CANADA POST CORPORATION

2017 **Third Quarter** Financial Report

For the period ended September 30, 2017

Contents

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the third quarter ended September 30, 2017, and for the first three quarters of 2017 for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 and 39 weeks ended September 30, 2017. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 30, 2017, which were prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2016. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to November 23, 2017, unless otherwise noted.

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

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Materiality

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

Forward-looking statements

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

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

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

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of November 23, 2017, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

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

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

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

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $4.6 billion for the first three quarters of 2017 (77.3% of total revenue) and $6.2 billion for the full year ended December 31, 2016 (78.1% of total revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

Canada Post is facing a pivotal period in its history. With Canadian households and businesses turning more and more to online communication, Lettermail™ volumes have dropped significantly. In 2016, we delivered 3.2 billion pieces of Domestic Lettermail, 1.8 billion (or 37%) less than we did in the peak year of 2006.

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

In 2016, the Government of Canada began a three-phased review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. The first two phases were completed in 2016. During the third phase currently under way, the government is weighing all the work that has been done and is expected to announce its recommendations by the end of 2017. Once recommendations are issued, Canada Post will review them and work with all stakeholders to determine the best path forward for implementation.

Canada Post is continuing with its strategies of growing its Parcels business, strengthening its Direct Marketing business, and pursuing improved efficiency, productivity and cost-competitiveness in its operations. Although the impacts of these strategies are sizeable, they alone will not allow the Corporation to achieve financial self-sustainability.

Financial highlights

For the third quarter ended September 30, 2017, the Canada Post Group of Companies reported a loss before tax of $25 million, consistent with the same period in 2016. The Canada Post segment reported a loss before tax of $62 million for the third quarter of 2017, compared to a loss before tax of $60 million for the third quarter of 2016. Although revenue increased by $145 million, the cost of operations grew by $148 million. Labour costs increased year-over-year by $62 million, from the impact of Parcels growth and a lower base in 2016 mainly as a result of a reduction in mailings as customers made alternative delivery arrangements due to the labour uncertainty generated by prolonged negotiations with the Canadian Union of Postal Workers (CUPW). Employee benefits also grew by $66 million, due to lower 2016 costs from the August 2016 one-time non-cash gain resulting from a plan amendment in the new agreement with the Canadian Postmasters and Assistants Association. The Purolator segment recorded a profit before tax of $31 million in the third quarter of 2017, relatively flat with the profit before tax of $32 million in the same period last year.

For the first three quarters of 2017, the Group of Companies recorded a profit before tax of $111 million, compared to a profit before tax of $19 million in the first three quarters of 2016, mainly from positive results in the Purolator segment due to business growth. For the first three quarters of 2017, the Canada Post segment reported a profit before tax of $13 million, compared to a loss before tax of $15 million for the same period in 2016. The segment anticipates making a profit in 2017, as it heads into the fourth-quarter holiday season when demand for its services is the highest.

The Canada Post segment generated revenue of $1,471 million in the third quarter of 2017, an increase of $145 million or 12.7%[1] compared to the same period in 2016. Revenue increased in 2017 mainly because of strong Parcels growth and lower revenue experienced in 2016 as customers made alternate delivery arrangements due to the labour uncertainty from prolonged negotiations with CUPW.

1. Adjusted for trading days, where applicable.

For the first three quarters of 2017, Canada Post generated revenue of $4,651 million, an increase of $140 million or 3.6%[1] compared to the same period in 2016. The strong growth in Parcels was offset by a decline in Transaction Mail and Direct Marketing. This positive impact was partially offset by one less trading day in the third quarter and for the first three quarters of 2017.

Transaction Mail revenue increased by $3 million or 2.2%,[1] and volumes remained relatively flat in the third quarter of 2017 when compared to the same period in 2016. Excluding the negative impact of the labour uncertainty in the third quarter of 2016, Transaction Mail revenue and volumes would have declined in the third quarter of 2017, compared to the same period in the prior year. In the first three quarters of 2017, revenue and volumes decreased by $92 million or 3.5%[1] and 159 million pieces or 5.7%[1] when compared to the same period in 2016 primarily due to ongoing mail erosion driven by electronic substitution.

Parcels revenue increased by $129 million or 38.9%[1] in the third quarter of 2017, and by $257 million or 22.5%[1] in the first three quarters of 2017 when compared to the same periods in 2016. Volumes increased by 16 million pieces or 43.5%[1] in the third quarter of 2017 and by 32 million pieces or 25.3%[1] in the first three quarters of 2017 compared to the same periods in 2016. Strong results for Parcels were mainly driven by continuous growth in the business to consumer e-commerce delivery market and success in delivering competitive offerings, and a lower revenue base from the labour uncertainty in the third quarter of 2016.

Direct Marketing revenue increased by $15 million or 7.9%[1] in the third quarter of 2017 when compared to the same period in 2016. Excluding the negative impact of the labour uncertainty in the third quarter of 2016, Direct Marketing revenue would have decreased in the third quarter of 2017, compared to the same period in the prior year. Revenue decreased by $6 million or 0.1%[1] in the first three quarters of 2017 when compared to the same period in 2016. Decreases were mainly due to commercial customers in key advertising segments, including finance and telecommunications, continuing to redirect some of their marketing expenditures to other media channels.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect our financial performance and, if it weren't for temporary pension relief on special payments, they would put pressure on our cash resources. In February 2014, the Government of Canada provided relief to Canada Post from the requirement to make special payments to the Canada Post Corporation Registered Pension Plan (RPP) from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standards Act, 1985*. On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985* were amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, the aggregate amount of relief is limited to 15% of the plan's solvency liabilities; beyond that threshold, Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. With this regulatory change, Canada Post does not plan to have to make special payments in 2018, provided that market conditions remain constant. A going-concern deficit must be funded over 15 years. Also, in 2016, the Government of Canada undertook a review of Canada Post, which includes an examination of the sustainability of the RPP. The government is expected to announce its recommendations by the end of 2017.

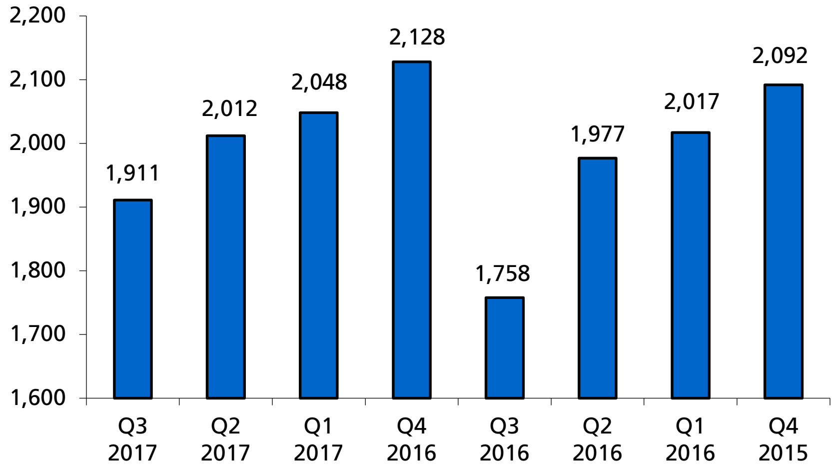
Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. For example, the solvency deficit (using market value of plan assets) improved from $6.5 billion as at December 31, 2016 to an estimated $5.3 billion at the end of the third quarter of 2017. Also, during the third quarter of 2017, the volatility positively affected the Group of Companies' defined benefit plans, causing remeasurement gains of $1,097 million, net of tax, recorded in other comprehensive income, and improving the Group of Companies' equity balance to negative $45 million as at September 30, 2017. These remeasurement gains in the third quarter of 2017 were mostly the result of an increase in discount rates.

The prior year's discount rates and other actuarial assumptions, as well as pension asset balances, are used to calculate the current year's employee benefit expense, and thereby affect the Corporation's operating results. These factors along with a $44 million non-cash one-time gain generated by a plan amendment in the most recent agreement with the Canadian Postmasters and Assistants Association (CPAA) in the third quarter of 2016, contributed to an increase in the employee benefit expense of $66 million or 25.9% in the third quarter of 2017 and $43 million or 5.2%[1] in the first three quarters of 2017, compared to the same periods in 2016. These results demonstrate how changing discount rates, investment returns and other actuarial assumptions can cause significant volatility in the Corporation's financial statements.

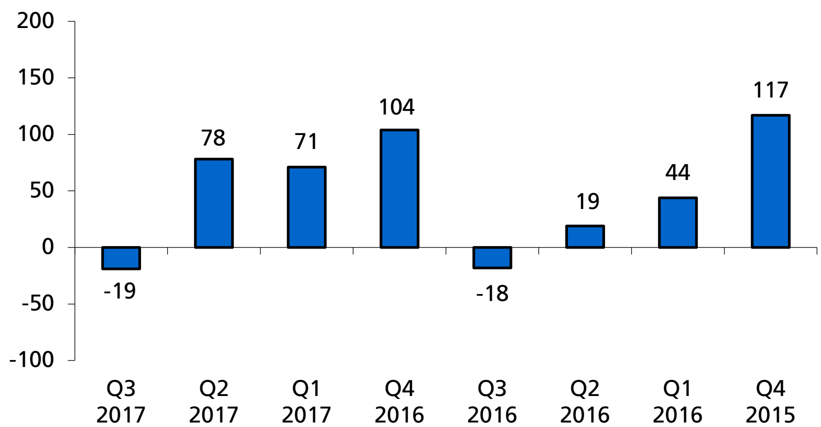
1. Adjusted for trading days or paid days, where applicable.

