6 million).

Direct Marketing revenue increased minimally (0.7% when adjusted for trading days) in the second quarter of 2014 compared to the same period in 2013. Volumes increased by 4 million pieces or 2.0% in the second quarter of 2014 when compared to the same period in the prior year, primarily due to an increase in the demand for Unaddressed Admail, partially offset by a drop in Addressed Admail and Publications Mail. Growth in Unaddressed Admail came from large and mid-market contracts, but at a lower average revenue per piece compared to the same period in the prior year. Declines in Addressed Admail revenue and volumes was caused in part by less demand from commercial customers, especially in the retail, financial and banking segments, who reduced their marketing expenditures and redirected some of them to other lower priced products or media channels. Publications Mail revenue and volume declines continued with the increasing popularity of digital alternatives.

In the first two quarters of 2014, Direct Marketing revenue decreased by $17 million or 2.1%, and volumes declined by over 34 million pieces or 0.6% compared to the same period in the prior year. Revenue and volume growth in Unaddressed Admail was not sufficient to offset declines in Addressed Admail and Publications Mail. Overall declines were mainly the result of less demand from the telecommunication, banking, and financial segments as some commercial customers reduced their overall marketing spending or redirected some of their marketing activities to other products or media channels.

Parcels

Parcels revenue of $353 million for the second quarter of 2014 was composed of four product categories: Domestic Parcels ($247 million), Outbound Parcels ($50 million), Inbound Parcels ($51 million), and Other ($5 million).

Parcels revenue increased by $31 million or 11.3%, while volumes increased by close to two million pieces or 6.5% when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued to do well as revenue increased by $21 million or 10.9%, and volumes grew by about two million pieces or 9.7%.

In the first two quarters of 2014, Parcels revenue increased by $54 million or 9.2%, and volumes increased by over 1 million pieces or 2.5% when compared to the same period in 2013. For Domestic Parcels, revenue increased by $35 million or 8.4% and volumes increased by over three million pieces or 7.3% in the first two quarters of 2014, compared to the same period last year.

Overall revenue growth reflects the strength of the fast growing business-to-consumer e-commerce delivery market as customers continue to order more products online. The increase in revenue also reflects a change in the product mix, including the growth of Tracked Packet™ items introduced in 2013, which helped improve the average revenue per piece. In addition, a change in the mailing pattern of some large U.S. customers has led to an increase in Domestic Parcel volumes and a decrease in inbound U.S. volumes.

Other revenue

Other revenue totalled $75 million in the second quarter of 2014 – an increase of $4 million or 7.7%, when compared to the same period in the prior year. At the end of two quarters in 2014, revenue increased by $1 million or 1.9% compared to the same period in 2013. The revenue increase was primarily the result of higher Mail Redirection revenues, partially offset by lower consumer product revenue.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,497 million in the second quarter of 2014 – a decrease of $38 million or 2.4% when compared to the same quarter last year. After the first two quarters of 2014, the cost of operations was $2,983 million – a decrease of $106 million or 3.4% compared to the same period in 2013.

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	%	June 28, 2014	June 29, 2013	Change	%
Labour	764	774	(10)	(1.3)	1,522	1,553	(31)	(2.0)
Employee benefits	273	331	(58)	(17.3)	548	661	(113)	(17.1)
Total labour and employee benefits	**1,037**	**1,105**	**(68)**	**(6.1)**	**2,070**	**2,214**	**(144)**	**(6.5)**
Non-labour collection, processing and delivery	194	191	3	1.9	402	400	2	0.5
Property, facilities and maintenance	60	64	(4)	(6.5)	127	127	0	0.4
Selling, administrative and other	137	114	23	20.0	250	221	29	13.1
Total other operating costs	**391**	**369**	**22**	**6.1**	**779**	**748**	**31**	**4.2**
Depreciation and amortization	69	61	8	12.8	134	127	7	5.5
Total	**1,497**	**1,535**	**(38)**	**(2.4)**	**2,983**	**3,089**	**(106)**	**(3.4)**

Labour

Labour costs decreased by $10 million or 1.3% for the second quarter of 2014 and by $31 million or 2% in the first two quarters of 2014, when compared to the same periods in the previous year. The decreases were primarily the result of productivity improvements and one fewer paid days in the first two quarters of 2014, partially offset by regular annual wage increases.

Employee benefits

Employee benefits decreased by $58 million or 17.3% for the second quarter of 2014 and by $113 million or 17.1% in the first two quarters of 2014, when compared to the same periods in the 2013. The non-cash decreases were due to the positive impacts of strong pension asset returns in 2013 and an increase in the discount rates used to calculate benefit plan costs in 2014.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $3 million or 1.9% for the second quarter of 2014 compared to the same period in 2013, mainly due to higher international settlement costs. For the first two quarters of 2014, contracted collection, processing and delivery costs increased by $2 million or 0.5% compared to the same period in 2013, mostly due to higher international settlements, automotive services and transportation expenses, partially offset by lower rural mail delivery expenses and one fewer paid days in the first two quarters of 2014.

