CANADA POST CORPORATION

2016 **Third Quarter** Financial Report

For the period ended October 1, 2016

CANADA POST POSTES CANADA

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 October 1, 2016, and for the first three quarters of 2016 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 October 1, 2016. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2016, 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, 2015. 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 24, 2016, 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 as of November 24, 2016, 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 2015, employees delivered almost nine billion pieces of mail, parcels and messages to 15.8 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 $4.5 billion for the first three quarters of 2016 (78.1% of total revenue) and $6.3 billion for the full year ended December 31, 2015 (78.5% of total revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

Canada Post is at a pivotal point in its history. With Canadian households and businesses turning more and more to online communication, Lettermail™ volumes have dropped significantly. In 2015, we delivered 3.4 billion pieces of Domestic Lettermail, 1.6 billion (or 32%) less than we did in the peak year of 2006. While our largest line of business (Transaction Mail) is not expected to rebound, we have been able to capitalize on the opportunity that the internet has created for us – to deliver more packages as Canadians are buying more and more items online. Though both parcels and direct marketing represent opportunity for Canada Post, their growth will not be enough to offset the decline in the core Lettermail business and pay pension obligations, or allow the Corporation to invest in its network and customer service. Therefore, this growth will not be enough to ensure Canada Post's long-term financial self-sustainability.

In the Canada Post segment, negotiations with the Canadian Union of Postal Workers (CUPW) that had started in January 2016, continued well into the third quarter. The parties reached two tentative agreements August 30, 2016, and ratification by the members is being held between October 23 and December 3, 2016. The short-term agreements are for a two-year period, expiring December 31, 2017, for the Rural and Suburban Mail Carriers (CUPW-RSMC) and January 31, 2018, for Urban Postal Operations (CUPW-UPO). If ratified, the two-year collective agreements will provide the opportunity for the parties to further discuss fundamental issues, such as declining mail volumes and the growing pension obligation without the threat of a work disruption. While the Corporation gained some improvements in operational flexibility, it needs to pursue additional opportunities during future negotiations.

The prolonged negotiations with the CUPW and the uncertainty created by the risk of a work disruption had a significant impact on the Canada Post segment revenues in the third quarter of 2016. Although the risk of a labour disruption was removed when both parties reached tentative agreements at the end of August 2016, many customers had already made long-term alternative arrangements to secure their mail and parcel deliveries. Regaining the momentum we had achieved in the e-commerce business will be a challenge for the Corporation during the peak holiday season and beyond.

The independent review of Canada Post announced in May 2016 continued in the third quarter. The Government of Canada has undertaken this two-phased review to ensure Canadians receive quality postal services at a reasonable price. During the first phase, a four-person task force collected information, conducted analysis and delivered a discussion paper to the Minister of Public Services and Procurement September 12, 2016. The paper presented viable options, costs and associated implications for postal services in Canada. The second phase, still in progress, is being led by a parliamentary committee and consists of public consultations, where members of Parliament are engaging with Canadians about the options proposed by the task force. The parliamentary committee is expected to submit its recommendations to the government by the end of 2016. The government is then expected to announce a decision in the spring of 2017 about the future of postal services based on input from Canadians. Canada Post will work with the Government of Canada to determine the best path forward given the ongoing challenges faced by the Canadian postal system.

Financial highlights

For the third quarter ended October 1, 2016, the Canada Post Group of Companies reported a loss before tax of $25 million, compared to a profit before tax of $10 million in the same period in 2015. For the first three quarters of 2016, the Group of Companies recorded a profit before tax of $19 million, compared to a profit before tax of $28 million in the first three quarters of 2015. The decline in results year-over-year was mainly in the Canada Post segment, partially offset by positive results in the third quarter and year to date in the Purolator segment. Also, in the first three quarters of 2016, there was one less business (trading) day and one less paid day, compared to the same period in 2015. This represents a timing difference that will be eliminated by the end of 2016. Revenue and volume variance percentages for the lines of business (shown below) were adjusted for the impact of having one less business day.

The Canada Post segment recorded a loss before tax of $60 million in the third quarter of 2016, compared to a loss before tax of $13 million in the third quarter of 2015. The increase in the year-over-year loss was mainly due to the uncertainty created by the risk of a work disruption in July and August 2016 as a result of negotiations with the Canadian Union of Postal Workers (CUPW), which negatively affected revenue but also contributed to a reduction in labour and transportation costs. It is estimated that the labour uncertainty contributed $100 million to the loss before tax in the third quarter. Employee benefit expenses were also lower in the third quarter mainly due to a $44-million non-cash one-time gain generated by a plan amendment in the new agreement with the Canadian Postmasters and Assistants Association (CPAA) in August 2016. This amendment provides that, for CPAA employees retiring after November 30, 2016, the cost of the medical portion of the post-employment health plan will be shared equally between the employer and the employees.

For the first three quarters of 2016, the Canada Post segment recorded a loss before tax of $15 million, compared to a loss before tax of $20 million in the same period of 2015. Despite the labour uncertainty in the third quarter, results improved year to date, mainly due to ongoing Parcel revenue growth in the first two quarters, lower employee benefit expenses primarily due to the $44-million non-cash one-time gain from the new CPAA agreement in August 2016 and to higher discount rates and pension asset returns in 2015 used to calculate benefit plan costs in 2016, and reduced program expenses related to the suspension of the Five-point Action Plan.

The Canada Post segment generated revenue of $1,326 million in the third quarter of 2016, a decrease of $160 million or 10.9% compared to the same period in 2015. The risk of a work disruption had a significant negative impact across all product lines in the third quarter, as many customers made alternate arrangements to secure their mail and parcel deliveries, despite the tentative agreements reached with CUPW at the end of August 2016. Revenue also declined year over year due to the one-time impact of the 2015 federal election. The decrease in revenue was particularly felt in Parcels, where revenue declined year over year for the first time since the first quarter of 2012. For the first three quarters of 2016, Canada Post generated revenue of $4,511 million, a decrease of $130 million or 2.3%[1] compared to the same period in 2015. The drop in year-to-date revenue was mainly due to the labour uncertainty in the third quarter and ongoing Lettermail erosion, partially offset by growth in Parcels in the first two quarters from the continued strength of the business-to-consumer e-commerce delivery market.

Transaction Mail revenue decreased by $79 million, or 10.8%, and volumes decreased by 120 million pieces or 13.8% in the third quarter of 2016, and in the first three quarters, revenue decreased by $114 million, or 4.3%[1] and volumes decreased by 231 million pieces or 7.7%[1], compared to the same periods in 2015. The third-quarter decrease was mainly due to the negative impact of labour uncertainty and the one-time impact of the 2015 federal election, while the year-to-date decrease was also due to ongoing mail erosion driven by electronic substitution.

Parcel revenue decreased by $30 million, or 7.9%, and volumes decreased by two million pieces, or 5.2%, in the third quarter of 2016, and in the first three quarters, revenue increased by $45 million, or 4.5%[1], and volumes increased by seven million pieces, or 5.9%[1], compared to the same periods in 2015. The third-quarter decrease was mainly due to the negative impact of labour uncertainty, while the year-to-date increase was driven by continuous growth in e-commerce and our efforts to deliver competitive offerings.

Direct Marketing revenue decreased by $45 million, or 15.2%, and volumes decreased by 210 million pieces, or 17.5%, in the third quarter of 2016, and in the first three quarters, revenue decreased by $64 million, or 6.7%[1], and volumes decreased by 295 million pieces, or 7.5%[1], compared to the same periods in 2015. The third-quarter decrease was mainly due to the negative impact of labour uncertainty and the one-time impact of the 2015 federal election. The year-to-date decline was also due to customers continuing to reduce their marketing expenditures and redirecting some of them to other media channels and a volume decline in the parliamentary mail service.

1. Adjusted for trading days, where applicable.

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). This relief will end in 2017.

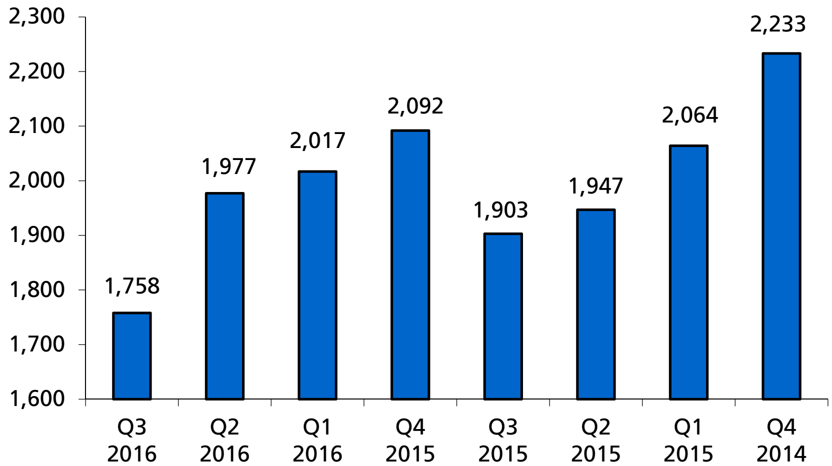
Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the third quarter of 2016, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $275 million, net of tax, recorded in other comprehensive income (loss) and worsening the Group of Companies' equity balance to negative $3,187 million as at October 1, 2016. These remeasurement losses in the third quarter of 2016 were mostly the result of a decrease in discount rates in 2016. Volatility also affects the funded status of the RPP. The solvency deficit of the RPP (using market value of plan assets) increased from $6.1 billion at December 31, 2015, to an estimated $8.1 billion at the end of the second quarter of 2016 due to a significant drop in the discount rate in the first half of 2016. However, as the discount rate remained stable in the third quarter, it is expected that the solvency deficit has not changed significantly from its second-quarter estimate.

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; changing discount rates, investment returns and other actuarial assumptions can cause significant volatility in the Corporation's financial statements. An increase in the discount rates as at December 31, 2015, as well as positive pension asset returns in 2015, partially led to a decrease in the employee benefit expense of $53 million or 17.3% in the third quarter of 2016 and $79 million or 7.6%[1] in the first three quarters of 2016, compared to the same periods in 2015. Employee benefit expenses were also lower in the third quarter and year to date mainly due to the $44 million non-cash one-time gain from a plan amendment in the new agreement with the Canadian Postmasters and Assistants Association in August 2016.