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

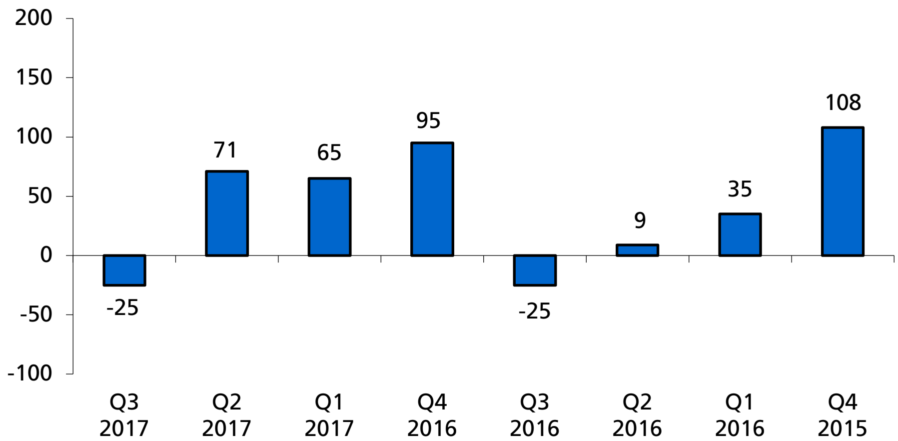
Quarterly consolidated revenue from operations
(in millions of dollars)



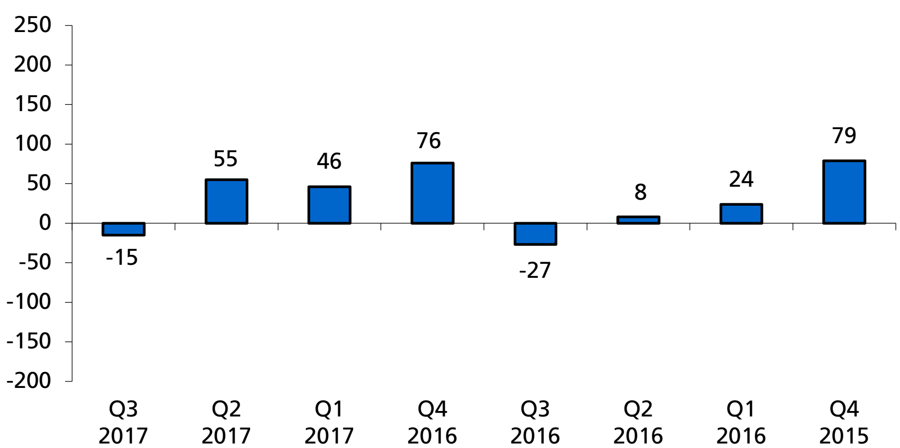
Quarterly consolidated profit (loss) from operations
(in millions of dollars)



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



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



The following table presents the Corporation's consolidated performance for the third quarter and the first three quarters of 2017, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				39 weeks ended				
	Sept. 30, 2017	Oct. 1, 2016	Change	%	Sept. 30, 2017	Oct. 1, 2016	Change	%	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 8 – Discussion of Operations page 16.
Revenue from operations	1,911	1,758	153	10.4[1]	5,971	5,752	219	4.4[1]	For the third quarter, increase mainly due to Parcels growth and lower revenue in 2016 from labour uncertainty in the Canada Post segment, offset by one less trading day. For the first three quarters, also due to increased revenue in the Purolator segment, from business growth.
Cost of operations	1,930	1,776	154	8.7	5,841	5,707	134	2.9[1]	For the third quarter and the first three quarters, increases mainly due to higher labour and employee benefit expenses in the Canada Post segment. The first three-quarter results were also affected by one less paid day in the first three quarters of 2017, compared to the same period in 2016.
Profit (loss) from operations	(19)	(18)	(1)	(11.6)	130	45	85	186.9	
Investing and financing income (expense), net	(6)	(7)	1	28.5	(19)	(26)	7	26.7	No material change.
Profit (loss) before tax	(25)	(25)	–	–	111	19	92	489.0	
Net profit (loss)	(15)	(27)	12	43.5	86	5	81	–	
Comprehensive income (loss)	1,063	(296)	1,359	–	259	(2,062)	2,321	–	For the third quarter, mainly due to an increase in discount rates. For the first three quarters, mainly due to higher than targeted pension asset returns, partially offset by a minor 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	238	175	63	36.5	469	363	106	29.5	For the third quarter, mainly due to lower losses and changes in non-cash operating working capital. For the first three quarters, improvement mainly due to higher profits and lower taxes paid, partially offset by changes in non-cash working capital.
Cash used in investing activities	(185)	(37)	(148)	(391.3)	(127)	(261)	134	51.6	For the third quarter, mainly due to higher net acquisition of securities. For the first three quarters, improvement mainly due to higher net proceeds from the sale of investments, partially offset by higher acquisitions of securities.
Cash used in financing activities	(4)	(6)	2	17.3	(15)	(74)	59	79.5	Improvement in the first three quarters mainly due to the repayment of non-redeemable bonds that matured in March 2016.

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

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

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

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

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

During Canada Post's continued implementation of this growth strategy, the Government of Canada launched in 2016 a three-phased review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. The first two phases are complete. The government is expected to conclude its review of Canada Post by the end of 2017. Canada Post will review the government's decision and work with all stakeholders to determine the best path forward for implementation.

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

3 Key Performance Drivers

A discussion of our key achievements in 2017

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

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

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

4 Capabilities

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

A discussion of these topics appears in Section 4 – Capabilities of the 2016 Annual MD&A. Updates are provided below.

4.1 Labour relations

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

Canada Post segment

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

The current agreement with CUPW-UPO, which was ratified in December 2016, expires January 31, 2018. The CUPW provided notice to bargain November 14, 2017. The parties are expected to start negotiations within 20 days in accordance with the *Canada Labour Code*. The current collective agreement will continue to apply once it expires, in accordance with the *Canada Labour Code*.

As a part of the collective agreement, the Corporation and CUPW-UPO established a Labour-Management Relationship Committee with the objective of promoting more effective open and continuous involvement between the parties and enhancing communication – all to improve labour relations. The committee, which is composed of at least two representatives of each party, has had numerous meetings to date. Additional meetings are planned later in November and December 2017.

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

The current agreement with CUPW-RSMC, which was ratified in December 2016, expires December 31, 2017. The CUPW provided notice to bargain November 14, 2017. The parties are expected to start negotiations within 20 days in accordance with the *Canada Labour Code*. The current collective agreement will continue to apply once it expires, in accordance with the *Canada Labour Code*.

On September 1, 2016, the parties signed a memorandum of understanding in which they agreed to enter into a joint pay equity study to assess whether a gender-based wage gap exists under *the Canadian Human Rights Act* for the RSMCs' female predominant occupational groups. The study was coordinated by a committee made up of representatives from Canada Post and CUPW and their respective pay equity consultants. On October 16, 2017, the pay equity consultants issued separate reports. Although they contained different findings, both reports highlighted a wage gap. The parties began discussions on October 17, 2017, in an attempt to resolve the differences in the reports. If there is no resolution, binding arbitration will commence January 9, 2018, with the arbitrator appointed by the Minister of Labour. All adjustments will be retroactive to January 1, 2016.

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

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

A notice to bargain was filed by PSAC/UPCE August 10, 2016, and several meetings have been held to date. Negotiations continued in earnest in the third quarter of 2017 up until the end of November. Canada Post remains fully committed to negotiating a new four-year collective agreement that is fair for employees, while meeting its business challenges and the needs of its customers.

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

Association of Postal Officials of Canada (APOC)

The current agreement with APOC expires March 31, 2018. Following a short period of negotiations, the parties reached a tentative agreement on September 12, 2017, which was ratified by the members on November 15, 2017, four months in advance of the expiry of the current agreement. This three-year agreement will take effect April 1, 2018 and provides for wage increases, benefit improvements and other enhancements.

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2021. All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have collective agreements that will expire December 31, 2017. Bargaining with three of the locals began in the third quarter, with one ratified deal reached in the third quarter.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

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

5 Risks and Risk Management

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

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

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

CPAA pay equity complaint

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

In the meantime, the CPAA has taken the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal June 19, 2017, for the arguments from the parties on this issue. We are awaiting the Tribunal's decision.

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

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

Class action lawsuit regarding drug plan benefits for Canada Post employees and retirees in Quebec

In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in the province of Quebec may have made, between July 1, 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation that regulates the Régie de l'assurance maladie du Québec (RAMQ). The outcome of this class action is currently not determinable.

Health and safety obligation under the *Canada Labour Code* – Burlington points of call

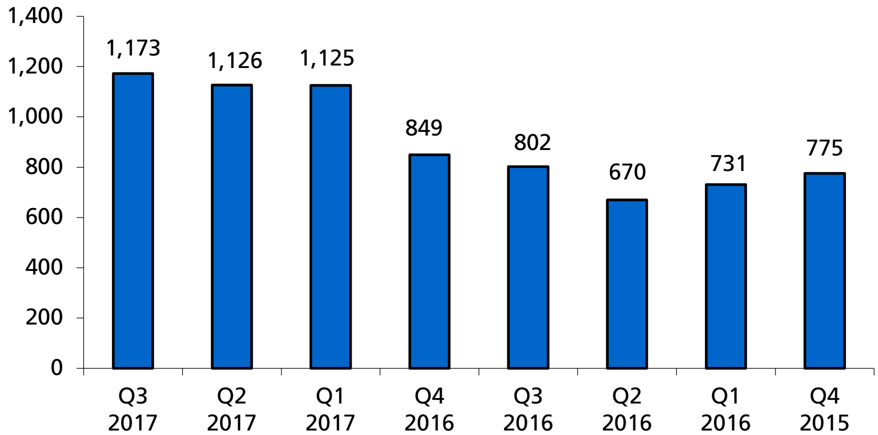
After the end of the second quarter, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No financial compensation was granted. The Corporation has filed an application for leave to appeal the decision to the Supreme Court of Canada.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $1,173 million as at September 30, 2017 – an increase of $324 million compared to December 31, 2016. The increase was mainly due to profits in the first three quarters of 2017, partially offset by changes in non-cash operating working capital, taxes paid, and acquisitions of capital assets.

6.2 Operating activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	Sept. 30, 2017	Oct. 1, 2016	Change
Cash provided by operating activities	238	175	63	469	363	106

The $63 million increase in the cash provided by operations in the third quarter of 2017, compared to the same period in 2016, was mainly due to lower losses and changes in non-cash operating working capital. For the first three quarters of 2017, cash provided by operations increased by $106 million compared to the same period in 2016, primarily driven by higher profits and lower taxes paid, partially offset by changes in non-cash operating working capital.

6.3 Investing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	Sept. 30, 2017	Oct. 1, 2016	Change
Cash (used in) provided by investing activities	(185)	(37)	(148)	(127)	(261)	134

Cash used in investing activities increased by $148 million in the third quarter of 2017, compared to the same period in 2016. The change was mainly due to higher net acquisition of securities in the third quarter of 2017, compared to the same period in 2016. For the first three quarters of 2017, cash used in investing activities was $127 million compared to cash used in investing activities of $261 million in the same period in 2016. This improvement of $134 million was mainly due to higher proceeds from the sale of investments, partially offset by higher acquisitions of securities.