Property, facilities and maintenance

The cost of facilities decreased by $4 million or 6.5% for the second quarter of 2014 when compared to the same period last year, mainly due to a provision relating to the cancellation of a property lease in 2013. For the first two quarters of 2014, the cost of facilities remained flat compared to the same period in 2013, primarily due to increased costs due to utilities, maintenance and repairs, offset by the provision in 2013.

Selling, administrative and other

Selling, administrative and other expenses increased by $23 million or 20% for the second quarter of 2014 and by $29 million or 13.1% in the first two quarters of 2014, when compared to the same periods in the prior year, primarily as a result of increases in program expenses relating to the implementation of the Five-point Action Plan and IT transformation.

Depreciation and amortization

Depreciation and amortization expenses for the second quarter and first two quarters of 2014 increased by $8 million and $7 million respectively compared to the same periods in 2013. Increases were primarily the result of a change in accounting estimates for security equipment to reduce the depreciation period for this asset from 20 years to seven. This change was made to better reflect the useful life of such assets as a result of technological developments in recent years.

8.5 Purolator segment

The Purolator segment contributed a net profit of $20 million for the second quarter of 2014, an improvement of $2 million or 13.4% when compared to the same period in the prior year. For the first two quarters of 2014, Purolator earned a net profit of $11 million, an increase of $2 million or 23.2% when compared to the prior year.

Purolator results for the second quarter and first two quarters of 2014

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	%	June 28, 2014	June 29, 2013	Change	%
Revenue from operations	427	412	15	5.3[1]	813	791	22	3.5[1]
Cost of operations	399	387	12	3.0	796	777	19	2.3
Profit from operations	**28**	**25**	**3**	**13.9**	**17**	**14**	**3**	**22.5**
Investing and financing income (expense), net	(1)	(0)	(1)	(124.7)	(1)	(1)	0	21.7
Profit before tax	**27**	**25**	**2**	**12.4**	**16**	**13**	**3**	**26.4**
Tax expense	7	7	0	10.0	5	4	1	34.1
Net profit	**20**	**18**	**2**	**13.4**	**11**	**9**	**2**	**23.2**

1. Adjusted for trading days, where applicable.

Revenue from operations

Purolator generated revenue from operations of $427 million in the second quarter of 2014 – an increase of $15 million or 5.3% when compared to the same period last year. After the first two quarters of 2014, revenue totalled $813 million – an increase of $22 million or 3.5% compared to the same period in 2013. Increases were mainly due to improved yield and slightly increased volumes.

Cost of operations

Total labour costs

Total labour costs were $187 million in the second quarter and $375 million after the first two quarters of 2014. Increases of $3 million or 1.8% in the second quarter and $8 million or 2.3% in the first two quarters when compared to the same periods in 2013 were driven by annual rate increases and slightly improved volumes.

Total non-labour costs

Total non-labour costs were $212 million in the second quarter of 2014 – an increase of $9 million or 4.0% when compared to the same period in the prior year. After the first two quarters of 2014, total non-labour costs were $421 million – an increase of $11 million or 2.4% compared to the same period in 2013. Increases were driven primarily by fuel costs and IT expenses.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $3 million of net profit to the consolidated results for the second quarter of 2014, an increase of $1 million or 125.8% when compared to the same period in the prior year. For the first two quarters of 2014, the Logistics segment earned a net profit of $4 million, an increase of $1 million or 76.4% when compared to the prior year.

Logistics results for the second quarter and first two quarters of 2014

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 28, 2014	June 29, 2013	Change	%	June 28, 2014	June 29, 2013	Change	%
Revenue from operations	52	43	9	22.6[1]	97	85	12	14.7[1]
Cost of operations	48	41	7	16.2	91	82	9	11.7
Profit from operations	**4**	**2**	**2**	**122.7**	**6**	**3**	**3**	**93.0**
Investing and financing income (expense), net	0	(0)	0	–	(0)	(0)	(0)	–
Profit before tax	**4**	**2**	**2**	**124.8**	**6**	**3**	**3**	**93.0**
Tax expense	1	0	1	122.1	2	0	2	164.5
Net profit	**3**	**2**	**1**	**125.8**	**4**	**3**	**1**	**76.4**

1. Adjusted for trading days, where applicable.

Revenue from operations

SCI generated revenue from operations of $52 million in the second quarter of 2014 – an increase of $9 million or 22.6%, when compared to the same period last year. After the first two quarters of 2014, revenue was $97 million – an increase of $12 million or 14.7% when compared to 2013. Increases were mainly driven by volume growth from current clients and new services.