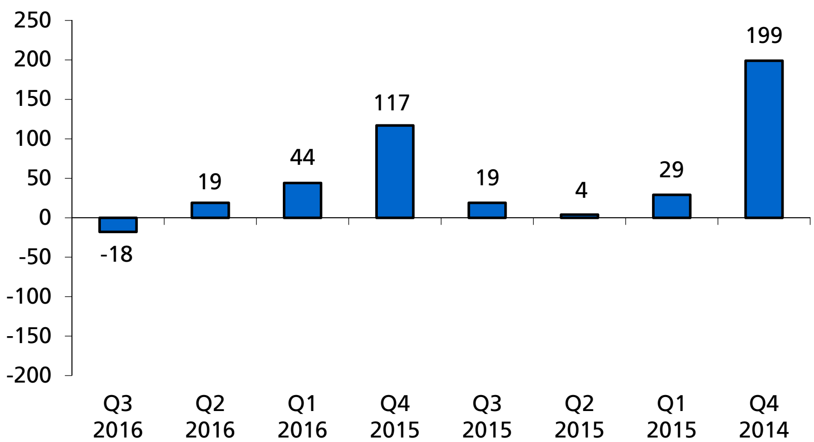
1. Adjusted for paid days, where applicable.

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

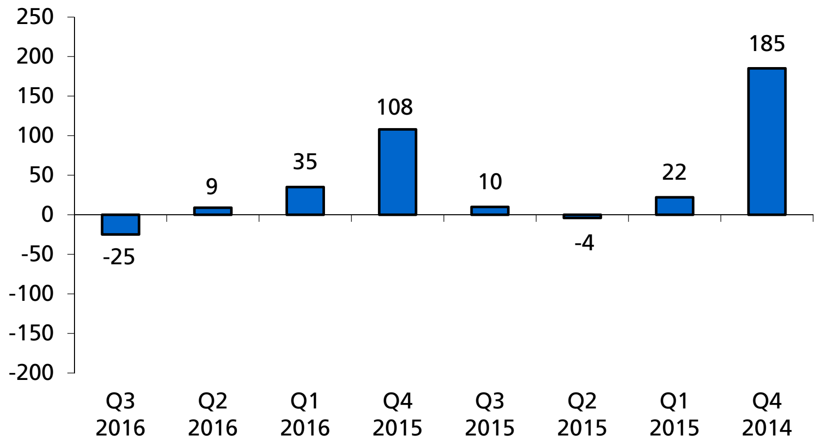
Quarterly consolidated revenue from operations
(in millions of dollars)



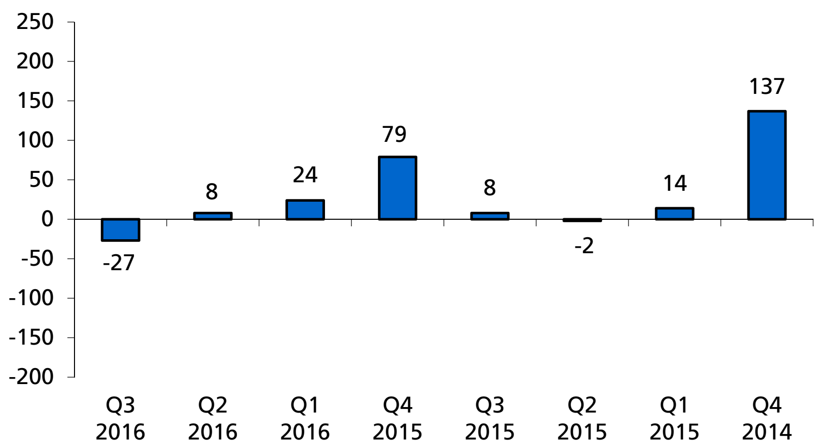
Quarterly consolidated profit (loss) from operations
(in millions of dollars)



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



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



The following table presents the Corporation's consolidated performance for the third quarter and the first three quarters of 2016, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				39 weeks ended				
	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 8 – Discussion of Operations page 17.
Revenue from operations	1,758	1,903	(145)	(7.6)	5,752	5,914	(162)	(2.2)[1]	For the third quarter, decrease mainly due to the negative impact on all product lines from the labour uncertainty generated by the negotiations with CUPW and the one-time impact of the 2015 federal election in the Canada Post segment, partially offset by positive revenue growth in the Purolator segment. For the first three quarters, decrease mainly due to labour uncertainty and ongoing Lettermail erosion, partially offset by Parcels growth in the Canada Post segment, a decrease in revenue in the Purolator segment due to reduced courier volumes, and one less business day in the first three quarters of 2016 compared to the prior year.
Cost of operations	1,776	1,884	(108)	(5.7)	5,707	5,862	(155)	(2.2)[2]	For the third quarter, decrease mainly in the Canada Post segment, due to lower employee benefit expenses, mainly from the $44-million non-cash, one-time gain generated by the CPAA plan amendment, and lower labour and transportation costs as a result of labour uncertainty. For the first three quarters, decrease mainly due to lower employee benefit expenses from the CPAA plan amendment and higher discount rate and pension returns, lower labour and transportation costs as a result of labour uncertainty, and lower program expenses due to the suspension of the Five-point Action Plan in the Canada Post segment. The first three-quarter results were also affected by one less paid day in the first three quarters of 2016, compared to the prior year.
Profit (loss) from operations	(18)	19	(37)	–	45	52	(7)	(12.7)	
Investing and financing income (expense), net	(7)	(9)	2	8.4	(26)	(24)	(2)	(12.8)	No material change.
Profit (loss) before tax	(25)	10	(35)	–	19	28	(9)	(33.8)	
Net profit (loss)	(27)	8	(35)	–	5	20	(15)	(76.9)	
Comprehensive income (loss)	(296)	(257)	(39)	(15.8)	(2,062)	727	(2,789)	–	Mainly due to a decrease in discount rates.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 11.
Cash provided by operating activities	175	222	(47)	(21.3)	363	332	31	8.7	For the third quarter, decrease primarily due to a lower net profit and higher income tax payments. For the first three quarters, increase primarily due to a positive change in non-cash working capital, partially offset by lower non-cash pension, other post-employment and other long-term benefit expenses and higher income tax payments.
Cash used in investing activities	(37)	(138)	101	72.9	(261)	(332)	71	21.2	For the third quarter, change was mainly due to lower acquisitions of investments, as well as lower acquisitions of capital assets. For the first three quarters, positive variance was mainly due to lower acquisitions of capital assets.
Cash used in financing activities	(6)	(5)	(1)	(14.7)	(74)	(14)	(60)	(411.3)	Mainly due to the repayment of non-redeemable bonds that matured in March 2016.

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

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

Canada Post is facing a monumental shift in its business, as the rise in digital communications has dramatically changed how Canadians use postal services. Digital platforms are rapidly replacing paper as the medium of choice to communicate, invoice, pay bills and advertise. This behavioural shift is causing significant volume erosion for Transaction Mail, the segment's largest line of business, which is putting downward pressure on revenue at a time when the number of addresses in the network is increasing each year and the labour cost structure remains largely inflexible. Canada Post must adapt to this shift and the changing needs of Canadians by being an essential enabler of communication and commerce. Canada Post is focused on providing quality postal services to all Canadians and growing the Parcels and Direct Marketing lines of business to succeed in the digital age.

On May 5, 2016, the Government of Canada announced an independent review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. The review is in progress and the government is expected to announce a decision in the spring of 2017 about the future of postal services based on input from Canadians. Canada Post will work with the Government of Canada to determine the best path to follow given the ongoing challenges faced by the Canadian postal system.

Our core business and strategy are described in Section 2 – Core Businesses and Strategy of the 2015 Annual MD&A. There were no material changes to the strategies during the third quarter of 2016.

3 Key Performance Drivers

A discussion of our key achievements in 2016

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 2015 Annual MD&A, our main strategic priorities are focused on growing our Parcels and Direct Marketing lines of business.

Performance results for 2016 will be updated at the end of the year and included as part of the 2016 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 2015 Annual MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2015, and various bargaining activities are summarized in Section 4.1 – Our employees – Labour relations of the 2015 Annual MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

Pay equity update

In 2012, Canada Post commenced the complex process of preparing payments to eligible employees following the Supreme Court of Canada ruling in favour of the Public Service Alliance of Canada (PSAC). The parties subsequently signed a memorandum of agreement (MOA) outlining the details of eligibility, calculation methodology, application of interest and payment process. Pay equity payments commenced in August 2013. Canada Post has been working with the Canada Revenue Agency and other groups to reach remaining eligible individuals whom the Corporation has been unable to contact. In the third quarter of 2016, 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 as per the MOA. The five-year time frame started July 28, 2016.

Canadian Postmasters and Assistants Association (CPAA)

The CPAA represents rural post office postmasters and assistants. The collective agreement between Canada Post and the CPAA expired December 31, 2014. In March 2016, after prolonged negotiations, Canada Post referred all outstanding matters to an arbitrator for final offer selection. Under this dispute resolution method, each party presents final proposals and the relevant supporting evidence. The arbitrator then chooses one proposal in its entirety and has no latitude to blend elements from both proposals. On August 15, 2016, the arbitrator accepted Canada Post's final offer, which included modest wage increases, a lump sum non-pensionable payment, changes to post-retirement contributions and changes for new employees such as a defined contribution pension plan, starting rates of pay and vacation leave entitlements. The new four-year collective agreement expires December 31, 2018.

Canadian Union of Postal Workers – Urban Postal Operations and Rural and Suburban Mail Carriers

The collective agreements for the Urban Postal Operations (CUPW-UPO) and the Rural and Suburban Mail Carriers (CUPW-RSMC) expired January 31, 2016, and December 31, 2015, respectively, and negotiations for both groups began in January 2016.

Prolonged negotiations came to a head in the third quarter when the Minister of Employment, Workforce Development and Labour appointed a special mediator August 26, 2016. Following intense discussions, both parties reached tentative agreements August 30. The agreements maintain the defined benefit pension plan for existing and new CUPW members and provide for modest pay increases. The two bargaining units have to ratify the new terms by a majority vote; the ratification exercise is being held between October 23, 2016, and December 3, 2016.

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

The short-term agreements are for a two-year period, instead of the typical four years, and expire January 31, 2018, for CUPW-UPO, and December 31, 2017, for CUPW-RSMC. Although a work disruption was averted, the main constraints faced by the Corporation, namely the need to mitigate growing pension obligations and gain further operational flexibilities have still not been addressed. Future negotiations will play a significant role in our ability to achieve financial self-sustainability in the long term.

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. This agreement provides for strike or lockout. A notice to bargain was filed by PSAC/UPCE August 10, 2016, and the parties agreed to begin negotiations October 18, 2016. The parties met October 19, 2016, to exchange opening statements, which included a summary of each party's proposals for this round of negotiations. In the meantime, the terms of the current collective agreement continue to apply per the *Canada Labour Code*.