Capital expenditures

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	Sept. 30, 2017	Oct. 1, 2016	Change
Canada Post	65	68	(3)	127	131	(4)
Purolator	18	6	12	26	22	4
Logistics	3	1	2	6	4	2
Intersegment and consolidation	(2)	(2)	–	(5)	(6)	(1)
Canada Post Group of Companies	**84**	**73**	**11**	**154**	**151**	**3**

Capital expenditures for the Group of Companies increased by $11 million in the third quarter of 2017 and by $3 million in the first three quarters of 2017, when compared to the same periods in 2016. The increases in 2017 were mainly due to increased spending in the Purolator segment.

6.4 Financing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	Sept. 30, 2017	Oct. 1, 2016	Change
Cash used in financing activities	(4)	(6)	2	(15)	(74)	59

There were no significant changes in financing activities in the third quarter of 2017, compared to the same period in 2016. Cash used in financing activities decreased by $59 million in the first three quarters of 2017, when compared to the same period in 2016. The change was mainly due to the repayment of non-redeemable bonds that matured in March 2016.

6.5 Canada Post Corporation Registered Pension Plan

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

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. Under these regulations, the Corporation is exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standards Act, 1985*. On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985* were amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, the aggregate amount of relief is limited to 15% of the plan's solvency liabilities; beyond that threshold, Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. With this regulatory change, Canada Post does not plan to have to make special payments in 2018, provided that market conditions remain constant. A going-concern deficit must be funded over 15 years. Also, in 2016, the Government of Canada undertook a review of Canada Post, which includes an examination of the sustainability of the RPP. The government is expected to announce its recommendations by the end of 2017.

On June 19, 2017, Canada Post filed the actuarial valuation of the RPP as at December 31, 2016, with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). The actuarial valuation as of December 31, 2016, disclosed a going-concern surplus of $1.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.8 billion (using the three-year average solvency ratio basis), or $6.5 billion (using market value of plan assets). At the end of the third quarter of 2017, the solvency deficit (using market value of plan assets) decreased to an estimated $5.3 billion.

Current service contributions for Canada Post amounted to $69 million and $196 million, respectively for the third quarter and first three quarters of 2017, compared to $65 million and $185 million, respectively for the same periods in 2016. The estimated amount of current service contributions for 2017 is approximately $264 million, a decrease of $7 million from those disclosed for the year ended December, 31, 2016, and the quarter ended July 1, 2017, due to an increase in employee contributions effective in July 2017.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the third quarter of 2017, remeasurement gains, net of tax, amounted to $881 million for the RPP. For the first three quarters of 2017, remeasurement gains, net of tax, amounted to $231 million. 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 third quarter of 2017, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $1,897 million of unrestricted liquid investments on hand as at September 30, 2017, and $100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provide Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. This change is expected to delay upcoming special payments for Canada Post. Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $276 million of unrestricted cash on hand and undrawn credit facilities of $73 million as at September 30, 2017, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

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

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at September 30, 2017, amounted to $997 million and $47 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2016 Annual MD&A.

Dividends

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

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out business activities, which are summarized in Section 6.7 – Risks associated with financial instruments of the 2016 Annual MD&A.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. For more information on foreign exchange risk, refer to Note 12 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 30, 2017. There were no material changes to market risk during the third quarter of 2017.

Credit risk

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled by paying cash or using major credit cards. There were no material changes to credit risk during the third quarter of 2017.

Liquidity risk

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

6.8 Contractual obligations and commitments

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

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in the support of the Government of Canada's public policies. These transactions are not materially different from what is reported in Section 6.9 – Related party transactions of the 2016 Annual MD&A. For more information on related party transactions, refer to Note 15 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 30, 2017 and Note 24 – Related Party Transactions of the 2016 consolidated financial statements.

6.10 Contingent liabilities

Contingent liabilities are described in Note 11 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 30, 2017 and Note 16 – Contingent Liabilities of the 2016 consolidated financial statements.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between September 30, 2017, and December 31, 2016

(in millions of dollars)

ASSETS	Sept. 30, 2017	Dec. 31, 2016	Change	%	Explanation of change
Cash and cash equivalents	1,173	849	324	38.2	Refer to Section 6 – Liquidity and Capital Resources page 10.
Marketable securities	1,000	1,038	(38)	(3.7)	Mainly due to timing of the maturation of short-term-investments.
Trade and other receivables	777	829	(52)	(6.3)	Mainly due to lower domestic trade and international settlement receivables in the Canada Post segment.
Other assets	134	110	24	21.5	Mainly due to an increase in prepaid expenses in the Canada Post and Purolator segments.
Total current assets	**3,084**	**2,826**	**258**	**9.1**	
Property, plant and equipment	2,593	2,672	(79)	(2.9)	Mainly due to depreciation in excess of acquisitions in the Canada Post segment.
Intangible assets	121	117	4	3.8	No material change.
Segregated securities	534	523	11	2.2	Mainly due to unrealized gains and interest income.
Pension benefit assets	130	135	(5)	(3.8)	Due to remeasurement losses on post-employment benefit plans, mainly resulting from a decrease in discount rates, partially offset by positive investment returns.
Deferred tax assets	1,391	1,384	7	0.5	No material change.
Goodwill	130	130	–	–	No change.
Other assets	7	5	2	42.1	No material change.
Total non-current assets	**4,906**	**4,966**	**(60)**	**(1.2)**	
Total assets	**7,990**	**7,792**	**198**	**2.5**	

(in millions of dollars)

LIABILITIES AND EQUITY	Sept. 30, 2017	Dec. 31, 2016	Change	%	Explanation of change
Trade and other payables	467	548	(81)	(14.7)	Mainly due to lower trade payables, and a reduction in accrued liabilities in the Canada Post segment, primarily because of timing.
Salaries and benefits payable and related provisions	520	487	33	6.7	Mainly due to an increase in accrued salaries, and benefits in the Canada Post segment.
Provisions	76	70	6	8.2	Mainly due to an increase in the grievance provisions in the Canada Post segment.
Income tax payable	8	3	5	217.6	Mainly due to an expected tax liability in the Purolator segment.
Deferred revenue	109	115	(6)	(5.4)	No material change.
Loans and borrowings	16	22	(6)	(23.4)	No material change.
Other long-term benefit liabilities	62	62	–	–	No change.
Total current liabilities	**1,258**	**1,307**	**(49)**	**(3.7)**	
Loans and borrowings	1,028	1,037	(9)	(0.9)	No material change.
Pension, other post-employment and other long-term benefit liabilities	5,723	5,726	(3)	(0.0)	No material change.
Other liabilities	26	26	–	(3.3)	No material change.
Total non-current liabilities	**6,777**	**6,789**	**(12)**	**(0.2)**	
Total liabilities	**8,035**	**8,096**	**(61)**	**(0.7)**	
Equity					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	40	44	(4)	(9.7)	No material change.
Accumulated deficit	(1,271)	(1,530)	259	16.9	Mainly due to remeasurement gains on post-employment benefit plans as a result of positive investment returns, partially offset by a decrease in discount rates.
Equity of Canada	**(76)**	**(331)**	**255**	**77.1**	
Non-controlling interests	31	27	4	14.2	
Total equity	**(45)**	**(304)**	**259**	**85.2**	
Total liabilities and equity	**7,990**	**7,792**	**198**	**2.5**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

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

(in millions of dollars)	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015
Revenue from operations	1,911	2,012	2,048	2,128	1,758	1,977	2,017	2,092
Cost of operations	1,930	1,934	1,977	2,024	1,776	1,958	1,973	1,975
Profit (loss) from operations	**(19)**	**78**	**71**	**104**	**(18)**	**19**	**44**	**117**
Investing and financing income (expense), net	(6)	(7)	(6)	(9)	(7)	(10)	(9)	(9)
Profit (loss) before tax	**(25)**	**71**	**65**	**95**	**(25)**	**9**	**35**	**108**
Tax expense (income)	(10)	16	19	19	2	1	11	29
Net profit (loss)	**(15)**	**55**	**46**	**76**	**(27)**	**8**	**24**	**79**

8.2 Consolidated results from operations

Consolidated results for the third quarter and first three quarters of 2017

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	%	Sept. 30, 2017	Oct. 1, 2016	Change	%
Revenue from operations	1,911	1,758	153	10.4[1]	5,971	5,752	219	4.4[1]
Cost of operations	1,930	1,776	154	8.7	5,841	5,707	134	2.9[1]
Profit (loss) from operations	**(19)**	**(18)**	**(1)**	**(11.6)**	**130**	**45**	**85**	**186.9**
Investing and financing income (expense), net	(6)	(7)	1	28.5	(19)	(26)	7	26.7
Profit (loss) before tax	**(25)**	**(25)**	**–**	**–**	**111**	**19**	**92**	**489.0**
Tax expense (income)	(10)	2	12	–	25	14	11	74.4
Net profit (loss)	**(15)**	**(27)**	**12**	**43.5**	**86**	**5**	**81**	**–**
Other comprehensive income (loss)	1,078	(269)	1,347	–	173	(2,067)	2,240	–
Comprehensive income (loss)	**1,063**	**(296)**	**1,359**	**–**	**259**	**(2,062)**	**2,321**	**–**

The Canada Post Group of Companies reported a loss before tax of $25 million for the third quarter of 2017, consistent with the third quarter of 2016. For the first three quarters of 2017, the profit before tax was $111 million, an increase of $92 million compared to the same period in 2016. A detailed discussion by segment follows in sections 8.4 to 8.6.

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

Consolidated revenue from operations

For the third quarter of 2017, revenue from operations increased by $153 million when compared to the same quarter in 2016. The growth was primarily in the Canada Post segment, due to Parcels growth, lower revenue in the third quarter of 2016 as a result of fewer mailings due to labour uncertainty, partially offset by one less trading day. For the first three quarters of 2017, revenue from operations increased by $219 million, when compared to the same period in 2016, mainly in the Canada Post segment, due to Parcels growth and the impact of labour uncertainty in 2016, offset by one less trading day in the first three quarters of 2017. The Purolator segment revenue also increased by $70 million in the first three quarters of 2017 when compared to the same period in 2016. A detailed discussion of revenue by segment follows in sections 8.4 to 8.6.