Cost of operations

Total labour costs

Total labour costs were $21 million in the second quarter of 2014 – an increase of $5 million or 31.9% when compared to the same period in the prior year. After the first two quarters of 2014, total labour costs were $41 million – an increase of $6 million or 19% compared to 2013. Increases were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $27 million in the second quarter of 2014 – an increase of $2 million or 5.5% when compared to the same period in the previous year. After the first two quarters of 2014, total non-labour costs were $50 million – an increase of $3 million or 6.3% when compared to 2013. Increases were mainly due to growth from existing clients and new services.

8.7 Innovapost segment

Innovapost provides virtually all its services to the Canada Post Group of Companies. Results of Innovapost are consolidated and its revenue of $121 million for the first two quarters was eliminated against the other segments' cost of operations upon consolidation.

9 Critical Accounting Estimates and Accounting Policy Developments

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

9.1 Critical accounting estimates and estimation uncertainties

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

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

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

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

There were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that required mandatory adoption in the Corporation's 2014 Second Quarter Financial Report.

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

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

Amendment or interpretation	Effective for annual periods beginning on or after
Annual Improvements to IFRS – 2010-2012 Cycle	July 1, 2014
Annual Improvements to IFRS – 2011-2013 Cycle	July 1, 2014
Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions	July 1, 2014
Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
IFRS 9 "Financial Instruments"	January 1, 2018

The following standards and amendments were issued by the IASB in the second quarter:

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations • In May 2014, the IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS except for those principles that conflict with the guidance in IFRS 11, and disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • In May 2014, the IASB issued IFRS 15 which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2017 using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted.

IFRS 9 "Financial Instruments" (IFRS 9) • In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted.

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

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

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

President and Chief Executive Officer

Chief Financial Officer

August 21, 2014

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**June 28, 2014**	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		**$ 551**	$ 468
Marketable securities		**491**	570
Trade and other receivables		**766**	779
Income tax receivable		**10**	6
Other assets	**4**	**117**	92
Total current assets		**1,935**	1,915
Non-current assets			
Property, plant and equipment	**5**	**2,657**	2,707
Intangible assets	**5**	**122**	129
Segregated securities		**546**	510
Pension benefit assets	**6**	**158**	177
Deferred tax assets		**1,563**	1,093
Goodwill		**130**	130
Other assets		**7**	6
Total non-current assets		**5,183**	4,752
Total assets		**$ 7,118**	$ 6,667
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 536**	$ 620
Salaries and benefits payable and related provisions		**563**	580
Provisions		**71**	81
Income tax payable		**8**	1
Deferred revenue		**116**	145
Loans and borrowings		**20**	23
Other long-term benefit liabilities	**6**	**71**	71
Total current liabilities		**1,385**	1,521
Non-current liabilities			
Loans and borrowings		**1,100**	1,108
Pension, other post-employment and other long-term benefit liabilities	**6**	**6,348**	4,382
Deferred tax liabilities		**3**	3
Provisions		**2**	2
Other liabilities		**16**	16
Total non-current liabilities		**7,469**	5,511
Total liabilities		**8,854**	7,032
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**37**	18
Accumulated deficit		**(2,952)**	(1,564)
Equity of Canada		**(1,760)**	(391)
Non-controlling interests		**24**	26
Total equity		**(1,736)**	(365)
Total liabilities and equity		**$ 7,118**	$ 6,667
Contingent liabilities	**9**		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the		13 weeks ended		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	**Notes**	**June 28, 2014**	June 29, 2013	**June 28, 2014**	June 29, 2013
Revenue from operations		**$ 2,007**	$ 1,862	**$ 3,875**	$ 3,766
Cost of operations					
Labour		**953**	951	**1,893**	1,907
Employee benefits, including (gains) losses from plan amendments	**6**	**316**	376	**640**	753
		1,269	1,327	**2,533**	2,660
Other operating costs	**10**	**557**	531	**1,110**	1,073
Depreciation and amortization	**5**	**85**	76	**164**	156
Total cost of operations		**1,911**	1,934	**3,807**	3,889
Profit (loss) from operations		**96**	(72)	**68**	(123)
Investing and financing income (expense)					
Investment and other income	**11**	**4**	7	**8**	121
Finance costs and other expense	**11**	**(14)**	(11)	**(27)**	(23)
Investing and financing income (expense), net		**(10)**	(4)	**(19)**	98
Profit (loss) before tax		**86**	(76)	**49**	(25)
Tax expense (income)	**7**	**19**	(26)	**10**	(10)
Net profit (loss)		**$ 67**	$ (50)	**$ 39**	$ (15)
Other comprehensive income (loss)					
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans, net of tax	**8**	**$ (692)**	$ 1,120	**$ (1,429)**	$ 1,401
Items that may be reclassified subsequently to net profit (loss)					
Unrealized gains (losses) on available-for-sale financial assets, net of tax	**8**	**6**	(21)	**19**	(24)
Other comprehensive income (loss)		**(686)**	1,099	**(1,410)**	1,377
Comprehensive income (loss)		**$ (619)**	$ 1,049	**$ (1,371)**	$ 1,362
Net profit (loss) attributable to					
Government of Canada		**$ 65**	$ (52)	**$ 38**	$ (16)
Non-controlling interests		**2**	2	**1**	1
		$ 67	$ (50)	**$ 39**	$ (15)
Comprehensive income (loss) attributable to					
Government of Canada		**$ (620)**	$ 1,045	**$ (1,369)**	$ 1,359
Non-controlling interests		**1**	4	**(2)**	3
		$ (619)	$ 1,049	**$ (1,371)**	$ 1,362