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016. Bargaining for a new agreement began late in the third quarter. All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have renewed collective agreements, which expire December 31, 2017.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the third quarter of 2016, 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 2015 Annual MD&A. Updates to these risks for the third quarter of 2016 are provided below.

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

Labour agreements

On August 30, 2016, Canada Post reached two separate agreements with the Canadian Union of Postal Workers (UPO and RSMC). These tentative agreements are for a period of two years, rather than the typical four-year contracts negotiated in the past. Issues facing the Corporation, with declining mail volumes and growing pension obligations, are complex. This approach provides more time for thoughtful discussion and analysis on how to best address these issues without the risk of a work disruption. The agreements must be ratified by the members.

Air transportation procurement – Canadian North

On December 18, 2007, Canadian North filed a statement of claim alleging that Canada Post conducted an unfair procurement of air transportation services to remote northern communities for the Food Mail Program of the Government of Canada. The airline was seeking $75 million in damages and $1 million in punitive damages. On August 2, 2016, the parties arrived at an out of court settlement for an amount significantly less than originally claimed. As of September 1, 2016, minutes of settlement have been executed and the settlement payment has been tendered. We await an order of the court dismissing the action on consent.

CPAA pay equity complaint

The Canadian Postmasters and Assistants Association (CPAA) initially filed a complaint with the Canadian Human Rights Commission (CHRC) in 1982, alleging discrimination by the Corporation concerning work of equal value. The Commission declined the complaint in 2006; however, the CPAA requested its reactivation in 2012. In 2014, a Commission investigator concluded that while agreements between the parties resolved pay equity issues for the period subsequent to 1997, the prior period (1991-97) remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. Canada Post's application for a 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 year end, in order that the matter proceed on the merits.

City of Hamilton by-law in respect of CMB installation

The City of Hamilton enacted a municipal by-law that would force Canada Post to seek permits before it can install community mailboxes (CMBs). On June 11, 2015, the Ontario Superior Court declared the City of Hamilton municipal by-law to be inoperative and of no effect. On July 6, 2015, the City of Hamilton filed an appeal of the Ontario Superior Court's decision. The Federation of Canadian Municipalities was granted intervenor status in the appeal. The appeal was heard February 2, 2016, and judgment was reserved. On October 19, 2016, the Ontario Court of Appeal released its decision. The appeal was dismissed and the by-law was confirmed inoperable against Canada Post.

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

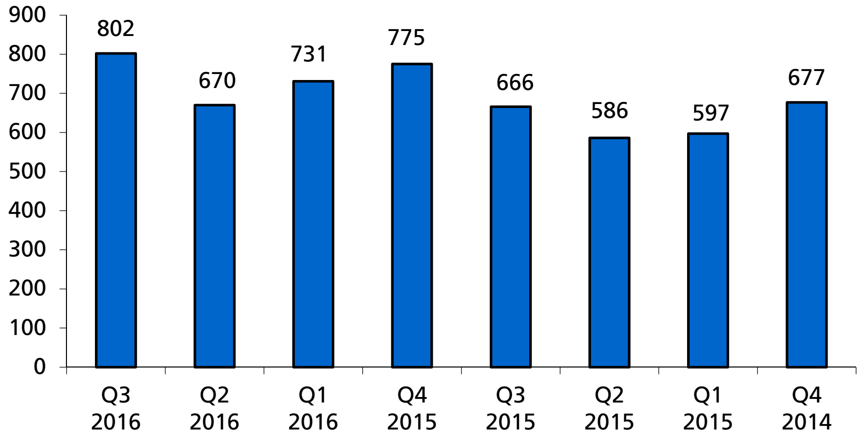
An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community mailbox delivery was filed by CUPW and others in November 2014. By motion to the Federal Court, a number of Montréal urban communities were granted intervenor status in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

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $802 million as at October, 1 2016 – an increase of $27 million compared to December 31, 2015. The increase was mainly due to cash provided by operating activities, partially offset by acquisitions of capital assets and securities (net) and the repayment of non-redeemable bonds.

6.2 Operating activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Oct. 1, 2016	Oct. 3, 2015	Change	Oct. 1, 2016	Oct. 3, 2015	Change
Cash provided by operating activities	175	222	(47)	363	332	31

Cash provided by operations in the third quarter of 2016 decreased by $47 million compared to the same period in 2015, primarily due to a lower net profit and higher income tax payments. For the first three quarters of 2016, cash provided by operations increased by $31 million compared to the same period in 2015, primarily driven by a positive change in non-cash working capital, partially offset by lower non-cash pension, other post-employment and other long-term benefit expenses and higher income tax payments.

6.3 Investing activities

(in millions of dollars)	13 weeks ended			39 weeks ended		
	Oct. 1, 2016	Oct. 3, 2015	Change	Oct. 1, 2016	Oct. 3, 2015	Change
Cash used in investing activities	(37)	(138)	101	(261)	(332)	71

Cash used in investing activities was lower by $101 million in the third quarter of 2016, compared to the same period in 2015. The change was mainly due to lower acquisitions of investments, as well as lower acquisitions of capital assets, in the third quarter of 2016, compared to the same period in 2015. For the first three quarters of 2016, cash used in investing activities was lower by $71 million compared to the same period in 2015, mainly due to lower acquisitions of capital assets compared to the same period in 2015.

Capital expenditures

(in millions of dollars)	13 weeks ended			39 weeks ended		
	Oct. 1, 2016	Oct. 3, 2015	Change	Oct. 1, 2016	Oct. 3, 2015	Change
Canada Post	68	103	(35)	131	207	(76)
Purolator	6	11	(5)	22	27	(5)
Logistics	1	2	(1)	4	4	–
Intersegment and consolidation	(2)	(2)	–	(6)	(3)	(3)
Canada Post Group of Companies	**73**	**114**	**(41)**	**151**	**235**	**(84)**

Capital expenditures for the Group of Companies decreased by $41 million in the third quarter of 2016 and by $84 million in the first three quarters of 2016, when compared to the same periods in 2015. The decreases in 2016 were mainly due to reduced spending on the Five-point Action Plan in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	13 weeks ended			39 weeks ended		
	Oct. 1, 2016	Oct. 3, 2015	Change	Oct. 1, 2016	Oct. 3, 2015	Change
Cash used in financing activities	(6)	(5)	(1)	(74)	(14)	(60)

There were no significant changes in financing activities in the third quarter of 2016, compared to the same period in 2015. Cash used in financing activities increased by $60 million in the first three quarters of 2016, when compared to the same period in 2015. The increase in cash used 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 $22 billion as at December 31, 2015, 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 2015 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 which the Corporation is exempt from making special contributions to the RPP from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, the aggregate amount of relief is limited to 15% of the fair value of plan assets, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

On June 28, 2016, Canada Post filed the actuarial valuation of the RPP as at December 31, 2015, with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). The actuarial valuation as of December 31, 2015, disclosed a going-concern surplus of $1.2 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.3 billion (using the three-year average solvency ratio basis), or $6.1 billion (using market value of plan assets).

The solvency deficit of the RPP (using market value of plan assets) had increased from $6.1 billion at December 31, 2015, to an estimated $8.1 billion at the end of the second quarter of 2016 due to a significant drop in the discount rate in the first half of 2016. However, as the discount rate remained stable in the third quarter, it is expected that the solvency deficit has not changed significantly from its second-quarter estimate.

On October 19, 2016, OSFI published a revised Instruction Guide for *Preparation of Actuarial Reports for Defined Benefit Pension Plans*, which provides details on OSFI's expectations for valuation reports filed after October 31, 2016. The most significant change relates to clarifications for requirements of high quality fixed-income investments. This change is expected to lower the discount rate, thereby increasing the solvency deficit.

Current service contributions amounted to $65 million and $185 million, respectively for the third quarter and first three quarters of 2016, compared to $63 million and $187 million, respectively for the same periods in 2015. The estimated amount of current service contributions for 2016 is approximately $244 million. Special payments without any pension relief would amount to an additional $1.3 billion in 2016, based on the latest estimate of the actuarial valuation as of December 31, 2015.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the third quarter of 2016, remeasurement losses, net of tax, amounted to $162 million for the RPP. For the first three quarters of 2016, remeasurement losses, net of tax, amounted to $1,652 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 that 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 2016, 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 $1,569 million of unrestricted liquid investments on hand as at October 1, 2016, 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. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period. Based on the temporary relief, 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 $169 million of unrestricted cash on hand and undrawn credit facilities of $153 million as at October 1, 2016, 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 October 1, 2016, amounted to $997 million and $67 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2015 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2015 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 that are summarized in Section 6.7 – Risks associated with financial instruments of the 2015 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 October 1, 2016. There were no material changes to market risk during the third quarter of 2016.

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 2016.

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 2016.

6.8 Contractual obligations and commitments

Contractual obligations and commitments are explained in Section 6.8 – Contractual obligations and commitments of the 2015 Annual MD&A. There were no material changes to contractual obligations and commitments during the third quarter of 2016.

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 2015 Annual MD&A. For more information, refer to Note 15 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended October 1, 2016.