Consolidated cost of operations

The consolidated cost of operations increased by $154 million in the third quarter of 2017 when compared to the same quarter last year, and by $134 million in the first three quarters of 2017 when compared to the same periods in 2016. The increases were mainly in the Canada Post segment, due to Parcels growth and a lower cost base as a result of labour uncertainty in the third quarter of 2016. In addition, employee benefit expenses increased in the third quarter of 2017 compared to the prior year, mainly from lower employee benefit costs in the third quarter of 2016 as a result of the $44 million non-cash one-time gain generated by a plan amendment in the new agreement with the Canadian Postmasters and Assistants Association. The results for the first three quarters were also affected by one less paid day in the first three quarters of 2017 compared to the same period in 2016. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

The consolidated tax expense decreased by $12 million in the third quarter compared to the same period in the prior year, due to an unexpected decrease in the annual taxable income for the Canada Post segment. In the first three quarters of 2017 the tax expense increased by $11 million compared to the same period in 2016, primarily driven by an increase in the Group of Companies' profit before tax.

Consolidated other comprehensive loss

The consolidated other comprehensive income for the third quarter and the first three quarters of 2017 amounted to $1,078 million and $173 million, respectively. These results were mainly due to remeasurement gains on pension plans, resulting from higher than targeted pension asset returns, offset by a decrease in discount rates 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, continued to have a significant impact on the Group of Companies' other comprehensive income.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	%	Sept. 30, 2017	Oct. 1, 2016	Change	%
Canada Post	(62)	(60)	(2)	–	13	(15)	28	–
Purolator	31	32	(1)	(1.0)	84	35	49	140.7
Logistics	6	5	1	9.9	15	14	1	6.2
Other	–	(2)	2	–	(1)	(15)	14	–
Canada Post Group of Companies	**(25)**	**(25)**	**–**	**–**	**111**	**19**	**92**	**489.0**

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

8.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $62 million in the third quarter of 2017, compared to a loss before tax of $60 million in the third quarter of 2016. For the first three quarters of 2017, Canada Post recorded a profit before tax of $13 million compared to a loss before tax of $15 million in same period in 2016.

Canada Post results for the third quarter and first three quarters of 2017

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	%	Sept. 30, 2017	Oct. 1, 2016	Change	%
Revenue from operations	1,471	1,326	145	12.7[1]	4,651	4,511	140	3.6[1]
Cost of operations	1,527	1,379	148	10.8	4,620	4,513	107	2.9[1]
Profit (loss) from operations	**(56)**	**(53)**	**(3)**	**(6.6)**	**31**	**(2)**	**33**	**–**
Investing and financing income (expense), net	(6)	(7)	1	23.2	(18)	(13)	(5)	(40.2)
Profit (loss) before tax	**(62)**	**(60)**	**(2)**	**(3.1)**	**13**	**(15)**	**28**	**–**
Tax expense (income)	(19)	(8)	11	154.5	(2)	–	(2)	–
Net profit (loss)	**(43)**	**(52)**	**9**	**18.1**	**15**	**(15)**	**30**	**–**

Revenue from operations

Canada Post earned revenue from operations of $1,471 million in the third quarter of 2017 – an increase of $145 million or 12.7%[1] when compared to the same quarter in 2016. The increase was primarily due to solid growth in Parcels revenue, and a lower revenue base in 2016 as customers made alternate arrangements to secure their deliveries due to labour uncertainty, partially offset by one less trading day in the third quarter. For the first three quarters of 2017, Canada Post generated revenue of $4,651 million, an increase of $140 million or 3.6%[1] compared to the same period in 2016. The increase in revenue was primarily due to growth in Parcels, partially offset by continued Lettermail™ erosion, a drop in Direct Marketing revenue and one less trading day for the first three quarters.

Quarterly revenue by line of business

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	%[1]	Sept. 30, 2017	Oct. 1, 2016	Change	%[1]
Transaction Mail	666	663	3	2.2	2,204	2,296	(92)	(3.5)
Parcels	479	350	129	38.9	1,432	1,175	257	22.5
Direct Marketing	266	251	15	7.9	826	832	(6)	(0.1)
Other revenue	60	62	(2)	(3.4)	189	208	(19)	(9.0)
Total	**1,471**	**1,326**	**145**	**12.7**	**4,651**	**4,511**	**140**	**3.6**

Transaction Mail

Transaction Mail revenue of $666 million for the third quarter of 2017 was made up of the following three product categories: Domestic Lettermail ($610 million), Outbound Letter-post ($23 million), and Inbound Letter-post ($33 million).

In the third quarter of 2017, Transaction Mail revenue increased by $3 million or 2.2%[1] while volumes decreased by 8 million pieces, which was relatively flat on a trading-day basis compared to the same period in 2016. For Domestic Lettermail, the largest product category, revenue increased by $5 million or 2.7%[1] and volumes decreased by 8 million pieces, remaining also relatively flat on a trading-day basis. The increase in revenue in 2017 was mainly due to the recovery from lower revenue in the third quarter of 2016, which was a result of the labour uncertainty generated by prolonged negotiations with the Canadian Union of Postal Workers. Excluding this impact, Transaction Mail revenue would have declined in the third quarter of 2017 when compared to the same period in 2016.

In the first three quarters of 2017, Transaction Mail revenue decreased by $92 million or 3.5%[1] and volumes decreased by 159 million pieces or 5.7%[1] compared to the same period in 2016. For Domestic Lettermail, revenue decreased by $85 million or 3.5%[1] and volumes decreased by 150 million pieces or 5.7%.[1]

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

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

Parcels

Parcels revenue of $479 million for the third quarter of 2017 were made up of the following four product categories: Domestic Parcels ($346 million), Outbound Parcels ($50 million), Inbound Parcels ($74 million) and Other ($9 million).

Parcels revenue increased by $129 million or 38.9%[1] in the third quarter of 2017, while volumes increased by 16 million pieces or 43.5%[1] when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued its growth as revenue increased by $101 million or 43.1%[1] and volumes grew by 11 million pieces or 41.4%.[1]

In the first three quarters of 2017, Parcels revenue increased by $257 million or 22.5%[1] and volumes increased by 32 million pieces or 25.3%[1] when compared to the same period in 2016. For Domestic Parcels, revenue increased by $199 million or 24.3%[1] and volumes increased by 22 million pieces or 22.7%[1] in the first three quarters of 2017, compared to the same period last year.

The increases in revenue and volumes were partially a result of increased business from our major commercial customers and our solid delivery performance. They reflect the continued growth in the business-to-consumer e-commerce delivery market as customers continue to order more products online. The increases were also due to the recovery from the labour uncertainty in the third quarter of 2016.

Direct Marketing

Direct Marketing revenue of $266 million for the third quarter of 2017 was made up of the following four categories: Canada Post Personalized Mail™, ($122 million), Canada Post Neighbourhood Mail™, ($99 million), Publications Mail™ ($37 million), Business Reply Mail™ and Other mail ($8 million).

In the third quarter of 2017, Direct Marketing revenue increased by $15 million or 7.9%[1] and volumes increased by 151 million pieces or 17.1%[1] when compared to the same period in 2016. Excluding the negative impact of the labour uncertainty in the third quarter of 2016, Direct Marketing revenue would have decreased in the third quarter of 2017 when compared to the same period in the prior year. Neighbourhood Mail, the largest volume product category, saw revenue increase by $18 million or 25.2%[1] while volumes grew by 155 million pieces or 24.2%[1] compared to the same period in 2016, mainly due to new and incremental sales to commercial customers. Personalized Mail revenue decreased by $1 million but increased on a trading-day basis by 1.6%[1] while volumes increased by 1 million pieces or 2.4%.[1] These relatively flat results were caused by commercial customers in key advertising segments, including finance and telecommunications, redirecting some of their marketing expenditures to other media channels. Publications Mail revenue decreased by $3 million or 7.4%[1] and volumes were lower by 6 million pieces or 7.9%[1] due to a decline in mail publication subscriptions.

In the first three quarters of 2017, Direct Marketing revenue decreased by $6 million or 0.1%[1] while volumes increased by 171 million pieces or 5.6%[1] compared to the same period in 2016. Neighbourhood Mail revenue increased by $24 million or 9.3%[1], while volumes increased by 221 million pieces or 9.6%.[1] Revenue and volumes were positively affected by new and incremental sales to commercial customers. Personalized Mail revenue decreased by $17 million or 3.7%[1] and volumes decreased by 24 million pieces or 2.8%.[1] The declines were caused by commercial customers in key advertising segments, including finance and telecommunications, redirecting some of their marketing expenditures to other media channels. Publications Mail revenue declined by $13 million or 9.8%[1] and volumes decreased by 25 million pieces or 11.2%[1] in the first three quarters of 2017 compared to the same period in 2016, due to a decline in mail publication subscriptions.

Other revenue

Other revenue totalled $60 million in the third quarter of 2017 – a decrease of $2 million or 3.4%[1] when compared to the same period in the prior year. The decrease was due to a drop in sales of consumer products and fluctuations in foreign currency. At the end of three quarters in 2017, revenue was $189 million – a decrease of $19 million or 9.0%[1] compared to the same period in 2016. The decrease was due to a reduction in sales of consumer and digital products, and fluctuations in foreign currency.

1. Adjusted for trading days, where applicable.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,527 million in the third quarter of 2017 – an increase of $148 million when compared to the same quarter last year. After the first three quarters of 2017, the cost of operations was $4,620 million – an increase of $107 million compared to the same period in 2016. There was one less paid day for the first three quarters of 2017 compared to 2016.