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 13 weeks ended June 28, 2014 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at March 29, 2014	**$ 1,155**	**$ 31**	**$ (2,326)**	**$ (1,140)**	**$ 23**	**$ (1,117)**
Net profit	**–**	**–**	**65**	**65**	**2**	**67**
Other comprehensive income (loss)	**–**	**6**	**(691)**	**(685)**	**(1)**	**(686)**
Comprehensive income (loss)	**–**	**6**	**(626)**	**(620)**	**1**	**(619)**
Balance at June 28, 2014	**$ 1,155**	**$ 37**	**$ (2,952)**	**$ (1,760)**	**$ 24**	**$ (1,736)**

For the 13 weeks ended June 29, 2013 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at March 30, 2013	$ 1,155	$ 49	$ (3,523)	$ (2,319)	$ 18	$ (2,301)
Net profit (loss)	–	–	(52)	(52)	2	(50)
Other comprehensive income (loss)	–	(21)	1,118	1,097	2	1,099
Comprehensive income (loss)	–	(21)	1,066	1,045	4	1,049
Balance at June 29, 2013	$ 1,155	$ 28	$ (2,457)	$ (1,274)	$ 22	$ (1,252)

For the 26 weeks ended June 28, 2014 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2013	**$ 1,155**	**$ 18**	**$ (1,564)**	**$ (391)**	**$ 26**	**$ (365)**
Net profit	**–**	**–**	**38**	**38**	**1**	**39**
Other comprehensive income (loss)	**–**	**19**	**(1,426)**	**(1,407)**	**(3)**	**(1,410)**
Comprehensive income (loss)	**–**	**19**	**(1,388)**	**(1,369)**	**(2)**	**(1,371)**
Balance at June 28, 2014	**$ 1,155**	**$ 37**	**$ (2,952)**	**$ (1,760)**	**$ 24**	**$ (1,736)**

For the 26 weeks ended June 29, 2013 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2012	$ 1,155	$ 52	$ (3,840)	$ (2,633)	$ 19	$ (2,614)
Net profit (loss)	–	–	(16)	(16)	1	(15)
Other comprehensive income (loss)	–	(24)	1,399	1,375	2	1,377
Comprehensive income (loss)	–	(24)	1,383	1,359	3	1,362
Balance at June 29, 2013	$ 1,155	$ 28	$ (2,457)	$ (1,274)	$ 22	$ (1,252)