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 October 1, 2016. There were no material changes to contingent liabilities during the third quarter of 2016.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between October 1, 2016, and December 31, 2015

(in millions of dollars)

ASSETS	Oct. 1, 2016	Dec. 31, 2015	Change	%	Explanation of change
Cash and cash equivalents	802	775	27	3.4	Refer to Section 6 – Liquidity and Capital Resources page 11.
Marketable securities	936	837	99	11.7	Mainly due to the investment of cash in short-term investments for higher returns.
Trade and other receivables	717	790	(73)	(9.2)	Primarily due to decreased receivables for the Canada Post segment that resulted from lower sales in the third quarter of 2016 when compared to the fourth quarter of 2015.
Other assets	122	103	19	19.3	Mainly due to an increase in prepaid expenses in the Purolator and Canada Post segments.
Total current assets	**2,577**	**2,505**	**72**	**2.9**	
Property, plant and equipment	2,651	2,738	(87)	(3.2)	Mainly due to depreciation in excess of acquisitions in the Canada Post segment.
Intangible assets	112	107	5	5.2	No material change.
Segregated securities	589	539	50	9.3	Mainly due to unrealized gains.
Pension benefit assets	111	157	(46)	(29.1)	Mainly due to remeasurement losses on pension plans in the Canada Post segment resulting from a decrease in discount rates.
Deferred tax assets	2,315	1,540	775	50.2	Mainly due to the increase of temporary differences from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	5	4	1	29.0	No material change.
Total non-current assets	**5,913**	**5,215**	**698**	**13.4**	
Total assets	**8,490**	**7,720**	**770**	**10.0**	

(in millions of dollars)

LIABILITIES AND EQUITY	Oct. 1, 2016	Dec. 31, 2015	Change	%	Explanation of change
Trade and other payables	435	530	(95)	(17.7)	Mainly due to decreased trade payables in the Canada Post segment.
Salaries and benefits payable and related provisions	519	434	85	19.4	Mainly due to timing and increased statutory deductions payable in the Canada Post segment.
Provisions	69	65	4	5.8	Mainly due to increase in grievance provisions in the Canada Post segment.
Income tax payable	–	65	(65)	(100.0)	Mainly due to the payment of an expected tax liability for the Canada Post segment.
Deferred revenue	113	124	(11)	(8.5)	Mainly due to a reduction in stamp and meter deferrals.
Loans and borrowings	20	76	(56)	(74.3)	Mainly due to the repayment of non-redeemable bonds that matured in March 2016.
Other long-term benefit liabilities	62	62	–	–	No change.
Total current liabilities	**1,218**	**1,356**	**(138)**	**(10.1)**	
Loans and borrowings	1,044	1,059	(15)	(1.4)	Mainly due to the repayment of finance lease obligations in the Purolator segment.
Pension, other post-employment and other long-term benefit liabilities	9,387	6,398	2,989	46.7	Mainly due to remeasurement losses on pension and post-employment benefit plans in the Canada Post segment which are mostly attributable to a decrease in discount rates.
Other liabilities	28	31	(3)	(7.1)	No material change.
Total non-current liabilities	**10,459**	**7,488**	**2,971**	**39.7**	
Total liabilities	**11,677**	**8,844**	**2,833**	**32.0**	
Equity					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	74	48	26	53.8	Mainly due to the net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(4,435)	(2,354)	(2,081)	(88.5)	Mainly due to remeasurement losses on pension and post-employment benefit plans as a result of a decrease in discount rates.
Equity of Canada	**(3,206)**	**(1,151)**	**(2,055)**	**(178.7)**	
Non-controlling interests	19	27	(8)	(29.3)	
Total equity	**(3,187)**	**(1,124)**	**(2,063)**	**(183.6)**	
Total liabilities and equity	**8,490**	**7,720**	**770**	**10.0**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

The following table shows the Group of Companies' consolidated results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services. The quarterly results can also be affected by the number of business (trading) and paid days, which can vary by quarter. Additional business days result in increased revenue, while additional paid days result in increased cost of operations. In the first three quarters of 2016, there was one less business day and one less paid day in comparison to the same period in 2015. This represents a timing difference that will be eliminated by the end of 2016.

(in millions of dollars)	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Revenue from operations	1,758	1,977	2,017	2,092	1,903	1,947	2,064	2,233
Cost of operations	1,776	1,958	1,973	1,975	1,884	1,943	2,035	2,034
Profit (loss) from operations	**(18)**	**19**	**44**	**117**	**19**	**4**	**29**	**199**
Investing and financing income (expense), net	(7)	(10)	(9)	(9)	(9)	(8)	(7)	(14)
Profit (loss) before tax	**(25)**	**9**	**35**	**108**	**10**	**(4)**	**22**	**185**
Tax expense (income)	2	1	11	29	2	(2)	8	48
Net profit (loss)	**(27)**	**8**	**24**	**79**	**8**	**(2)**	**14**	**137**

8.2 Consolidated results from operations

Consolidated results for the third quarter and first three quarters of 2016

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%
Revenue from operations	1,758	1,903	(145)	(7.6)	5,752	5,914	(162)	(2.2)[1]
Cost of operations	1,776	1,884	(108)	(5.7)	5,707	5,862	(155)	(2.2)[1]
Profit (loss) from operations	**(18)**	**19**	**(37)**	**–**	**45**	**52**	**(7)**	**(12.7)**
Investing and financing income (expense), net	(7)	(9)	2	8.4	(26)	(24)	(2)	(12.8)
Profit (loss) before tax	**(25)**	**10**	**(35)**	**–**	**19**	**28**	**(9)**	**(33.8)**
Tax expense	2	2	–	12.1	14	8	6	62.5
Net profit (loss)	**(27)**	**8**	**(35)**	**–**	**5**	**20**	**(15)**	**(76.9)**
Other comprehensive income (loss)	(269)	(265)	(4)	(1.9)	(2,067)	707	(2,774)	–
Comprehensive income (loss)	**(296)**	**(257)**	**(39)**	**(15.8)**	**(2,062)**	**727**	**(2,789)**	**–**

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

The Canada Post Group of Companies reported a loss before tax of $25 million in the third quarter of 2016, compared to a profit before tax of $10 million in the third quarter of 2015. For the first three quarters of 2016, the profit before tax was $19 million, a decrease of $9 million compared to the same period in 2015. The decline in results year-over-year was mainly due to the negative impact in the third quarter of the uncertainty created by the negotiations with the Canadian Union of Postal Workers (CUPW), which extended into July and August 2016, and caused significant revenue loss in the Canada Post segment. Revenue declines were partially offset by a reduction in labour and employee benefit expense in the Canada Post segment and positive results in the third quarter and year-to-date in the Purolator segment. It is estimated that the labour uncertainty contributed $100 million to the loss before tax in the Canada Post segment in the third quarter. Also, in the first three quarters of 2016, there was one less business day and one less paid day, compared to the same period in 2015. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated revenue from operations

Consolidated revenue from operations decreased by $145 million or 7.6% in the third quarter of 2016 and by $162 million or 2.2%[1] in the first three quarters of 2016, when compared to the same periods in 2015. The decreases in the third quarter were mainly in the Canada Post segment, due to the uncertainty created by the risk of a work disruption in July and August 2016 as a result of negotiations with the CUPW, which, to a smaller extent, positively affected revenue in the Purolator segment. Year-to-date revenues were also negatively impacted by one less business day in the first three quarters of 2016 compared to the same period in 2015. A detailed discussion of revenue by segment follows in sections 8.4 to 8.6.

Consolidated cost of operations

The cost of operations decreased by $108 million or 5.7% in the third quarter of 2016 and by $155 million or 2.2%[1] in the first three quarters of 2016 when compared to the same periods in 2015. The declines were mainly in the Canada Post segment, where lower volumes in the third quarter due to the labour uncertainty, contributed to reduced labour costs. Employee benefit expenses were also lower in the Canada Post segment mainly due to a $44-million non-cash one-time gain generated by a plan amendment in the new agreement with the Canadian Postmasters and Assistants Association (CPAA) in August 2016. For the first three quarters of 2016, the decrease in cost of operations were mainly due to lower employee benefit and program expenses in the Canada Post segment, lower transportation costs in the Purolator segment and one less paid day in the first three quarters of 2016 compared to the same period in 2015. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

When compared to the same periods in the prior year, the consolidated tax expense for the third quarter remained flat and increased by $6 million in the first three quarters of 2016. The variance was primarily driven by an expected increase in the annual taxable income for the Canada Post segment.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss for the third quarter and the first three quarters of 2016 amounted to $269 million and $2,067 million, respectively. The losses were mainly due to remeasurement losses on pension and other post-employment plans resulting from a decrease in discount rates. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income (loss).

8.3 Operating results by segment

Segmented results – profit (loss) before tax

(in millions of dollars)	13 weeks ended				39 weeks ended			
	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%
Canada Post	(60)	(13)	(47)	(363.2)	(15)	(20)	5	24.4
Purolator	32	18	14	76.9	35	35	–	(1.3)
Logistics	5	6	(1)	(9.6)	14	15	(1)	(5.2)
Other	(2)	(1)	(1)	–	(15)	(2)	(13)	–
Canada Post Group of Companies	**(25)**	**10**	**(35)**	**–**	**19**	**28**	**(9)**	**(33.8)**

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

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

8.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $60 million in the third quarter of 2016, compared to a loss before tax of $13 million in the third quarter of 2015. The increase in the year-over-year loss was mainly due to the uncertainty created by the risk of a work disruption in July and August 2016 as a result of negotiations with CUPW, which negatively affected revenue but also contributed to a reduction in labour and transportation costs. It is estimated that the labour uncertainty contributed $100 million to the loss before tax in the Canada Post segment in the third quarter. Employee benefit expenses were also lower mainly due to the $44 million non-cash one-time gain generated by a plan amendment in the new agreement with the Canadian Postmasters and Assistants Association (CPAA) in August 2016.

For the first three quarters of 2016, the Canada Post segment recorded a loss before tax of $15 million compared to a loss before tax of $20 million in the same period of 2015. Despite the labour uncertainty in the third quarter, results improved year to date mainly due to ongoing Parcel revenue growth in the first two quarters, lower employee benefit expenses and reduced program expenses related to the suspension of the Five-point Action Plan. There was also one less business day and one less paid day in the first three quarters of 2016 compared to the same period in 2015. This represents a timing difference that will be eliminated by the end of 2016.

Canada Post results for the third quarter and first three quarters of 2016

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%
Revenue from operations	1,326	1,486	(160)	(10.9)	4,511	4,641	(130)	(2.3)[1]
Cost of operations	1,379	1,490	(111)	(7.6)	4,513	4,638	(125)	(2.2)[1]
Profit (loss) from operations	**(53)**	**(4)**	**(49)**	**–**	**(2)**	**3**	**(5)**	**–**
Investing and financing income (expense), net	(7)	(9)	2	16.3	(13)	(23)	10	44.1
Profit (loss) before tax	**(60)**	**(13)**	**(47)**	**(363.2)**	**(15)**	**(20)**	**5**	**24.4**
Tax expense (income)	(8)	(4)	(4)	(75.5)	–	(6)	6	97.3
Net profit (loss)	**(52)**	**(9)**	**(43)**	**(501.5)**	**(15)**	**(14)**	**(1)**	**(5.2)**

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

Revenue from operations

Canada Post earned revenue from operations of $1,326 million in the third quarter of 2016 – a decrease of $160 million or 10.9% when compared to the same quarter in 2015. For the first three quarters of 2016, Canada Post generated revenue of $4,511 million, a decrease of $130 million or 2.3%[1] compared to the same period in 2015. Revenue declined across all lines of business year over year in the third quarter, mainly due to the uncertainty caused by the risk of a work disruption during negotiations with CUPW, as many customers made long-term alternate arrangements to secure their mail and parcel deliveries, and the one-time impact of the 2015 federal election. On a year-to-date basis, decreases were also due to ongoing Lettermail™ erosion and one less business day in 2016 compared to the same period in 2015, but were partially offset by strong growth in Parcels revenue in the first two quarters.