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	%	Sept. 30, 2017	Oct. 1, 2016	Change	%[1]
Labour	778	716	62	8.6	2,343	2,301	42	2.3
Employee benefits	324	258	66	25.9	952	909	43	5.2
Total labour and employee benefits	**1,102**	**974**	**128**	**13.2**	**3,295**	**3,210**	**85**	**3.1**
Non-labour collection, processing and delivery	196	173	23	13.3	624	582	42	7.9
Property, facilities and maintenance	57	60	(3)	(5.7)	184	187	(3)	(0.8)
Selling, administrative and other	108	111	(3)	(2.8)	330	346	(16)	(4.4)
Total other operating costs	**361**	**344**	**17**	**4.8**	**1,138**	**1,115**	**23**	**2.6**
Depreciation and amortization	64	61	3	5.4	187	188	(1)	(0.2)
Total	**1,527**	**1,379**	**148**	**10.8**	**4,620**	**4,513**	**107**	**2.9**

Labour

Labour costs increased by $62 million or 8.6% in the third quarter of 2017 and by $42 million or 2.3%[1] in the first three quarters of 2017, when compared to the same periods in the previous year. The increases were primarily due to Parcels volume growth and wage increases in 2017, as well as lower costs in the third quarter of 2016, arising from fewer mailings due to the labour uncertainty from prolonged negotiations with the Canadian Union of Postal Workers. The increases were partially offset by one less paid day in the first three quarters of 2017 compared to 2016.

Employee benefits

Employee benefits increased by $66 million or 25.9% for the third quarter of 2017 and by $43 million or 5.2%[1] in the first three quarters of 2017 when compared to the same periods in 2016. The increases were mainly due to lower employee benefit costs in the third quarter of 2016 from a $44 million non-cash one-time gain generated by a plan amendment in the most recent agreement with the Canadian Postmasters and Assistants Association, a decrease in the 2016 discount rate used to calculate benefit plan costs in 2017 and updated demographic assumptions. These factors were partially offset by the positive impact of favorable asset returns in 2016 used to calculate benefit plan costs in 2017, a decrease in the statutory rates of employer contributions to employment insurance and one less paid day in the first three quarters of 2017 compared to 2016.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $23 million or 13.3% for the third quarter of 2017 and by $42 million or 7.9%[1] for the first three quarters of 2017, when compared to the same periods in 2016, mainly due to higher transportation costs.

Property, facilities and maintenance

The cost of facilities was mainly consistent in the third quarter of 2017 and for the first three quarters of 2017 when compared to the same periods in 2016.

Selling, administrative and other

Selling, administrative and other expenses decreased by $3 million or 2.8% for the third quarter of 2017 and by $16 million or 4.4%[1] for the first three quarters of 2017, when compared to the same periods last year, mainly due to lower costs for consumer products and program expenses.

Depreciation and amortization

The depreciation and amortization expense increased by $3 million or 5.4% in the third quarter of 2017 when compared to the same period in 2016, primarily due to the accelerated amortization of plant equipment. The expense was mainly consistent in the first three quarters of 2017 when compared to the same period in 2016.

1. Adjusted for paid days, where applicable.

8.5 Purolator segment

The Purolator segment contributed a net profit of $23 million for the third quarter of 2017, which remained flat compared to the same period in the prior year. For the first three quarters of 2017, Purolator earned a net profit of $61 million, a significant increase of $36 million when compared to the prior year.

Purolator results for the third quarter and first three quarters of 2017

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	%	Sept. 30, 2017	Oct. 1, 2016	Change	%
Revenue from operations	394	391	3	2.4[1]	1,188	1,118	70	6.9[1]
Cost of operations	363	358	5	1.1	1,103	1,081	22	2.6[1]
Profit from operations	**31**	**33**	**(2)**	**(2.8)**	**85**	**37**	**48**	**133.0**
Investing and financing income (expense), net	–	(1)	1	64.8	(1)	(2)	1	(19.5)
Profit before tax	**31**	**32**	**(1)**	**(1.0)**	**84**	**35**	**49**	**140.7**
Tax expense	8	9	(1)	(3.1)	23	10	13	124.4
Net profit	**23**	**23**	**–**	**(0.3)**	**61**	**25**	**36**	**147.5**

Revenue from operations

Purolator generated revenue from operations of $394 million in the third quarter of 2017 – an increase of $3 million or 2.4%[1] when compared to the same period last year. Prior year's revenue base was higher, as the results for the quarter were positively affected by additional mailings due to the labour uncertainty in the Canada Post segment, as customers were making alternate delivery arrangements. For the first three quarters of 2017, revenue totalled $1,188 million – an increase of $70 million or 6.9%[1] compared to the same period in 2016. Increases were due mainly to higher volumes from new and existing business.

Cost of operations

Total labour costs

Total labour costs were $187 million in the third quarter of 2017, a slight decrease of $1 million, or 0.9% compared to the third quarter of 2016. After the first three quarters of 2017, labour costs amounted to $572 million, an increase of $2 million or 1.0%[1] when compared to the same period in 2016. This increase was due primarily to business growth.

Total non-labour costs

Total non-labour costs were $176 million in the third quarter of 2017 – an increase of $6 million or 3.3% when compared to the same period in the prior year. After the first three quarters of 2017, total non-labour costs were $531 million – an increase of $20 million or 4.3%[1] compared to the same period in 2016. Increases were driven primarily by business growth, higher fuel costs and fluctuations in foreign currency.

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

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $4 million of net profit to the consolidated results for the third quarter of 2017, an increase of 9.7% when compared to the same period in the prior year. For the first three quarters of 2017, the Logistics segment earned a net profit of $11 million, an increase of 6.1% when compared to the prior year.

Logistics results for the third quarter and first three quarters of 2017

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 30, 2017	Oct. 1, 2016	Change	%	Sept. 30, 2017	Oct. 1, 2016	Change	%
Revenue from operations	70	64	6	10.6[1]	204	190	14	8.1[1]
Cost of operations	64	59	5	10.2[1]	189	176	13	8.1[1]
Profit from operations	**6**	**5**	**1**	**11.6**	**15**	**14**	**1**	**6.7**
Investing and financing income (expense), net	–	–	–	–	–	–	–	–
Profit before tax	**6**	**5**	**1**	**9.9**	**15**	**14**	**1**	**6.2**
Tax expense	2	2	–	10.6	4	4	–	6.3
Net profit	**4**	**3**	**1**	**9.7**	**11**	**10**	**1**	**6.1**

Revenue from operations

SCI generated revenue from operations of $70 million in the third quarter of 2017 – an increase of $6 million or 10.6%[1] when compared to the same period last year. After the first three quarters of 2017, revenue was $204 million – an increase of $14 million or 8.1%[1] when compared to the same period in 2016. The increases were mainly driven by volume growth from current clients and new business.

Cost of operations

Total labour costs

Total labour costs were $33 million in the third quarter of 2017 – an increase of $2 million or 9.8%[1] when compared to the same period in the prior year. After the first three quarters of 2017, total labour costs were $97 million – an increase of $6 million or 7.5%[1] compared to the same period in 2016. Increases were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $31 million in the third quarter of 2017 – an increase of $3 million or 10.7%[1] when compared to the same period in the previous year. After the first three quarters of 2017, total non-labour costs were $92 million – an increase of $7 million or 8.8%[1] when compared to the same period in 2016. Increases were mainly due to growth from existing clients and new services.

8.7 Consolidated results to plan

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

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

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2017 and future years

9.1 Critical accounting estimates and estimation uncertainties

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

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

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

Other than those disclosed in the 2017 First and Second Quarter Financial Reports, 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 third quarter of 2017.

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

The following table presents standards and amendments issued by the IASB or 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 standards and amendments on its consolidated financial statements.

Standard or amendment	Effective for annual periods beginning on or after
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019

The Corporation is determining the impact of all of the new standards on its consolidated financial statements, and has the following updates regarding its progress in implementing such future standards:

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The Group of Companies intends to apply IFRS 15 retrospectively, effective January 1, 2018. The Group of Companies continues to progress on the implementation of IFRS 15 through 2017 and has identified some differences in how revenue will be recognized. IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which will accelerate revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. The Group of Companies is quantifying the impact of this change but does not expect it will be material due to the short delivery cycle. IFRS 15 also requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. Due to the short delivery cycle, this period will be less than one year and will, therefore, qualify under a practical expedient to be expensed directly to cost of operations without first being capitalized. Under the current standard, some of these contract costs are netted against revenue. These contract costs will be reclassified to cost of operations, increasing both revenue and cost from operations by equal amounts and having no impact on net profit (loss). The contract costs to be reclassified are still being quantified but they are expected to be material. The Group of Companies continues to evaluate other possible impacts of this standard on its consolidated financial statements, including the impact of changes to the disclosure requirements. Refer to the 2016 Annual Report for additional information on this new accounting standard.

IFRS 9 "Financial Instruments" (IFRS 9) • The Group of Companies will apply IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has nearly completed the review of IFRS 9 and has identified some differences that will have an impact on financial assets. The Group of Companies expect changes in the classification and subsequent measurement of cash equivalents and marketable securities currently classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets will be classified and subsequently measured at fair value through other comprehensive income. The standard also requires an entity to measure impairment losses on all financial assets. The Corporation will use the probability of default method to estimate future losses on its cash equivalents, marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The impact of these changes is not expected to be material and no further impacts are expected at this time. Refer to the 2016 Annual Report for additional information on this new accounting standard.

IFRS 16 "Leases" (IFRS 16) • The Group of Companies will adopt IFRS 16 effective January 1, 2019, and intends to apply the full retrospective approach. The Group of Companies continues to make progress in the review of IFRS 16 and its impacts, including the implementation of a new lease accounting software. The impact on the statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of mostly real estate leases. The impact on the statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. The Group of Companies expects to report more detailed information, including estimated quantitative financial effects during 2018. Refer to the 2016 Annual Report for additional information on this new accounting standard.