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		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	**Notes**	**June 28, 2014**	June 29, 2013	**June 28, 2014**	June 29, 2013
Cash flows from operating activities					
Net profit (loss)		**$ 67**	$ (50)	**$ 39**	$ (15)
Adjustments to reconcile net profit (loss) to cash provided by operating activities:					
Depreciation and amortization	**5**	**85**	76	**164**	156
Pension, other post-employment and other long-term benefit expense	**6**	**172**	230	**345**	457
Pension, other post-employment and other long-term benefit payments	**6**	**(136)**	(160)	**(267)**	(306)
Gain on sale of capital assets and assets held for sale	**11**	**(1)**	(4)	**(1)**	(115)
Tax expense (income)	**7**	**19**	(26)	**10**	(10)
Net interest expense	**11**	**9**	8	**17**	15
Change in non-cash operating working capital:					
Decrease in trade and other receivables		**17**	10	**13**	12
Increase (decrease) in trade and other payables		**26**	28	**(84)**	(6)
(Decrease) increase in salaries and benefits payable and related provisions		**(19)**	3	**(17)**	(73)
(Decrease) increase in provisions		**(16)**	(1)	**(9)**	4
Net increase in other non-cash operating working capital		**(22)**	(23)	**(54)**	(42)
Other income not affecting cash, net		**(5)**	(6)	**(11)**	(14)
Cash provided by operations before interest and tax		**196**	85	**145**	63
Interest received		**12**	12	**17**	17
Interest paid		**–**	(1)	**(25)**	(26)
Tax paid		**(3)**	(1)	**(6)**	(1)
Cash provided by operating activities		**205**	95	**131**	53
Cash flows from investing activities					
Acquisition of securities		**(283)**	(284)	**(505)**	(553)
Proceeds from sale of securities		**304**	270	**574**	606
Acquisition of capital assets		**(64)**	(83)	**(106)**	(157)
Proceeds from sale of capital assets		**1**	4	**1**	157
Cash (used in) provided by investing activities		**(42)**	(93)	**(36)**	53
Cash flows from financing activities					
Payments on finance lease obligations		**(6)**	(3)	**(12)**	(8)
Other financing activities, net		**–**	(1)	**–**	(1)
Cash used in financing activities		**(6)**	(4)	**(12)**	(9)
Net increase (decrease) in cash and cash equivalents		**157**	(2)	**83**	97
Cash and cash equivalents, beginning of period		**394**	397	**468**	298
Cash and cash equivalents, end of period		**$ 551**	$ 395	**$ 551**	$ 395

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the 13 and 26 weeks ended June 28, 2014
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

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

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

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

2. Basis of Presentation

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

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

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

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

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

Significant accounting policies • Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in Note 2 of the Corporation's annual consolidated financial statements for the year ended December 31, 2013, except for the application of new standards, amendments and interpretations effective January 1, 2014, disclosed in Note 3 of the interim condensed consolidated financial statements of the 13-week period ended March 29, 2014. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

(Unaudited – in millions of Canadian dollars, 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 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2013.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

There were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that required mandatory adoption in the second quarter.

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

The following standards and amendments issued by the IASB in the second quarter have been assessed as having a possible effect 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:

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • In May 2014, the IASB issued IFRS 15 which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2017 using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted.

Amendments to IFRS 11 "Joint Arrangements"– Accounting for Acquisitions of Interest in Joint Operations • In May 2014, the IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in IFRS 11, and disclose the information required by IFRS 3 and other IFRS, for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

IFRS 9 "Financial Instruments" (IFRS 9) • In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted.

4. Other Assets

As at	**June 28, 2014**	December 31, 2013
Prepaid expenses	$ 106	$ 82
Assets held for sale	11	10
Total other assets	**$ 117**	$ 92

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

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

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost or deemed cost									
December 31, 2013	$ 309	$ 1,785	$ 269	$ 1,300	$ 433	$ 440	$ 892	$ 202	$ 5,630
Additions	–	21	1	30	12	10	13	3	90
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	–	(2)	(4)	(3)	(1)	–	–	(10)
Transfers (nets to nil with Note 5 [b])	–	135	1	11	3	3	–	(151)	2
June 28, 2014	**$ 309**	**$ 1,938**	**$ 269**	**$ 1,337**	**$ 445**	**$ 452**	**$ 905**	**$ 54**	**$ 5,709**
Accumulated depreciation									
December 31, 2013	$ –	$ 910	$ 195	$ 681	$ 225	$ 337	$ 575	$ –	$ 2,923
Depreciation	–	31	8	40	21	23	18	–	141
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	–	(2)	(4)	(3)	(1)	–	–	(10)
June 28, 2014	**$ –**	**$ 939**	**$ 201**	**$ 717**	**$ 243**	**$ 359**	**$ 593**	**$ –**	**$ 3,052**
Carrying amounts									
December 31, 2013	$ 309	$ 875	$ 74	$ 619	$ 208	$ 103	$ 317	$ 202	$ 2,707
June 28, 2014	**$ 309**	**$ 999**	**$ 68**	**$ 620**	**$ 202**	**$ 93**	**$ 312**	**$ 54**	**$ 2,657**

During 2014, capitalized borrowing costs related to Postal Transformation amounted to $1 million (June 29, 2013 – $5 million), with a capitalization rate of 4.3% (June 29, 2013 – 4.3%).