Quarterly revenue by line of business

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%[1]
Transaction Mail	663	742	(79)	(10.8)	2,296	2,410	(114)	(4.3)
Parcels	350	380	(30)	(7.9)	1,175	1,130	45	4.5
Direct Marketing	252	297	(45)	(15.2)	834	898	(64)	(6.7)
Other revenue	61	67	(6)	(9.3)	206	203	3	2.1
Total	**1,326**	**1,486**	**(160)**	**(10.9)**	**4,511**	**4,641**	**(130)**	**(2.3)**

1. Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of $663 million for the third quarter of 2016 was made up of the following three product categories: Domestic Lettermail ($605 million), Outbound Letter-post ($23 million) and Inbound Letter-post ($35 million).

In the third quarter of 2016, Transaction Mail revenue decreased by $79 million or 10.8%, while volumes decreased by 120 million pieces or 13.8% compared to the same period in 2015. For Domestic Lettermail, the largest product category, revenue decreased by $78 million or 11.5% and volumes decreased by 112 million pieces or 13.7%.

In the first three quarters of 2016, Transaction Mail revenue decreased by $114 million or 4.3%,[1] while volumes decreased by 231 million pieces or 7.7%[1] compared to the same period in 2015. For Domestic Lettermail, revenue decreased by $115 million or 4.7%[1] and volumes decreased by 201 million pieces or 7.2%.[1]

The quarterly and year-to-date revenue and volumes declines were mainly due to the uncertainty created by the prolonged negotiations with CUPW in July and August 2016, as many customers made alternate arrangements for their mail and parcel deliveries. The year-over-year decline in the third quarter was also due to the one-time impact of the October 2015 federal election.

Erosion due to electronic substitution also contributed to the decreases as it continued at the same pace as previous quarters. Demand for mail continues to steadily drop given the continued increase in the use of digital alternatives by households and businesses, the implementation of pay-for-paper initiatives by some of our largest customers, and the highly competitive environment.

Parcels

Parcels revenue of $350 million for the third quarter of 2016 was composed of the following four product categories: Domestic Parcels ($245 million), Outbound Parcels ($45 million), Inbound Parcels ($55 million), and Other ($5 million).

In the third quarter, Parcels revenue decreased by $30 million or 7.9% while volumes decreased by two million pieces or 5.2% when compared to the same period in the prior year. In Domestic Parcels, the largest product category, revenue decreased by $28 million or 10.1%, and volumes decreased by three million pieces or 9.4%, mainly due to the uncertainty created by the risk of a work disruption during the negotiations with CUPW in July and August 2016, as customers made other arrangements for their parcel deliveries.

In the first three quarters of 2016, Parcels revenue increased by $45 million or 4.5%,[1] and volumes increased by seven million pieces or 5.9%[1] when compared to the same period in 2015. For Domestic Parcels, revenue increased by $44 million or 6.1%,[1] and volumes increased by six million pieces or 7.4%[1] in the first three quarters of 2016, compared to the same period last year. Despite strong results in the first two quarters, the pace of growth in Parcel volumes has slowed year to date primarily due to the labour uncertainty in the third quarter. Regaining the momentum we had achieved in the e-commerce delivery market will be a challenge, even as we head into the peak holiday season.

Direct Marketing

Direct Marketing revenue of $252 million for the third quarter of 2016 was made up of the following four categories: Canada Post Personalized Mail™, formerly Addressed Admail™ ($123 million), Canada Post Neighbourhood Mail™, formerly Unaddressed Admail™ ($81 million), Publications Mail™ ($40 million), Business Reply Mail™ and Other mail ($8 million).

Direct Marketing revenue decreased by $45 million or 15.2% in the third quarter, while volumes decreased by 210 million pieces or 17.5% when compared to the same period in 2015. For the first three quarters of 2016, Direct Marketing revenue decreased by $64 million or 6.7%,[1] while volumes decreased by 295 million pieces or 7.5%,[1] compared to the same period in 2015.

Neighbourhood Mail, the largest volume product category, saw revenues decrease by $20 million or 20% in the third quarter, while volumes declined by 154 million pieces or 18.1%, when compared to the same period in 2015. For the first three quarters of 2016, revenue decreased by $21 million or 6.5%,[1] while volumes decreased by 204 million pieces or 7.2%[1] when compared the same period in 2015. The declines were primarily due to the uncertainty created by the risk of a work disruption during negotiations with CUPW in July and August 2016, the one-time impact of the October 2015 federal election and, on a year-to-date basis, a volume decline in the parliamentary mail service.

Personalized Mail revenue decreased by $20 million or 14.0% in the third quarter, while volumes declined by 45 million pieces or 16.9%, when compared to the same period in 2015. For the first three quarters of 2016, revenue decreased by $28 million or 6.3%[1] and volumes decreased by 65 million pieces or 7.7%[1] when compared to the same period in 2015. Declines in the third quarter were mainly due to the labour uncertainty and the one-time impact of the October 2015 federal election. Volumes also decreased in the quarter and year to date because commercial customers, especially in the financial, retail and telecommunications segments, are continuing to reduce their marketing expenditures and redirecting some of them to other media channels.

Publications Mail revenue decreased by $5 million or 10.3%, and volumes were lower by nine million pieces or 12.1%, in the third quarter of 2016, compared to the same period in 2015. For the first three quarters of 2016, revenue declined by $14 million or 8.7%,[1] and volumes decreased by 23 million pieces or 9.5%[1] in the first three quarters of 2016 compared to the same period in 2015. Decreases were due to an ongoing decline in publication mail subscriptions.

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1. Adjusted for trading days, where applicable

Other revenue

Other revenue totalled $61 million in the third quarter of 2016, a decrease of $6 million or 9.3%, when compared to the same period in the prior year. At the end of three quarters in 2016, revenue was $206 million – an increase of $3 million or 2.1%[1] compared to the same period in 2015.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,379 million in the third quarter of 2016 – a decrease of $111 million or 7.6% when compared to the same quarter last year. The decrease was mainly due to lower labour costs, resulting from the uncertainty created by the risk of a work disruption in July and August 2016 during negotiations with CUPW, and lower employee benefit costs, when compared to the same period in 2015. After the first three quarters of 2016, the cost of operations was $4,513 million – a decrease of $125 million or 2.2%[1] compared to the same period in 2015, due to lower employee benefit expenses and lower program expenses related to the suspension of the Five-point Action Plan as well as one less paid day for the first three quarters of 2016 compared to 2015.

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%[1]
Labour	716	739	(23)	(3.0)	2,301	2,285	16	1.3
Employee benefits	258	311	(53)	(17.3)	909	988	(79)	(7.6)
Total labour and employee benefits	**974**	**1,050**	**(76)**	**(7.3)**	**3,210**	**3,273**	**(63)**	**(1.4)**
Non-labour collection, processing and delivery	173	185	(12)	(6.4)	582	586	(4)	(0.3)
Property, facilities and maintenance	60	58	2	2.1	187	191	(4)	(1.7)
Selling, administrative and other	111	134	(23)	(17.2)	346	396	(50)	(12.1)
Total other operating costs	**344**	**377**	**(33)**	**(8.9)**	**1,115**	**1,173**	**(58)**	**(4.5)**
Depreciation and amortization	61	63	(2)	(5.6)	188	192	(4)	(2.0)
Total	**1,379**	**1,490**	**(111)**	**(7.6)**	**4,513**	**4,638**	**(125)**	**(2.2)**

1. Adjusted for paid days, where applicable.

Labour

Labour costs decreased by $23 million or 3.0% in the third quarter of 2016, compared to the same period in 2015, due to reduced volumes in all lines of business as customers reacted to the risk of a work disruption during CUPW negotiations, resulting in lower overtime and temporary labour costs. In the first three quarters of 2016, labour costs increased by $16 million or 1.3%[1] compared to the same period in the previous year. The increase was primarily due to parcel volume growth in the first two quarters of 2016 and the impact of the tentative CUPW agreements reached in August 2016, offset by productivity gains achieved from the Five-Point Action Plan and one less paid day in the first three quarters of 2016 compared to 2015.

Employee benefits

Employee benefits decreased by $53 million or 17.3% for the third quarter of 2016 and by $79 million or 7.6%[1] in the first three quarters of 2016, when compared to the same periods in 2015. The decreases in the quarter and year to date were mainly due to the $44-million non-cash one-time gain generated by a plan amendment in the new agreement with the Canadian Postmasters and Assistants Association (CPAA) in August 2016. This amendment provides that, for CPAA employees retiring after November 30, 2016, the cost of the medical portion of the post-employment health plan will be shared equally between the employer and the employees. Employee benefits also declined due to the positive impacts of the increase in the 2015 discount rates used to calculate benefit plan costs in 2016, as well as positive pension asset returns in 2015. On a year-to-date basis, costs were also lower due to one less paid day in first three quarters of 2016 compared to 2015.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $12 million or 6.4% for the third quarter of 2016, compared to the same period in 2015, mainly due to lower transportation, automotive services and international settlement costs. Costs decreased by $4 million or 0.3%[1] for the first three quarters of 2016 when compared to the same period in 2015 mainly due to lower transportation costs. The decline in transportation costs were mainly due to the reduction in volumes generated by the labour uncertainty in the third quarter.

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

Property, facilities and maintenance

The cost of facilities increased by $2 million or 2.1% in the third quarter of 2016 when compared to the same period last year. For the first three quarters of 2016, the cost of facilities decreased by $4 million or 1.7%[1] compared to the same period in 2015, mainly due to a decrease in the cost of contract rent and utilities.

Selling, administrative and other

Selling, administrative and other expenses decreased by $23 million or 17.2% for the third quarter of 2016 and by $50 million or 12.1%[1] for the first three quarters of 2016, when compared to the same periods last year, mainly due to lower program expenses relating to the suspension of the Five-point Action Plan.

Depreciation and amortization

Depreciation and amortization expense decreased by $2 million, or 5.6% in the third quarter of 2016 and for the first three quarters of 2016 decreased by $4 million or 2.0%,[1] compared to the same periods in 2015, primarily due to fully amortized software development costs.

8.5 Purolator segment

The Purolator segment contributed a net profit of $23 million for the third quarter of 2016, an increase of 78.1% when compared to the same period in the prior year. For the first three quarters of 2016, Purolator earned a net profit of $25 million, a small decrease of 0.7%[1] when compared to the prior year.