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

November 23, 2017

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**September 30, 2017**	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**$ 1,173**	$ 849
Marketable securities		**1,000**	1,038
Trade and other receivables		**777**	829
Other assets	**4**	**134**	110
Total current assets		**3,084**	2,826
Non-current assets			
Property, plant and equipment	**5**	**2,593**	2,672
Intangible assets	**5**	**121**	117
Segregated securities		**534**	523
Pension benefit assets	**6**	**130**	135
Deferred tax assets		**1,391**	1,384
Goodwill		**130**	130
Other assets		**7**	5
Total non-current assets		**4,906**	4,966
Total assets		**$ 7,990**	$ 7,792
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 467**	$ 548
Salaries and benefits payable and related provisions		**520**	487
Provisions		**76**	70
Income tax payable		**8**	3
Deferred revenue		**109**	115
Loans and borrowings		**16**	22
Other long-term benefit liabilities	**6**	**62**	62
Total current liabilities		**1,258**	1,307
Non-current liabilities			
Loans and borrowings		**1,028**	1,037
Pension, other post-employment and other long-term benefit liabilities	**6**	**5,723**	5,726
Other liabilities		**26**	26
Total non-current liabilities		**6,777**	6,789
Total liabilities		**8,035**	8,096
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**40**	44
Accumulated deficit		**(1,271)**	(1,530)
Equity of Canada		**(76)**	(331)
Non-controlling interests		**31**	27
Total equity		**(45)**	(304)
Total liabilities and equity		**$ 7,990**	$ 7,792
Contingent liabilities	**11**		

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		39 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	**September 30, 2017**	October 1, 2016	**September 30, 2017**	October 1, 2016
Revenue from operations		**$ 1,911**	$ 1,758	**$ 5,971**	$ 5,752
Cost of operations					
Labour		**974**	912	**2,938**	2,892
Employee benefits	**6**	**372**	304	**1,104**	1,056
		1,346	1,216	**4,042**	3,948
Other operating costs	**13**	**507**	485	**1,571**	1,527
Depreciation and amortization	**5**	**77**	75	**228**	232
Total cost of operations		**1,930**	1,776	**5,841**	5,707
Profit (loss) from operations		**(19)**	(18)	**130**	45
Investing and financing income (expense)					
Investment and other income	**14**	**6**	4	**15**	9
Finance costs and other expense	**14**	**(12)**	(11)	**(34)**	(35)
Investing and financing expense, net		**(6)**	(7)	**(19)**	(26)
Profit (loss) before tax		**(25)**	(25)	**111**	19
Tax expense (income)	**7**	**(10)**	2	**25**	14
Net profit (loss)		**$ (15)**	$ (27)	**$ 86**	$ 5
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net profit (loss)					
Change in unrealized fair value of available-for-sale financial assets	**8**	**$ (17)**	$ 6	**$ (2)**	$ 27
Foreign currency translation adjustment	**8**	**(2)**	–	**(2)**	(1)
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	**8**	**1,097**	(275)	**177**	(2,093)
Other comprehensive income (loss)		**1,078**	(269)	**173**	(2,067)
Comprehensive income (loss)		**$ 1,063**	$ (296)	**$ 259**	$ (2,062)
Net profit (loss) attributable to					
Government of Canada		**$ (17)**	$ (29)	**$ 81**	$ 3
Non-controlling interests		**2**	2	**5**	2
		$ (15)	$ (27)	**$ 86**	$ 5
Comprehensive income (loss) attributable to					
Government of Canada		**$ 1,058**	$ (296)	**$ 255**	$ (2,055)
Non-controlling interests		**5**	–	**4**	(7)
		$ 1,063	$ (296)	**$ 259**	$ (2,062)

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 September 30, 2017 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at July 1, 2017	**$ 1,155**	**$ 59**	**$ (2,348)**	**$ (1,134)**	**$ 26**	**$ (1,108)**
Net profit (loss)	**–**	**–**	**(17)**	**(17)**	**2**	**(15)**
Other comprehensive income (loss)	**–**	**(19)**	**1,094**	**1,075**	**3**	**1,078**
Comprehensive income (loss)	**–**	**(19)**	**1,077**	**1,058**	**5**	**1,063**
Balance at September 30, 2017	**$ 1,155**	**$ 40**	**$ (1,271)**	**$ (76)**	**$ 31**	**$ (45)**

For the 13 weeks ended October 1, 2016 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at July 2, 2016	$ 1,155	$ 68	$ (4,133)	$ (2,910)	$ 19	$ (2,891)
Net profit (loss)	–	–	(29)	(29)	2	(27)
Other comprehensive income (loss)	–	6	(273)	(267)	(2)	(269)
Comprehensive income (loss)	–	6	(302)	(296)	–	(296)
Balance at October 1, 2016	$ 1,155	$ 74	$ (4,435)	$ (3,206)	$ 19	$ (3,187)

For the 39 weeks ended September 30, 2017 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2016	**$ 1,155**	**$ 44**	**$ (1,530)**	**$ (331)**	**$ 27**	**$ (304)**
Net profit	**–**	**–**	**81**	**81**	**5**	**86**
Other comprehensive income (loss)	**–**	**(4)**	**178**	**174**	**(1)**	**173**
Comprehensive income (loss)	**–**	**(4)**	**259**	**255**	**4**	**259**
Balance at September 30, 2017	**$ 1,155**	**$ 40**	**$ (1,271)**	**$ (76)**	**$ 31**	**$ (45)**

For the 39 weeks ended October 1, 2016 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2015	$ 1,155	$ 48	$ (2,354)	$ (1,151)	$ 27	$ (1,124)
Net profit	–	–	3	3	2	5
Other comprehensive income (loss)	–	26	(2,084)	(2,058)	(9)	(2,067)
Comprehensive income (loss)	–	26	(2,081)	(2,055)	(7)	(2,062)
Transactions with shareholders – Dividend	–	–	–	–	(1)	(1)
Balance at October 1, 2016	$ 1,155	$ 74	$ (4,435)	$ (3,206)	$ 19	$ (3,187)

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		39 weeks ended	
(Unaudited – in millions of Canadian dollars)	**Notes**	**September 30, 2017**	October 1, 2016	**September 30, 2017**	October 1, 2016
Cash flows from operating activities					
Net profit (loss)		**$ (15)**	$ (27)	**$ 86**	$ 5
Adjustments to reconcile net profit to cash provided by operating activities:					
Depreciation and amortization	**5**	**77**	75	**228**	232
Pension, other post-employment and other long-term benefit expense	**6**	**214**	176	**645**	620
Pension, other post-employment and other long-term benefit payments	**6**	**(143)**	(125)	**(408)**	(379)
(Gain) loss on sale of capital assets and assets held for sale	**14**	**(1)**	(1)	**(1)**	2
Tax expense (income)	**7**	**(10)**	2	**25**	14
Net interest expense	**14**	**6**	7	**20**	23
Change in non-cash operating working capital:					
Decrease in trade and other receivables		**55**	44	**53**	74
Increase (decrease) in trade and other payables		**22**	19	**(70)**	(84)
Increase in salaries and benefits payable and related provisions		**75**	57	**33**	84
(Decrease) increase in provisions		**(1)**	(5)	**7**	4
Net decrease (increase) in other non-cash operating working capital		**1**	7	**(31)**	(27)
Other income not affecting cash, net		**(4)**	(6)	**(16)**	(19)
Cash provided by operations before interest and tax		**276**	223	**571**	549
Interest received		**7**	6	**27**	23
Interest paid		**(22)**	(22)	**(44)**	(47)
Tax paid		**(23)**	(32)	**(85)**	(162)
Cash provided by operating activities		**238**	175	**469**	363
Cash flows from investing activities					
Acquisition of securities		**(565)**	(323)	**(1,541)**	(1,263)
Proceeds from sale of securities		**464**	359	**1,566**	1,153
Acquisition of capital assets		**(84)**	(73)	**(154)**	(151)
Proceeds from sale of capital assets		**–**	–	**2**	–
Cash used in investing activities		**(185)**	(37)	**(127)**	(261)
Cash flows from financing activities					
Repayment of loans and borrowings		**–**	–	**–**	(55)
Payments on finance lease obligations		**(4)**	(5)	**(15)**	(17)
Dividend paid to non-controlling interests		**–**	–	**–**	(1)
Other financing activities, net		**–**	(1)	**–**	(1)
Cash used in financing activities		**(4)**	(6)	**(15)**	(74)
Net increase in cash and cash equivalents		**49**	132	**327**	28
Cash and cash equivalents, beginning of period		**1,126**	670	**849**	775
Effect of exchange rate changes on cash and cash equivalents		**(2)**	–	**(3)**	(1)
Cash and cash equivalents, end of period		**$ 1,173**	$ 802	**$ 1,173**	$ 802

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 39 weeks ended September 30, 2017
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

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

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

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

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

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2016.

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors November 23, 2017.

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

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

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

Significant accounting policies • Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2016, except for the application of new standards, amendments and interpretations effective January 1, 2017, disclosed in Note 3 of these interim condensed consolidated financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 4 of the Corporation's annual consolidated financial statements for the year ended December 31, 2016.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

Other than those disclosed in the 2017 First and Second Quarter Financial Reports, 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 third quarter.

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

There were no new standards, amendments and interpretations issued by the IASB or the Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2016. The Group of Companies has the following updates regarding its progress in implementing such future standards.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The Group of Companies intends to apply IFRS 15 retrospectively, effective January 1, 2018. The Group of Companies continues to progress on the implementation of IFRS 15 through 2017 and has identified some differences in how revenue will be recognized. IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which will accelerate revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. The Group of Companies is quantifying the impact of this change but does not expect it will be material due to the short delivery cycle. IFRS 15 also requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. Due to the short delivery cycle, this period will be less than one year and will, therefore, qualify under a practical expedient to be expensed directly to cost of operations without first being capitalized. Under the current standard, some of these contract costs are netted against revenue. These contract costs will be reclassified to cost of operations, increasing both revenue and cost from operations by equal amounts and having no impact on net profit (loss). The contract costs to be reclassified are still being quantified but they are expected to be material. The Group of Companies continues to evaluate other possible impacts of this standard on its consolidated financial statements, including the impact of changes to the disclosure requirements. Refer to the 2016 Annual Report for additional information on this new accounting standard.

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

IFRS 9 "Financial Instruments" (IFRS 9) • The Group of Companies will apply IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has nearly completed the review of IFRS 9 and has identified some differences that will have an impact on financial assets. The Group of Companies expect changes in the classification and subsequent measurement of cash equivalents and marketable securities currently classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets will be classified and subsequently measured at fair value through other comprehensive income. The standard also requires an entity to measure expected impairment losses on all financial assets. The Corporation will use the probability of default method to estimate future losses on its cash equivalents, marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The impact of these changes is not expected to be material and no further impacts are expected at this time. Refer to the 2016 Annual Report for additional information on this new accounting standard.

IFRS 16 "Leases" (IFRS 16) • The Group of Companies will adopt IFRS 16 effective January 1, 2019 and intends to apply the full retrospective approach. The Group of Companies continues to make progress in the review of IFRS 16 and its impacts, including the implementation of a new lease accounting software. The impact on the statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of mostly real estate leases. The impact on the statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. The Group of Companies expect to report more detailed information, including estimated quantitative financial effects during 2018. Refer to the 2016 Annual Report for additional information on this new accounting standard.