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2013	$ 640	$ 33	$ 30	$ 703
Additions	12	6	–	18
Transfers (nets to nil with Note 5 [a])	1	(3)	–	(2)
June 28, 2014	**$ 653**	**$ 36**	**$ 30**	**$ 719**
Accumulated amortization				
December 31, 2013	$ 547	$ 1	$ 26	$ 574
Amortization	21	1	1	23
June 28, 2014	**$ 568**	**$ 2**	**$ 27**	**$ 597**
Carrying amounts				
December 31, 2013	$ 93	$ 32	$ 4	$ 129
June 28, 2014	**$ 85**	**$ 34**	**$ 3**	**$ 122**

(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	**June 28, 2014**	December 31, 2013
Pension benefit assets	**$ 158**	$ 177
Pension benefit liabilities	$ 2,621	$ 1,090
Other post-employment and other long-term benefit liabilities	3,798	3,363
Total pension, other post-employment and other long-term benefit liabilities	$ 6,419	$ 4,453
Current other long-term benefit liabilities	**$ 71**	$ 71
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 6,348**	$ 4,382

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended		**June 28, 2014**			June 29, 2013	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 92	$ 26	$ 118	$ 117	$ 30	$ 147
Interest cost	261	42	303	230	39	269
Interest income on plan assets	(250)	–	(250)	(192)	–	(192)
Other administration costs	4	–	4	4	–	4
Gain from plan amendment	–	(5)	(5)	–	–	–
Defined benefit expense	107	63	170	159	69	228
Defined contribution expense	2	–	2	2	–	2
Total expense	109	63	172	161	69	230
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Component included in employee benefits expense	**$ 109**	**$ 58**	**$ 167**	$ 161	$ 64	$ 225
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (261)	$ –	$ (261)	$ 148	$ –	$ 148
Actuarial losses (gains)	1,022	161	1,183	(1,465)	(177)	(1,642)
Component included in other comprehensive income (loss)	**$ 761**	**$ 161**	**$ 922**	$ (1,317)	$ (177)	$ (1,494)

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

For the 26 weeks ended			**June 28, 2014**			June 29, 2013
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 181	$ 52	$ 233	$ 232	$ 60	$ 292
Interest cost	515	83	598	456	78	534
Interest income on plan assets	(493)	–	(493)	(381)	–	(381)
Other administration costs	7	–	7	7	–	7
(Gain) losses from plan amendments	–	(5)	(5)	1	–	1
Defined benefit expense	210	130	340	315	138	453
Defined contribution expense	5	–	5	4	–	4
Total expense	215	130	345	319	138	457
Return on segregated securities	–	(10)	(10)	–	(10)	(10)
Component included in employee benefits expense	**$ 215**	**$ 120**	**$ 335**	$ 319	$ 128	$ 447
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (795)	$ –	$ (795)	$ (596)	$ –	$ (596)
Actuarial losses (gains)	2,326	376	2,702	(1,142)	(131)	(1,273)
Component included in other comprehensive income (loss)	**$ 1,531**	**$ 376**	**$ 1,907**	$ (1,738)	$ (131)	$ (1,869)

In May 2014, the Corporation signed a new collective agreement with employees represented by the Public Service Alliance of Canada. The new terms and conditions led to a modification of the post-employment health plan arrangement. The resulting plan amendment gain of $5 million was recorded in net profit.

(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**		**26 weeks ended**	
	June 28, 2014	June 29, 2013	**June 28, 2014**	June 29, 2013
Benefits paid directly to beneficiaries for other benefit plans	$ 38	$ 39	$ 71	$ 71
Employer regular contributions to pension benefit plans	75	93	153	180
Employer special contributions to pension benefit plans	21	26	38	51
Cash payments for defined benefit plans	134	158	262	302
Contributions to defined contribution plans	2	2	5	4
Total cash payments	**$ 136**	$ 160	**$ 267**	$ 306

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

7. Income Taxes

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

For the	**13 weeks ended**		**26 weeks ended**	
	June 28, 2014	June 29, 2013	**June 28, 2014**	June 29, 2013
Current tax expense	$ 13	$ 5	$ 9	$ 3
Deferred tax expense (income) relating to origination and reversal of temporary differences	6	(31)	1	(13)
Tax expense (income)	**$ 19**	$ (26)	**$ 10**	$ (10)

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

8. Other Comprehensive Income (Loss)

	Items that may be reclassified subsequently to net profit (loss)	Items that will not be reclassified to net profit (loss)	
	Unrealized gains (losses) on available-for-sale financial assets	Remeasurements of defined benefit plans	Other comprehensive income (loss)
For the 13 weeks ended June 28, 2014			
Amount arising during period	$ 8	$ (922)	$ (914)
Income taxes	(2)	230	228
Net	**$ 6**	**$ (692)**	**$ (686)**
For the 13 weeks ended June 29, 2013			
Amount arising during period	$ (28)	$ 1,494	$ 1,466
Income taxes	7	(374)	(367)
Net	$ (21)	$ 1,120	$ 1,099