Purolator results for the third quarter and first three quarters of 2016

			13 weeks ended					**39 weeks ended**
(in millions of dollars)	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%
Revenue from operations	391	373	18	5.1	1,118	1,164	(46)	(3.5)[1]
Cost of operations	358	355	3	1.3	1,081	1,128	(47)	(3.7)[1]
Profit from operations	**33**	**18**	**15**	**79.5**	**37**	**36**	**1**	**1.7**
Investing and financing income (expense), net	(1)	–	(1)	–	(2)	(1)	(1)	(147.5)
Profit before tax	**32**	**18**	**14**	**76.9**	**35**	**35**	**–**	**(1.3)**
Tax expense	9	4	5	73.7	10	10	–	(2.6)
Net profit	**23**	**14**	**9**	**78.1**	**25**	**25**	**–**	**(0.7)**

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

Revenue from operations

Purolator generated revenue from operations of $391 million in the third quarter of 2016 – an increase of $18 million or 5.1% when compared to the same period last year, mainly due to customers making alternate delivery arrangements as a result of the labour uncertainty in the Canada Post segment. After the first three quarters of 2016, revenue totalled $1,118 million – a decrease of $46 million or 3.5%[1] compared to the same period in 2015. The year-to-date decrease was mainly due to a reduction in volumes.

Cost of operations

Total labour costs

Total labour costs were $188 million in the third quarter and $570 million after the first three quarters of 2016. The increase of $9 million or 5.3% in labour costs in the third quarter when compared to the same period in the prior year was mainly due to additional volumes. In the first three quarters, an increase of $8 million or 2.0%,[1] when compared to the same period in 2015, was mainly due to wage increases.

Total non-labour costs

Total non-labour costs were $170 million in the third quarter of 2016 – a decrease of $6 million or 2.8% when compared to the same period in the prior year. After the first three quarters of 2016, total non-labour costs were $511 million – a decrease of $55 million or 9.3%[1] compared to the same period in 2015. Decreases were driven primarily by lower fuel costs and air transportation expenses.

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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 $3 million of net profit to the consolidated results for the third quarter of 2016, a decrease of 10.1% when compared to the same period in the prior year. For the first three quarters of 2016, the Logistics segment earned a net profit of $10 million, a decrease of 5.6%[1] when compared to the prior year.

Logistics results for the third quarter and first three quarters of 2016

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Oct. 1, 2016	Oct. 3, 2015	Change	%	Oct. 1, 2016	Oct. 3, 2015	Change	%
Revenue from operations	64	68	(4)	(4.8)	190	191	(1)	(0.8)[1]
Cost of operations	59	62	(3)	(4.2)	176	176	–	(0.2)[1]
Profit from operations	**5**	**6**	**(1)**	**(10.9)**	**14**	**15**	**(1)**	**(6.0)**
Profit before tax	**5**	**6**	**(1)**	**(9.6)**	**14**	**15**	**(1)**	**(5.2)**
Tax expense	2	2	–	(8.4)	4	4	–	(3.9)
Net profit	**3**	**4**	**(1)**	**(10.1)**	**10**	**11**	**(1)**	**(5.6)**

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

Revenue from operations

SCI generated revenue from operations of $64 million in the third quarter of 2016 – a decrease of $4 million or 4.8%, when compared to the same period in 2015. After the first three quarters of 2016, revenue was $190 million – a decrease of $1 million or 0.8%[1] when compared to the same period in 2015. The decreases in the third quarter of 2016 were mainly driven by lower volumes from certain clients, partially offset by growth from new clients and services. The decrease for the first three quarters was mainly driven by lower volumes from certain clients.

Cost of operations

Total labour costs

Total labour costs were $31 million in the third quarter of 2016 – an increase of 0.7% when compared to the same period in the prior year. After the first three quarters of 2016, total labour costs were $91 million – an increase of $5 million or 4.7%[1] compared to the same period in 2015. Increases were primarily the result of changes in volume mix among current clients.

Total non-labour costs

Total non-labour costs were $28 million in the third quarter of 2016 – a decrease of $4 million or 8.9% when compared to the same period in the previous year. After the first three quarters of 2016, total non-labour costs were $85 million – a decrease of $5 million or 5.1%[1] when compared to the same period in 2015. Decreases were mainly due to changes in volume mix among current clients.

8.7 Consolidated results to plan

The first phase of the independent review of Canada Post announced by the Government of Canada began in May 2016. Canada Post will work with the Government of Canada to determine the best path forward given the ongoing challenges faced by the Canadian postal system. The 2016-2020 Corporate Plan for the Canada Post Group of Companies was not submitted to the Government of Canada in light of the review currently underway.

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 2016 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 2015 Annual MD&A and Note 3 – Critical Accounting Estimates and Judgments of the 2015 consolidated financial statements, which are contained in the *Canada Post Corporation 2015 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

There were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that required mandatory adoption in the third quarter of 2016.

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

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

Standard or amendment	Effective for annual periods beginning on or after
Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows"	January 1, 2017
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019

Management's Responsibility for Interim Financial Reporting

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

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

W. G. Cheeseman

President and Chief Executive Officer

Chief Financial Officer

November 24, 2016

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**October 1, 2016**	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		**$ 802**	$ 775
Marketable securities		**936**	837
Trade and other receivables		**717**	790
Other assets	**4**	**122**	103
Total current assets		**2,577**	2,505
Non-current assets			
Property, plant and equipment	**5**	**2,651**	2,738
Intangible assets	**5**	**112**	107
Segregated securities		**589**	539
Pension benefit assets	**6**	**111**	157
Deferred tax assets		**2,315**	1,540
Goodwill	**9**	**130**	130
Other assets		**5**	4
Total non-current assets		**5,913**	5,215
Total assets		**$ 8,490**	$ 7,720
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 435**	$ 530
Salaries and benefits payable and related provisions		**519**	434
Provisions		**69**	65
Income tax payable		**–**	65
Deferred revenue		**113**	124
Loans and borrowings		**20**	76
Other long-term benefit liabilities	**6**	**62**	62
Total current liabilities		**1,218**	1,356
Non-current liabilities			
Loans and borrowings		**1,044**	1,059
Pension, other post-employment and other long-term benefit liabilities	**6**	**9,387**	6,398
Other liabilities		**28**	31
Total non-current liabilities		**10,459**	7,488
Total liabilities		**11,677**	8,844
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**74**	48
Accumulated deficit		**(4,435)**	(2,354)
Equity of Canada		**(3,206)**	(1,151)
Non-controlling interests		**19**	27
Total equity		**(3,187)**	(1,124)
Total liabilities and equity		**$ 8,490**	$ 7,720
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**	**October 1, 2016**	October 3, 2015	**October 1, 2016**	October 3, 2015
Revenue from operations		**$ 1,758**	$ 1,903	**$ 5,752**	$ 5,914
Cost of operations					
Labour		**912**	928	**2,892**	2,863
Employee benefits, including gains from plan amendments	**6**	**304**	356	**1,056**	1,134
		1,216	1,284	**3,948**	3,997
Other operating costs	**13**	**485**	523	**1,527**	1,630
Depreciation and amortization	**5**	**75**	77	**232**	235
Total cost of operations		**1,776**	1,884	**5,707**	5,862
Profit (loss) from operations		**(18)**	19	**45**	52
Investing and financing income (expense)					
Investment and other income	**14**	**4**	4	**9**	14
Finance costs and other expense	**14**	**(11)**	(13)	**(35)**	(38)
Investing and financing expense, net		**(7)**	(9)	**(26)**	(24)
Profit (loss) before tax		**(25)**	10	**19**	28
Tax expense	**7**	**2**	2	**14**	8
Net profit (loss)		**$ (27)**	$ 8	**$ 5**	$ 20
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**	**$ 6**	$ (11)	**$ 27**	$ (11)
Foreign currency translation adjustment	**8**	**–**	1	**(1)**	3
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	**8**	**(275)**	(255)	**(2,093)**	715
Other comprehensive income (loss)		**(269)**	(265)	**(2,067)**	707
Comprehensive income (loss)		**$ (296)**	$ (257)	**$ (2,062)**	$ 727
Net profit (loss) attributable to					
Government of Canada		**$ (29)**	$ 7	**$ 3**	$ 18
Non-controlling interests		**2**	1	**2**	2
		$ (27)	$ 8	**$ 5**	$ 20
Comprehensive income (loss) attributable to					
Government of Canada		**$ (296)**	$ (257)	**$ (2,055)**	$ 725
Non-controlling interests		**–**	–	**(7)**	2
		$ (296)	$ (257)	**$ (2,062)**	$ 727

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 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 13 weeks ended October 3, 2015 (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 4, 2015	$ 1,155	$ 56	$ (2,264)	$ (1,053)	$ 26	$ (1,027)
Net profit	–	–	7	7	1	8
Other comprehensive loss	–	(10)	(254)	(264)	(1)	(265)
Comprehensive loss	–	(10)	(247)	(257)	–	(257)
Balance at October 3, 2015	$ 1,155	$ 46	$ (2,511)	$ (1,310)	$ 26	$ (1,284)

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)**

For the 39 weeks ended October 3, 2015 (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, 2014	$ 1,155	$ 54	$ (3,244)	$ (2,035)	$ 24	$ (2,011)
Net profit	–	–	18	18	2	20
Other comprehensive income (loss)	–	(8)	715	707	–	707
Comprehensive income (loss)	–	(8)	733	725	2	727
Balance at October 3, 2015	$ 1,155	$ 46	$ (2,511)	$ (1,310)	$ 26	$ (1,284)