4. Other Current Assets

As at	**September 30, 2017**	December 31, 2016
Income tax receivable	$ 20	$ 18
Prepaid expenses	113	90
Assets held for sale	1	2
Total other current assets	**$ 134**	$ 110

As at September 30, 2017, all of the properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through sale proceeds.

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2016	$ 315	$ 2,057	$ 286	$ 1,330	$ 547	$ 409	$ 944	$ 91	$ 5,979
Additions	12	21	6	10	15	8	11	38	121
Retirements	–	–	(1)	(71)	(3)	(72)	–	–	(147)
Transfers	–	3	8	14	–	(5)	10	(30)	–
September 30, 2017	**$ 327**	**$ 2,081**	**$ 299**	**$ 1,283**	**$ 559**	**$ 340**	**$ 965**	**$ 99**	**$ 5,953**
Accumulated depreciation									
December 31, 2016	$ –	$ 1,063	$ 223	$ 827	$ 349	$ 338	$ 507	$ –	$ 3,307
Depreciation	–	44	10	58	38	16	32	–	198
Retirements	–	–	(1)	(69)	(3)	(72)	–	–	(145)
September 30, 2017	**$ –**	**$ 1,107**	**$ 232**	**$ 816**	**$ 384**	**$ 282**	**$ 539**	**$ –**	**$ 3,360**
Carrying amounts									
December 31, 2016	$ 315	$ 994	$ 63	$ 503	$ 198	$ 71	$ 437	$ 91	$ 2,672
September 30, 2017	**$ 327**	**$ 974**	**$ 67**	**$ 467**	**$ 175**	**$ 58**	**$ 426**	**$ 99**	**$ 2,593**

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

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2016	$ 734	$ 21	$ 25	$ 780
Additions	4	30	–	34
Retirements	(1)	–	–	(1)
Transfers	1	(1)	–	–
September 30, 2017	**$ 738**	**$ 50**	**$ 25**	**$ 813**
Accumulated amortization				
December 31, 2016	$ 640	$ –	$ 23	$ 663
Amortization	29	–	1	30
Retirements	(1)	–	–	(1)
September 30, 2017	**$ 668**	**$ –**	**$ 24**	**$ 692**
Carrying amounts				
December 31, 2016	$ 94	$ 21	$ 2	$ 117
September 30, 2017	**$ 70**	**$ 50**	**$ 1**	**$ 121**

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	**September 30, 2017**	December 31, 2016
Pension benefit assets	**$ 130**	$ 135
Pension benefit liabilities	$ 2,041	$ 2,176
Other post-employment and other long-term benefit liabilities	3,744	3,612
Total pension, other post-employment and other long-term benefit liabilities	$ 5,785	$ 5,788
Current other long-term benefit liabilities	**$ 62**	$ 62
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 5,723**	$ 5,726

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

(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	**September 30, 2017**			October 1, 2016		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 123	$ 26	$ 149	$ 122	$ 26	$ 148
Interest cost	262	38	300	262	38	300
Interest income on plan assets	(242)	–	(242)	(235)	–	(235)
Other administration costs	4	–	4	4	–	4
Gain from plan amendments[1]	–	–	–	–	(44)	(44)
Defined benefit expense	147	64	211	153	20	173
Defined contribution expense	3	–	3	3	–	3
Total expense	150	64	214	156	20	176
Return on segregated securities	–	(4)	(4)	–	(5)	(5)
Component included in employee benefits expense	**$ 150**	**$ 60**	**$ 210**	$ 156	$ 15	$ 171
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ 76	$ –	$ 76	$ (726)	$ –	$ (726)
Actuarial losses (gains)	(1,325)	(214)	(1,539)	972	121	1,093
Component included in other comprehensive income (loss)	**$ (1,249)**	**$ (214)**	**$ (1,463)**	$ 246	$ 121	$ 367

For the 39 weeks ended	**September 30, 2017**			October 1, 2016		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 375	$ 78	$ 453	$ 367	$ 80	$ 447
Interest cost	788	110	898	791	114	905
Interest income on plan assets	(727)	–	(727)	(708)	–	(708)
Other administration costs	11	–	11	11	–	11
Gain from plan amendments[1]	–	–	–	–	(44)	(44)
Defined benefit expense	447	188	635	461	150	611
Defined contribution expense	10	–	10	9	–	9
Total expense	457	188	645	470	150	620
Return on segregated securities	–	(14)	(14)	–	(15)	(15)
Component included in employee benefits expense	**$ 457**	**$ 174**	**$ 631**	$ 470	$ 135	$ 605
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (586)	$ –	$ (586)	$ (635)	$ –	$ (635)
Actuarial losses (gains)	294	57	351	3,036	393	3,429
Component included in other comprehensive income (loss)	**$ (292)**	**$ 57**	**$ (235)**	$ 2,401	$ 393	$ 2,794

1. During the prior year, the Corporation concluded a new collective agreement with the Canadian Postmasters and Assistants Association. The new terms and conditions led to modifications of the post-employment health plan arrangement. The resulting gain from the plan amendment of $44 million was recorded in prior year's net profit (loss).

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

(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**		**39 weeks ended**	
	September 30, 2017	October 1, 2016	**September 30, 2017**	October 1, 2016
Benefits paid directly to beneficiaries for other benefit plans	$ 35	$ 30	$ 113	$ 107
Employer regular contributions to pension benefit plans	89	78	245	223
Employer special contributions to pension benefit plans	16	14	40	40
Cash payments for defined benefit plans	140	122	398	370
Contributions to defined contribution plans	3	3	10	9
Total cash payments	**$ 143**	$ 125	**$ 408**	$ 379

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2017 decreased by $9 million from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2016, primarily due to an increase in employee contributions effective July 2017. These estimated total contributions take into consideration the Corporation's exemption from making special contributions into the Canada Post Corporation Registered Pension Plan from 2014 to 2017, as permitted by the *Canada Post Corporation Pension Plan Funding Regulations*. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standard Act, 1985*. On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985*, were amended to change the solvency reduction limits applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, the aggregate amount of relief is limited to 15% of the plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. A going-concern deficit must be funded over 15 years.

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**		**39 weeks ended**	
	September 30, 2017	October 1, 2016	**September 30, 2017**	October 1, 2016
Current tax expense	$ 11	$ 35	$ 90	$ 95
Deferred tax income relating to origination and reversal of temporary differences	(21)	(33)	(65)	(81)
Tax expense (income)	**$ (10)**	$ 2	**$ 25**	$ 14

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

8. Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended September 30, 2017	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance July 1, 2017	$ 54	$ 5	$ 59		
Amount arising	$ (23)	$ (2)	$ (25)	$ 1,463	$ 1,438
Income taxes	6	–	6	(366)	(360)
Net	**$ (17)**	**$ (2)**	**$ (19)**	**$ 1,097**	**$ 1,078**
Accumulated balance as at September 30, 2017	**$ 37**	**$ 3**	**$ 40**		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended October 1, 2016	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at July 2, 2016	$ 64	$ 4	$ 68		
Amount arising	$ 8	$ –	$ 8	$ (367)	$ (359)
Income taxes	(2)	–	(2)	92	90
Net	$ 6	$ –	$ 6	$ (275)	$ (269)
Accumulated balance as at October 1, 2016	$ 70	$ 4	$ 74		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 39 weeks ended September 30, 2017	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at December 31, 2016	$ 39	$ 5	$ 44		
Amount arising	$ (3)	$ (2)	$ (5)	$ 235	$ 230
Income taxes	1	–	1	(58)	(57)
Net	**$ (2)**	**$ (2)**	**$ (4)**	**$ 177**	**$ 173**
Accumulated balance as at September 30, 2017	**$ 37**	**$ 3**	**$ 40**		

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

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 39 weeks ended October 1, 2016	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at December 31, 2015	$ 43	$ 5	$ 48		
Amount arising	$ 36	$ (1)	$ 35	$ (2,794)	$ (2,759)
Income taxes	(9)	–	(9)	701	692
Net	$ 27	$ (1)	$ 26	$ (2,093)	$ (2,067)
Accumulated balance as at October 1, 2016	$ 70	$ 4	$ 74		

9. Goodwill

Goodwill was allocated on initial recognition to two cash-generating units, corresponding to the Purolator segment and the Logistics segment. The carrying amounts of goodwill for those segments were as follows:

As at		**September 30, 2017**		December 31, 2016
	Purolator segment	**Logistics segment**	**Total**	Total
Balance, beginning and end of period	$ 121	$ 9	**$ 130**	$ 130

Goodwill impairment testing

Impairment testing for goodwill is carried out annually at the end of the third quarter for the Purolator and Logistics segments. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior comparative period.

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

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (October 1, 2016 – 2.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 18% (October 1, 2016 – 15%), which is based on Purolator's weighted average cost of capital.

10. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matters have evolved over the 39-week period ended September 30, 2017:

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

(b) In 2012, the Corporation received notice from the Canadian Human Rights Commission (CHRC) that the Canadian Postmasters and Assistants Association (CPAA) had requested the reactivation of its pay equity complaint, originally filed in 1982. The report of the CHRC's investigator, which was released in 2014, found that pay equity issues for the period from 1992 to 1997 remained unresolved. The CHRC then referred this matter to the Tribunal without further investigation. Although the Corporation sought to have the matter dismissed for lack of evidence, the Federal Court and the Tribunal determined that the matter should move forward to its merits. In 2017, the CPAA raised the issue that the applicable time period for the complaint should not be from 1992 to 1997, but rather from 1992 to the present. The parties appeared before the Tribunal in June 2017 to make representations on the issue of the time period of the complaint. Both the Corporation and CHRC made representations that the timeframe was limited to the period from 1992 to 1997. The parties are awaiting a decision from the Tribunal.

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

(c) On September 1, 2016, Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender based wage gap exists for the female predominant occupational groups of rural and suburban mail carriers. The study was coordinated by a committee comprising representatives of Canada Post and CUPW. Subsequent to quarter end, in October 2017, the committee received dual reports on the potential wage gap under the *Canadian Human Rights Act.* The parties have entered discussions in an attempt to resolve any inconsistencies between the reports and to reach agreement on the amount of the wage gap and actions to rectify. If the parties are unable to reach a mutually agreeable solution, the matter will be referred to binding arbitration. Any wage gap adjustment will be retroactive to January 1, 2016.