	Items that may be reclassified subsequently to net profit (loss)	Items that will not be reclassified to net profit (loss)	
	Unrealized gains (losses) on available-for-sale financial assets	Remeasurements of defined benefit plans	Other comprehensive income (loss)
For the 26 weeks ended June 28, 2014			
Amount arising during period	$ 26	$ (1,907)	$ (1,881)
Income taxes	(7)	478	471
Net	**$ 19**	**$ (1,429)**	**$ (1,410)**
For the 26 weeks ended June 29, 2013			
Amount arising during period	$ (32)	$ 1,869	$ 1,837
Income taxes	8	(468)	(460)
Net	$ (24)	$ 1,401	$ 1,377

9. Contingent Liabilities

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

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

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

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

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

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

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

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

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

(d) Through July 2014, the Corporation received notices from the Canadian International Trade Tribunal (CITT) that it has accepted for inquiry a number of complaints, both public and confidential, by CGI Information Systems and Management Consultants Inc. (CGI) in respect of the requests for proposals for data centre services and application development services conducted by Innovapost on behalf of the Group of Companies for the contracts awarded December 6, 2013, and February 18, 2014. CGI's public claims are that (i) it was not provided with the documents and information it is entitled to receive pursuant to its debrief requests, (ii) undisclosed criteria were used to evaluate CGI's bids and (iii) CGI's bids were improperly evaluated. The Corporation has filed responses, and is preparing additional responses to be filed – all as required by the CITT within the specified timelines. In addition, the CITT scheduled oral hearings in September to clarify the facts and hear submissions regarding the complaints dealing with evaluation and bias, which the Corporation will participate in. While CGI has requested various forms of relief for each of the public and confidential complaints, including monetary relief, management believes that the requests for monetary relief are without merit and, accordingly, no provision has been recorded in the Corporation's financial statements.

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

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

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

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

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

10. Other Operating Costs

For the	**13 weeks ended**		**26 weeks ended**	
	June 28, 2014	June 29, 2013	**June 28, 2014**	June 29, 2013
Non-labour collection, processing and delivery	$ 325	$ 325	$ 663	$ 662
Property, facilities and maintenance	86	87	182	177
Selling, administrative and other	146	119	265	234
Other operating costs	**$ 557**	$ 531	**$ 1,110**	$ 1,073

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

11. Investing and Financing Income (Expense)

For the	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	**June 28, 2014**	June 29, 2013
Interest revenue	$ 3	$ 3	$ 7	$ 6
Gain on sale of capital assets and assets held for sale	1	4	1	115
Investment and other income	**$ 4**	$ 7	**$ 8**	$ 121
Interest expense	$ (12)	$ (11)	$ (24)	$ (21)
Other expense	(2)	–	(3)	(2)
Finance costs and other expense	**$ (14)**	$ (11)	**$ (27)**	$ (23)
Investing and financing income (expense), net	**$ (10)**	$ (4)	**$ (19)**	$ 98

12. Related Party Transactions

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

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

For the	13 weeks ended		26 weeks ended	
	June 28, 2014	June 29, 2013	**June 28, 2014**	June 29, 2013
Related party revenue	**$ 71**	$ 68	**$ 136**	$ 148
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 5**	$ 5	**$ 11**	$ 11
Payments from related parties for premises leased from the Corporation	**$ 1**	$ 2	**$ 3**	$ 4
Related party expenditures	**$ 8**	$ 7	**$ 16**	$ 15

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.

As at	**June 28, 2014**	December 31, 2013
Due to/from related parties		
Included in trade and other receivables	**$ 26**	$ 20
Included in trade and other payables	**$ 7**	$ 16
Deferred revenue from related parties	**$ 3**	$ 3

(b) Transactions with the Corporation's pension plans

During the 13 and 26 weeks ended June 28, 2014, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $3 million and $5 million, respectively (June 29, 2013 – $3 million and $5 million, respectively). As at June 28, 2014, no amount (December 31, 2013 – $4 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables.

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

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

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 26 weeks ended June 28, 2014, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amounts of $26 million and $53 million for the 13 and 26 weeks ended June 28, 2014, respectively (June 29, 2013 – $28 million and $55 million, respectively). As at June 28, 2014, $2 million was due to the company from Purolator (December 31, 2013 – $4 million) and included in trade and other payables. These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

13. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

Fair values are measured and disclosed based on a hierarchy described below that reflects the significance of inputs used in making these estimates.

As at June 28, 2014

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Measured at fair value				
Cash and cash equivalents	$ 359	$ 192	$ –	**$ 551**
Marketable securities	$ –	$ 491	$ –	**$ 491**
Segregated securities	$ –	$ 546	$ –	**$ 546**
Trade and other receivables: risk management financial assets	$ –	$ 2	$ –	**$ 2**
Measured at amortized cost				
Loans and borrowings	$ –	$ 1,295	$ –	**$ 1,295**

As at December 31, 2013

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

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

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

There were no transfers between levels of the fair value hierarchy during the 26-week period ended June 28, 2014.