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	**October 1, 2016**	October 3, 2015	**October 1, 2016**	October 3, 2015
Cash flows from operating activities					
Net profit (loss)		**$ (27)**	$ 8	**$ 5**	$ 20
Adjustments to reconcile net profit to cash provided by operating activities:					
Depreciation and amortization	**5**	**75**	77	**232**	235
Pension, other post-employment and other long-term benefit expense	**6**	**176**	232	**620**	703
Pension, other post-employment and other long-term benefit payments	**6**	**(125)**	(124)	**(379)**	(387)
(Gain) loss on sale of capital assets and assets held for sale	**14**	**(1)**	–	**2**	(3)
Tax expense	**7**	**2**	2	**14**	8
Net interest expense	**14**	**7**	9	**23**	26
Change in non-cash operating working capital:					
Decrease (increase) in trade and other receivables		**44**	(7)	**74**	4
Increase (decrease) in trade and other payables		**19**	32	**(84)**	(64)
Increase (decrease) in salaries and benefits payable and related provisions		**57**	53	**84**	(8)
(Decrease) increase in provisions		**(5)**	1	**4**	(1)
Net decrease (increase) in other non-cash operating working capital		**7**	(10)	**(27)**	(46)
Other income not affecting cash, net		**(6)**	(15)	**(19)**	(27)
Cash provided by operations before interest and tax		**223**	258	**549**	460
Interest received		**6**	7	**23**	25
Interest paid		**(22)**	(24)	**(47)**	(50)
Tax paid		**(32)**	(19)	**(162)**	(103)
Cash provided by operating activities		**175**	222	**363**	332
Cash flows from investing activities					
Acquisition of securities		**(323)**	(502)	**(1,263)**	(1,138)
Proceeds from sale of securities		**359**	469	**1,153**	1,027
Acquisition of capital assets		**(73)**	(114)	**(151)**	(235)
Proceeds from sale of capital assets		**–**	9	**–**	14
Cash used in investing activities		**(37)**	(138)	**(261)**	(332)
Cash flows from financing activities					
Repayment of loans and borrowings		**–**	–	**(55)**	–
Payments on finance lease obligations		**(5)**	(5)	**(17)**	(14)
Dividend paid to non-controlling interests		**–**	–	**(1)**	–
Other financing activities, net		**(1)**	–	**(1)**	–
Cash used in financing activities		**(6)**	(5)	**(74)**	(14)
Net increase (decrease) in cash and cash equivalents		**132**	79	**28**	(14)
Cash and cash equivalents, beginning of period		**670**	586	**775**	677
Effect of exchange rate changes on cash and cash equivalents		**–**	1	**(1)**	3
Cash and cash equivalents, end of period		**$ 802**	$ 666	**$ 802**	$ 666

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 October 1, 2016
(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. Other lines of business not covered by the exclusive privilege include Parcels and Direct Marketing products and services.

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation 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 a) with respect to collective agreements that expire in 2014 or later, have its negotiating mandates approved by Treasury Board, and b) 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. On June 3, 2016, paragraph a) of this order was repealed such that Treasury Board approval of the Corporation's negotiating mandates is no longer required.

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

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2015.

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 24, 2016.

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

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

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

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

Significant accounting policies • Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in Note 2 of the Corporation's annual consolidated financial statements for the year ended December 31, 2015, except for the application of new standards, amendments and interpretations effective January 1, 2016, disclosed in Note 3 of the interim condensed consolidated financial statements of the 13-week period ended April 2, 2016. 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 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2015.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

There were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that required mandatory adoption in the 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 4 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2015, and in Note 3 (b) of the Corporation's interim condensed consolidated financial statements for the 13 weeks ended April 2, 2016.

4. Other Current Assets

As at	**October 1, 2016**	December 31, 2015
Income tax receivable	$ 10	$ 6
Prepaid expenses	110	94
Assets held for sale	2	3
Total other current assets	**$ 122**	$ 103

As at October 1, 2016, all of the properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

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

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2015	$ 315	$ 2,018	$ 273	$ 1,315	$ 524	$ 421	$ 904	$ 89	$ 5,859
Additions	–	31	10	9	9	13	13	33	118
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	–	–	(2)	(3)	(1)	(13)	–	(19)
Transfers	–	8	1	2	–	–	22	(33)	–
October 1, 2016	**$ 315**	**$ 2,054**	**$ 284**	**$ 1,324**	**$ 530**	**$ 433**	**$ 926**	**$ 89**	**$ 5,955**
Accumulated depreciation									
December 31, 2015	$ –	$ 1,013	$ 210	$ 764	$ 305	$ 351	$ 478	$ –	$ 3,121
Depreciation	–	43	10	63	38	16	32	–	202
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	–	–	(2)	(2)	–	(13)	–	(17)
October 1, 2016	**$ –**	**$ 1,054**	**$ 220**	**$ 825**	**$ 341**	**$ 367**	**$ 497**	**$ –**	**$ 3,304**
Carrying amounts									
December 31, 2015	$ 315	$ 1,005	$ 63	$ 551	$ 219	$ 70	$ 426	$ 89	$ 2,738
October 1, 2016	**$ 315**	**$ 1,000**	**$ 64**	**$ 499**	**$ 189**	**$ 66**	**$ 429**	**$ 89**	**$ 2,651**

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2015	$ 684	$ 21	$ 30	$ 735
Additions	2	33	–	35
Transfers	31	(31)	–	–
October 1, 2016	**$ 717**	**$ 23**	**$ 30**	**$ 770**
Accumulated amortization				
December 31, 2015	$ 601	$ –	$ 27	$ 628
Amortization	29	–	1	30
October 1, 2016	**$ 630**	**$ –**	**$ 28**	**$ 658**
Carrying amounts				
December 31, 2015	$ 83	$ 21	$ 3	$ 107
October 1, 2016	**$ 87**	**$ 23**	**$ 2**	**$ 112**

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

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

(a) Net defined benefit liability

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

As at	**October 1, 2016**	December 31, 2015
Pension benefit assets	**$ 111**	$ 157
Pension benefit liabilities	$ 5,373	$ 2,820
Other post-employment and other long-term benefit liabilities	4,076	3,640
Total pension, other post-employment and other long-term benefit liabilities	$ 9,449	$ 6,460
Current other long-term benefit liabilities	**$ 62**	$ 62
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 9,387**	$ 6,398

(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		**October 1, 2016**			October 3, 2015	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 122	$ 26	$ 148	$ 128	$ 27	$ 155
Interest cost	262	38	300	252	37	289
Interest income on plan assets	(235)	–	(235)	(218)	–	(218)
Other administration costs	4	–	4	3	–	3
Gain from plan amendments	–	(44)	(44)	–	–	–
Defined benefit expense	153	20	173	165	64	229
Defined contribution expense	3	–	3	3	–	3
Total expense	156	20	176	168	64	232
Return on segregated securities	–	(5)	(5)	–	(14)	(14)
Component included in employee benefits expense	**$ 156**	**$ 15**	**$ 171**	$ 168	$ 50	$ 218
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (726)	$ –	$ (726)	$ 814	$ –	$ 814
Actuarial losses (gains)	972	121	1,093	(426)	(49)	(475)
Component included in other comprehensive income (loss)	**$ 246**	**$ 121**	**$ 367**	$ 388	$ (49)	$ 339

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

For the 39 weeks ended		**October 1, 2016**			October 3, 2015	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 367	$ 80	$ 447	$ 387	$ 84	$ 471
Interest cost	791	114	905	765	110	875
Interest income on plan assets	(708)	–	(708)	(661)	–	(661)
Other administration costs	11	–	11	10	–	10
Gain from plan amendments	–	(44)	(44)	–	–	–
Defined benefit expense	461	150	611	501	194	695
Defined contribution expense	9	–	9	8	–	8
Total expense	470	150	620	509	194	703
Return on segregated securities	–	(15)	(15)	–	(24)	(24)
Component included in employee benefits expense	**$ 470**	**$ 135**	**$ 605**	$ 509	$ 170	$ 679
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (635)	$ –	$ (635)	$ (21)	$ –	$ (21)
Actuarial losses (gains)	3,036	393	3,429	(833)	(99)	(932)
Component included in other comprehensive income (loss)	**$ 2,401**	**$ 393**	**$ 2,794**	$ (854)	$ (99)	$ (953)

During the quarter, 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. For employees retiring after November 30, 2016, the cost of the medical portion of the post-employment health plan will be shared equally between the employer and the employees. The resulting gain from the plan amendment of $44 million was recorded in net profit (loss).

(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**	
	October 1, 2016	October 3, 2015	**October 1, 2016**	October 3, 2015
Benefits paid directly to beneficiaries for other benefit plans	$ 30	$ 31	$ 107	$ 110
Employer regular contributions to pension benefit plans	78	76	223	224
Employer special contributions to pension benefit plans	14	14	40	45
Cash payments for defined benefit plans	122	121	370	379
Contributions to defined contribution plans	3	3	9	8
Total cash payments	**$ 125**	$ 124	**$ 379**	$ 387

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2016 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2015. These estimated total contributions take into consideration the Corporation's exemption from making special contributions into its Registered Pension Plan from 2014 to 2017, as permitted by the *Canada Post Corporation Pension Plan Funding Regulations*. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standard Act, 1985*. Under these regulations, the aggregate amount of relief is limited to 15% of the fair value of plan assets, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

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

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**	
	October 1, 2016	October 3, 2015	**October 1, 2016**	October 3, 2015
Current tax expense	$ 35	$ 41	$ 95	$ 78
Deferred tax income relating to origination and reversal of temporary differences	(33)	(39)	(81)	(70)
Tax expense	**$ 2**	$ 2	**$ 14**	$ 8

8. Other Comprehensive Income (Loss)

For the 13 weeks ended October 1, 2016	Items that may subsequently be reclassified to net profit (loss): Change in unrealized fair value of available-for-sale financial assets – gains arising	Items that may subsequently be reclassified to net profit (loss): Cumulative foreign currency translation adjustment	Items that may subsequently be reclassified to net profit (loss): Accumulated other comprehensive income	Item never reclassified to net profit (loss): 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**		

For the 13 weeks ended October 3, 2015	Items that may subsequently be reclassified to net profit (loss): Change in unrealized fair value of available-for-sale financial assets – losses arising	Items that may subsequently be reclassified to net profit (loss): Prior period gains transferred to net profit	Items that may subsequently be reclassified to net profit (loss): Cumulative foreign currency translation adjustment	Items that may subsequently be reclassified to net profit (loss): Accumulated other comprehensive income	Item never reclassified to net profit (loss): Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at July 4, 2015	$ 53	$ –	$ 3	$ 56		
Amount arising	$ (4)	(10)	1	$ (13)	$ (339)	$ (352)
Income taxes	1	2	–	3	84	87
Net	$ (3)	(8)	1	$ (10)	$ (255)	$ (265)
Accumulated balance as at October 3, 2015	$ 50	(8)	4	$ 46		

(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**		

	Items that may subsequently be reclassified to net profit (loss)				Item never reclassified to net profit (loss)	
For the 39 weeks ended October 3, 2015	Change in unrealized fair value of available-for-sale financial assets – losses arising	Prior period gains transferred to net profit	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at December 31, 2014	$ 53	$ –	$ 1	$ 54		
Amount arising	$ (4)	(10)	3	$ (11)	$ 953	$ 942
Income taxes	1	2	–	3	(238)	(235)
Net	$ (3)	(8)	3	$ (8)	$ 715	$ 707
Accumulated balance as at October 3, 2015	$ 50	(8)	4	$ 46		

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	**October 1, 2016**			December 31, 2015
	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 3, 2015 – 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 15% (October 3, 2015 – 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 during the 39-week period ended October 1, 2016:

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

(b) In October 2012, the Corporation received notice from the Canadian Human Rights Commission (Commission) that the Canadian Postmasters and Assistants Association (CPAA) had requested the reactivation of its pay equity complaint, originally filed in 1982. The report of the Commission's investigator, which was released December 8, 2014, found that pay equity issues for the period of 1991 to 1997 remained unresolved and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. The Corporation made submissions to the Commission January 30, 2015, in respect of the report. In March 2015, the Commission rendered a decision that this matter should proceed on its merits to the Tribunal. Materials in support of the Corporation's application for judicial review of the Commission's decision were filed April 24, 2015. Canada Post's application for judicial review was heard by the Federal Court on June 7, 2016. On July 28, 2016, the Federal Court released its decision dismissing Canada Post's application for judicial review.