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

11. Contingent Liabilities

There have been no significant changes to the contingent liabilities as disclosed in Note 16 of the Corporation's 2016 Annual Report, except as follows:

(a) In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in Quebec may have made, between July 1, 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation that regulates the Régie de l'assurance maladie du Québec (RAMQ). The outcome of this class action is currently not determinable.

(b) During the third quarter, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No financial compensation was granted. The Corporation has filed with the Supreme Court of Canada an application for leave to appeal the decision of the Federal Court of Appeal and is waiting for a decision.

12. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

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

As at September 30, 2017	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 991	$ 182	$ –	**$ 1,173**
Marketable securities	$ –	$ 1,000	$ –	**$ 1,000**
Segregated securities	$ –	$ 534	$ –	**$ 534**
Trade and other receivables: risk management financial assets	$ –	$ 1	$ –	**$ 1**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,212	$ –	**$ 1,212**

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

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

There were no transfers between levels of the fair value hierarchy during the 39-week period ended September 30, 2017.

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

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. The updated disclosure concerning the nature and extent of market and liquidity risk are discussed below.

(a) Market risk

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

For the 13 weeks ended	**September 30, 2017**			October 1, 2016		
	Foreign exchange losses	**Derivative gains**	**Total**	Foreign exchange gains (losses)	Derivative gains (losses)	Total
Unrealized	$ (4)	$ –	$ (4)	$ 3	$ (4)	$ (1)
Realized	(4)	4	–	(1)	1	–
Total	**$ (8)**	**$ 4**	**$ (4)**	$ 2	$ (3)	$ (1)

For the 39 weeks ended	**September 30, 2017**			October 1, 2016		
	Foreign exchange losses	**Derivative gains**	**Total**	Foreign exchange gains (losses)	Derivative gains	Total
Unrealized	$ (4)	$ 1	$ (3)	$ (7)	$ 9	$ 2
Realized	(5)	1	(4)	2	2	4
Total	**$ (9)**	**$** 2	**$ (7)**	$ (5)	$ 11	$ 6

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

13. Other Operating Costs

For the	**13 weeks ended**		**39 weeks ended**	
	September 30, 2017	October 1, 2016	**September 30, 2017**	October 1, 2016
Non-labour collection, processing and delivery	$ 306	$ 279	$ 959	$ 887
Property, facilities and maintenance	85	84	274	263
Selling, administrative and other	116	122	338	377
Other operating costs	**$ 507**	$ 485	**$ 1,571**	$ 1,527

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

14. Investing and Financing Income (Expense)

For the	13 weeks ended		39 weeks ended	
	September 30, 2017	October 1, 2016	**September 30, 2017**	October 1, 2016
Interest revenue	$ 5	$ 3	$ 14	$ 11
Gain (loss) on sale of capital assets and assets held for sale	1	1	1	(2)
Investment and other income	**$ 6**	$ 4	**$ 15**	$ 9
Interest expense	$ (11)	$ (10)	$ (34)	$ (34)
Other expense	(1)	(1)	-	(1)
Finance costs and other expense	**$ (12)**	$ (11)	**$ (34)**	$ (35)
Investing and financing expense, net	**$ (6)**	$ (7)	**$ (19)**	$ (26)

15. Related Party Transactions

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

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

For the	13 weeks ended		39 weeks ended	
	September 30, 2017	October 1, 2016	**September 30, 2017**	October 1, 2016
Related party revenue	**$ 64**	$ 57	**$ 201**	$ 231
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 6**	$ 6	**$ 17**	$ 17
Payments from related parties for premises leased from the Corporation	**$ 1**	$ 1	**$ 5**	$ 5
Related party expenditures	**$ 5**	$ 7	**$ 18**	$ 24

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	**September 30, 2017**	December 31, 2016
Due to/from related parties		
Included in trade and other receivables	**$ 19**	$ 20
Included in trade and other payables	**$ 10**	$ 11
Deferred revenue from related parties	**$ 2**	$ 2

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 39 weeks ended September 30, 2017, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amounts of $3 million and $8 million for the 13 and 39 weeks ended September 30, 2017, respectively (October 1, 2016 – $2 million and $7 million, respectively). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 and 39 weeks ended September 30, 2017, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $3 million and $9 million, respectively (October 1, 2016 – $2 million and $8 million, respectively). As at September 30, 2017, $8 million (December 31, 2016 – $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)

16. Segmented Information

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

For the 13 and 39 weeks ended September 30, 2017, the IT business unit earned intercompany revenue of $54 million and $168 million, respectively (October 1, 2016 – $72 million and $198 million, respectively), incurred cost of operations of $54 million and $168 million, respectively (October 1, 2016 – $72 million and $198 million, respectively), and earned net profit of nil for the 13 and 39 week reporting periods in 2017 and 2016. Total assets and liabilities at September 30, 2017, were $106 million and $56 million, respectively (December 31, 2016 – $120 million and $70 million, respectively).

As at and for the 13 weeks ended September 30, 2017

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,459	$ 390	$ 62	$ –	$ 1,911
Intersegment revenue	12	4	8	(24)	–
Revenue from operations	$ 1,471	$ 394	$ 70	$ (24)	$ 1,911
Labour and employee benefits	$ 1,102	$ 187	$ 33	$ 24	$ 1,346
Other operating costs	361	164	29	(47)	507
Depreciation and amortization	64	12	2	(1)	77
Cost of operations	$ 1,527	$ 363	$ 64	$ (24)	$ 1,930
Profit (loss) from operations	$ (56)	$ 31	$ 6	$ –	$ (19)
Investment and other income	$ 5	$ 1	$ –	$ –	$ 6
Finance costs and other expense	(11)	(1)	–	–	(12)
Profit (loss) before tax	$ (62)	$ 31	$ 6	$ –	$ (25)
Tax expense (income)	(19)	8	2	(1)	(10)
Net profit (loss)	$ (43)	$ 23	$ 4	$ 1	$ (15)
Total assets	$ 7,278	$ 902	$ 137	$ (327)	$ 7,990
Acquisition of capital assets	$ 65	$ 17	$ 3	$ (2)	$ 83
Total liabilities	$ 7,659	$ 350	$ 56	$ (30)	$ 8,035

As at and for the 13 weeks ended October 1, 2016

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,319	$ 386	$ 53	$ –	$ 1,758
Intersegment revenue	7	5	11	(23)	–
Revenue from operations	$ 1,326	$ 391	$ 64	$ (23)	$ 1,758
Labour and employee benefits	$ 974	$ 188	$ 31	$ 23	$ 1,216
Other operating costs	344	157	26	(42)	485
Depreciation and amortization	61	13	2	(1)	75
Cost of operations	$ 1,379	$ 358	$ 59	$ (20)	$ 1,776
Profit (loss) from operations	$ (53)	$ 33	$ 5	$ (3)	$ (18)
Investment and other income	$ 3	$ –	$ –	$ 1	$ 4
Finance costs and other expense	(10)	(1)	–	–	(11)
Profit (loss) before tax	$ (60)	$ 32	$ 5	$ (2)	$ (25)
Tax expense (income)	(8)	9	2	(1)	2
Net profit (loss)	$ (52)	$ 23	$ 3	$ (1)	$ (27)
Total assets	$ 7,847	$ 878	$ 121	$ (356)	$ 8,490
Acquisition of capital assets	$ 68	$ 7	$ 2	$ (3)	$ 74
Total liabilities	$ 11,195	$ 495	$ 50	$ (63)	$ 11,677

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

As at and for the 39 weeks ended September 30, 2017

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 4,618	$ 1,175	$ 178	$ –	$ 5,971
Intersegment revenue	33	13	26	(72)	–
Revenue from operations	$ 4,651	$ 1,188	$ 204	$ (72)	$ 5,971
Labour and employee benefits	$ 3,295	$ 572	$ 97	$ 78	$ 4,042
Other operating costs	1,138	493	86	(146)	1,571
Depreciation and amortization	187	38	6	(3)	228
Cost of operations	$ 4,620	$ 1,103	$ 189	$ (71)	$ 5,841
Profit (loss) from operations	$ 31	$ 85	15	$ (1)	$ 130
Investment and other income	$ 14	$ 1	$ –	$ –	$ 15
Finance costs and other expense	(32)	(2)	–	–	(34)
Profit (loss) before tax	$ 13	$ 84	$ 15	$ (1)	$ 111
Tax expense (income)	(2)	23	4	–	25
Net profit (loss)	$ 15	$ 61	$ 11	$ (1)	$ 86
Total assets	$ 7,278	$ 902	$ 137	$ (327)	$ 7,990
Acquisition of capital assets	$ 127	$ 26	$ 6	$ (4)	$ 155
Total liabilities	$ 7,659	$ 350	$ 56	$ (30)	$ 8,035

As at and for the 39 weeks ended October 1, 2016

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 4,490	$ 1,104	$ 158	$ –	$ 5,752
Intersegment revenue	21	14	32	(67)	–
Revenue from operations	$ 4,511	$ 1,118	$ 190	$ (67)	$ 5,752
Labour and employee benefits	$ 3,210	$ 570	$ 91	$ 77	$ 3,948
Other operating costs	1,115	472	78	(138)	1,527
Depreciation and amortization	188	39	7	(2)	232
Cost of operations	$ 4,513	$ 1,081	$ 176	$ (63)	$ 5,707
Profit (loss) from operations	$ (2)	$ 37	$ 14	$ (4)	$ 45
Investment and other income	$ 20	$ –	$ –	$ (11)	$ 9
Finance costs and other expense	(33)	(2)	–	–	(35)
Profit (loss) before tax	$ (15)	$ 35	$ 14	$ (15)	$ 19
Tax expense (income)	–	10	4	–	14
Net profit (loss)	$ (15)	$ 25	$ 10	$ (15)	$ 5
Total assets	$ 7,847	$ 878	$ 121	$ (356)	$ 8,490
Acquisition of capital assets	$ 130	$ 22	$ 5	$ (4)	$ 153
Total liabilities	$ 11,195	$ 495	$ 50	$ (63)	$ 11,677

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

General inquiries: 1-866-607-6301
For more contact information, visit canadapost.ca.