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

Financial risk factors

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

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

(a) Market risk

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

During the 26 weeks ended June 28, 2014, the Group of Companies continued its economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. The notional amounts of forward contracts outstanding were as follows:

As at June 28, 2014

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity range**	**Type**	**Fair value**
U.S. dollar	US$54	$ 59	$1.10/US$	July 10 – December 18, 2014	Sell forward	$ 1
Euro	€32	48	$1.49/€	July 11 – December 19, 2014	Sell forward	1
British pound	£7	13	$1.80/£	July 11 – December 19, 2014	Sell forward	–
Yen	¥829	9	$0.011/¥	July 11 – December 19, 2014	Sell forward	–
Total		$ 129				**$ 2**

As at December 31, 2013

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

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

For the 13 weeks ended		**June 28, 2014**			June 29, 2013	
	Foreign exchange losses	**Derivative gains**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (3)	$ 5	$ 2	$ 2	$ (3)	$ (1)
Realized	(1)	–	(1)	1	(1)	–
Total	**$ (4)**	**$ 5**	**$ 1**	$ 3	$ (4)	$ (1)

For the 26 weeks ended		**June 28, 2014**			June 29, 2013	
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (2)	$ 2	$ –	$ 1	$ (4)	$ (3)
Realized	3	(2)	1	2	(2)	–
Total	**$ 1**	**$ –**	**$ 1**	$ 3	$ (6)	$ (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 high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

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

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

14. Segmented Information

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

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

As at and for the 13 weeks ended June 28, 2014

	Canada Post	**Purolator**	**Logistics**	**Innovapost**	**Intersegment and consolidation**	**Total**
Revenue from external customers	$ 1,552	$ 408	$ 47	$ –	$ –	$ 2,007
Intersegment revenue	7	19	5	59	(90)	–
Revenue from operations	$ 1,559	$ 427	$ 52	$ 59	$ (90)	$ 2,007
Labour and employee benefits	$ 1,037	$ 187	$ 21	$ 24	$ –	$ 1,269
Other operating costs	391	198	24	35	(91)	557
Depreciation and amortization	69	14	3	–	(1)	85
Cost of operations	$ 1,497	$ 399	$ 48	$ 59	$ (92)	$ 1,911
Profit from operations	$ 62	$ 28	$ 4	$ –	$ 2	$ 96
Investment and other income	$ 4	$ –	$ –	$ –	$ –	$ 4
Finance costs and other expense	(13)	(1)	–	–	–	(14)
Profit before tax	$ 53	$ 27	$ 4	$ –	$ 2	$ 86
Tax expense (income)	11	7	1	–	–	19
Net profit	$ 42	$ 20	$ 3	$ –	$ 2	$ 67
Total assets	$ 6,550	$ 773	$ 94	$ 104	$ (403)	$ 7,118
Acquisition of capital assets	$ 55	$ 8	$ 3	$ –	$ (1)	$ 65
Total liabilities	$ 8,486	$ 331	$ 47	$ 53	$ (63)	$ 8,854

As at and for the 13 weeks ended June 29, 2013

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

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

As at and for the 26 weeks ended June 28, 2014

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	$ 3,014	$ 773	$ 88	$ –	$ –	$ 3,875
Intersegment revenue	13	40	9	121	(183)	–
Revenue from operations	$ 3,027	$ 813	$ 97	$ 121	$ (183)	$ 3,875
Labour and employee benefits	$ 2,070	$ 375	$ 41	$ 47	$ –	$ 2,533
Other operating costs	779	394	46	73	(182)	1,110
Depreciation and amortization	134	27	4	1	(2)	164
Cost of operations	$ 2,983	$ 796	$ 91	$ 121	$ (184)	$ 3,807
Profit from operations	$ 44	$ 17	$ 6	$ –	$ 1	$ 68
Investment and other income	$ 8	$ –	$ –	$ –	$ –	$ 8
Finance costs and other expense	(26)	(1)	–	–	–	(27)
Profit before tax	$ 26	$ 16	$ 6	$ –	$ 1	$ 49
Tax expense (income)	3	5	2	–	–	10
Net profit	$ 23	$ 11	$ 4	$ –	$ 1	$ 39
Total assets	$ 6,550	$ 773	$ 94	$ 104	$ (403)	$ 7,118
Acquisition of capital assets	$ 93	$ 12	$ 5	$ –	$ (2)	$ 108
Total liabilities	$ 8,486	$ 331	$ 47	$ 53	$ (63)	$ 8,854

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

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

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