On August 28, 2015, notice was also given to the Tribunal that Canada Post would be bringing a motion for the dismissal of the complaint, and, in the alternative, to adjourn the complaint pending the determination of the judicial review. In a decision released September 1, 2016, the Tribunal accepted the CPAA's position that Canada Post's motion was premature, thus pressing this matter forward to its merits. The parties were directed to each file Statements of Particulars by the end of the year.

(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 rural and suburban mail carriers' female predominant occupational group or groups. The study will be coordinated by a committee made up of representatives from both Canada Post and the CUPW. During the study, an analysis will be conducted to determine whether a wage gap exists under the *Human Rights Act*. If there is a wage gap, the two parties will endeavor to negotiate a resolution to the said wage gap. If the parties are unable to reach a mutually agreeable solution, the matter will be referred to binding arbitration. Any wage gap adjustment will be retroactive to January 1, 2016.

It is currently not possible for the Corporation to predict the final outcome of the various pay equity and related matters. Where appropriate, the Corporation has recorded a provision in salary and benefits payable and related provisions and such provision is measured at management's best estimate of the expenditure to be incurred. The Corporation may adjust any such provision in its net profit or loss 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

(a) The collective agreement that was signed in May 2007 between the Corporation and the Canadian Union of Postal Workers (CUPW) expired in January 2011. In response to rotating strikes across the country by CUPW and the lockout of employees by the Corporation, back-to-work legislation tabled by the Government of Canada received royal assent in June 2011. In October 2011, CUPW filed an application contesting the constitutionality of the legislation. Thereafter, new agreements were ratified and signed in December 2012.

CUPW's application was heard in October 2015. The court released its judgment April 28, 2016, and found that the back-to-work legislation was invalid. No other remedy was granted, financial or otherwise.

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

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

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

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

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

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

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

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 October 1, 2016

	Level 1[1]	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 705	$ 97	$ –	**$ 802**
Marketable securities	$ –	$ 936	$ –	**$ 936**
Segregated securities	$ –	$ 589	$ –	**$ 589**
Trade and other receivables: risk management financial assets	$ –	$ 8	$ –	**$ 8**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,368	$ –	**$ 1,368**

As at December 31, 2015	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets measured at fair value				
Cash and cash equivalents	$ 515	$ 260	$ –	$ 775
Marketable securities	$ –	$ 837	$ –	$ 837
Segregated securities	$ –	$ 539	$ –	$ 539
Liabilities measured at fair value				
Trade and other payables: risk management financial liabilities	$ –	$ 1	$ –	$ 1
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,394	$ –	$ 1,394

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 October 1, 2016.

(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

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

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

As at October 1, 2016

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$38	$ 54	$1.42/US$	October 13-December 15, 2016	Sell forward	$ 4
Euro	€24	37	$1.56/€	October 14-December 16, 2016	Sell forward	2
British pound	£5	11	$2.07/£	October 14-December 16, 2016	Sell forward	2
Yen	¥559	7	$0.012/¥	October 14-December 16, 2016	Sell forward	–
Total		$ 109				**$ 8**

As at December 31, 2015

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$25	$ 34	$1.35/US$	January 14, 2016	Sell forward	$ (1)
Euro	€15	23	$1.49/€	January 15, 2016	Sell forward	–
British pound	£3	6	$2.06/£	January 15, 2016	Sell forward	–
Yen	¥300	3	$0.011/¥	January 15, 2016	Sell forward	–
Total		$ 66				$ (1)

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

For the 13 weeks ended	**October 1, 2016**			October 3, 2015		
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ 3	$ (4)	$ (1)	$ 3	$ (3)	$ –
Realized	(1)	1	–	6	(4)	2
Total	**$ 2**	**$ (3)**	**$ (1)**	$ 9	$ (7)	$ 2

For the 39 weeks ended	**October 1, 2016**			October 3, 2015		
	Foreign exchange gains (losses)	**Derivative gains**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (7)	$ 9	$ 2	$ 5	$ (6)	$ (1)
Realized	2	2	4	10	(7)	3
Total	**$ (5)**	**$ 11**	**$ 6**	$ 15	$ (13)	$ 2

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

(b) Liquidity risk

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

Refer to notes 17 and 24 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2015, for the Corporation's current authorized borrowing facilities.

13. Other Operating Costs

For the	13 weeks ended		39 weeks ended	
	October 1, 2016	October 3, 2015	**October 1, 2016**	October 3, 2015
Non-labour collection, processing and delivery	**$ 279**	$ 290	**$ 887**	$ 923
Property, facilities and maintenance	**84**	81	**263**	266
Selling, administrative and other	**122**	152	**377**	441
Other operating costs	**$ 485**	$ 523	**$ 1,527**	$ 1,630

14. Investing and Financing Income (Expense)

For the	13 weeks ended		39 weeks ended	
	October 1, 2016	October 3, 2015	**October 1, 2016**	October 3, 2015
Interest revenue	**$ 3**	$ 4	**$ 11**	$ 11
Gain (loss) on sale of capital assets and assets held for sale	**1**	–	**(2)**	3
Investment and other income	**$ 4**	$ 4	**$ 9**	$ 14
Interest expense	**$ (10)**	$ (13)	**$ (34)**	$ (37)
Other expense	**(1)**	–	**(1)**	(1)
Finance costs and other expense	**$ (11)**	$ (13)	**$ (35)**	$ (38)
Investing and financing expense, net	**$ (7)**	$ (9)	**$ (26)**	$ (24)

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	
	October 1, 2016	October 3, 2015	**October 1, 2016**	October 3, 2015
Related party revenue	**$ 57**	$ 83	**$ 231**	$ 224
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	**$ 7**	$ 6	**$ 24**	$ 19

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.

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

As at	October 1, 2016	December 31, 2015
Due to/from related parties		
Included in trade and other receivables	**$ 19**	$ 29
Included in trade and other payables	**$ 10**	$ 12
Deferred revenue from related parties	**$ 2**	$ 2

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 39 weeks ended October 1, 2016, 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 $2 million and $7 million for the 13 and 39 weeks ended October 1, 2016, respectively (October 3, 2015 – $3 million and $30 million, respectively). As at October 1, 2016, no amount was due to the company from Purolator (December 31, 2015 – nil). 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 October 1, 2016, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $2 million and $8 million, respectively (October 3, 2015 – $2 million and $8 million, respectively). As at October 1, 2016, $9 million (December 31, 2015 – $9 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).

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 October 1, 2016, the IT business unit earned intercompany revenue of $72 million and $198 million, respectively (October 3, 2015 – $67 million and $201 million, respectively), incurred cost of operations of $72 million and $198 million, respectively (October 3, 2015 – $67 million and $201 million, respectively), and earned net profit of nil for the 13 and 39 week reporting periods in 2016 and 2015. Total assets and liabilities at October 1, 2016, were $130 million and $79 million, respectively (December 31, 2015 – $125 million and $74 million, respectively).

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 13 weeks ended October 3, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,481	$ 369	$ 53	$ –	$ 1,903
Intersegment revenue	5	4	15	(24)	–
Revenue from operations	$ 1,486	$ 373	$ 68	$ (24)	$ 1,903
Labour and employee benefits	$ 1,050	$ 179	$ 30	$ 25	$ 1,284
Other operating costs	377	163	30	(47)	523
Depreciation and amortization	63	13	2	(1)	77
Cost of operations	$ 1,490	$ 355	$ 62	$ (23)	$ 1,884
Profit (loss) from operations	$ (4)	$ 18	$ 6	$ (1)	$ 19
Investment and other income	$ 4	$ –	$ –	$ –	$ 4
Finance costs and other expense	(13)	–	–	–	(13)
Profit (loss) before tax	$ (13)	$ 18	$ 6	$ (1)	$ 10
Tax expense (income)	(4)	4	2	–	2
Net profit (loss)	$ (9)	$ 14	$ 4	$ (1)	$ 8
Total assets	$ 6,966	$ 814	$ 118	$ (352)	$ 7,546
Acquisition of capital assets	$ 103	$ 11	$ 1	$ (2)	$ 113
Total liabilities	$ 8,498	$ 327	$ 64	$ (59)	$ 8,830

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	–	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

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

As at and for the 39 weeks ended October 3, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 4,621	$ 1,138	$ 155	$ –	$ 5,914
Intersegment revenue	20	26	36	(82)	–
Revenue from operations	$ 4,641	$ 1,164	$ 191	$ (82)	$ 5,914
Labour and employee benefits	$ 3,273	$ 562	$ 86	$ 76	$ 3,997
Other operating costs	1,173	527	84	(154)	1,630
Depreciation and amortization	192	39	6	(2)	235
Cost of operations	$ 4,638	$ 1,128	$ 176	$ (80)	$ 5,862
Profit (loss) from operations	$ 3	$ 36	$ 15	$ (2)	$ 52
Investment and other income	$ 14	$ –	$ –	$ –	$ 14
Finance costs and other expense	(37)	(1)	–	–	(38)
Profit (loss) before tax	$ (20)	$ 35	$ 15	$ (2)	$ 28
Tax expense (income)	(6)	10	4	–	8
Net profit (loss)	$ (14)	$ 25	$ 11	$ (2)	$ 20
Total assets	$ 6,966	$ 814	$ 118	$ (352)	$ 7,546
Acquisition of capital assets	$ 208	$ 27	$ 4	$ (4)	$ 235
Total liabilities	$ 8,498	$ 327	$ 64	$ (59)	$ 8,830

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