CANADA POST CORPORATION

2016 **First Quarter** Financial Report

For the period ended April 2, 2016

Contents

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the first quarter ended April 2, 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 weeks ended April 2, 2016. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 2, 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 May 26, 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 only as of May 26, 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 $1.6 billion for the first quarter of 2016 (80.3% 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 facing a pivotal period in its history. With the trend toward online communication increasing, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in Lettermail volumes. In fact, 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 for the pension, 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.

On May 5, 2016, the Government of Canada announced that it is undertaking an independent review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. The goal of the review is to help put Canada Post back on a self-sustaining footing, while providing valuable services for Canadians well into the future. The review is being carried out in two phases. In the first phase, a four-person task force will collect information, conduct analysis and prepare a discussion paper that presents viable options, costs and associated implications for postal services in Canada. This will form the basis for the second phase, an informed public dialogue led by a parliamentary committee, which will allow members of Parliament to engage with Canadians about the choices before them. The task force began conducting its work in May 2016 and the parliamentary committee is expected to submit its recommendations to the Government by the end of 2016. The Government will then make 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 first quarter ended April 2, 2016, the Canada Post Group of Companies reported a profit before tax of $35 million, compared to a profit before tax of $22 million in the same period in 2015. The increase in the Group of Companies' 2016 first quarter results was primarily driven by growth in Parcels, a lower employee benefits expense and productivity improvements. This was partially offset by volume erosion, especially in Canada Post's Transaction Mail line of business, and the increased loss in the Purolator segment.

The Canada Post segment reported a profit before tax of $44 million for the first quarter of 2016, compared to a profit before tax of $24 million for the first quarter of 2015. The improvement in 2016 first quarter results was primarily driven by growth in Parcels revenue, productivity improvements and a lower employee benefits expense, partially offset by Transaction Mail volume erosion.

The Canada Post segment generated revenue of $1,626 million in the first quarter of 2016, a slight decrease of $11 million compared to the same period in 2015, primarily due to Transaction Mail volume erosion and one less business (trading) day in the first quarter of 2016, partially offset by strong growth in Parcels from the continued strength of the business-to-consumer e-commerce delivery market.

Transaction Mail volumes continued to decline – by 83 million pieces or 6.6%[1] in the first quarter of 2016, compared to the same period in 2015, as volumes continue to be adversely affected by mail erosion driven by electronic substitution.

Parcel volumes increased by over five million pieces or 14.4%[1] in the first quarter of 2016 compared to the same period in 2015. Strong results for Parcels were driven by continuous growth in e-commerce and our efforts to deliver competitive offerings.

Direct Marketing volumes decreased by 50 million pieces or 2.6%[1] in the first quarter of 2016 compared to the same period in 2015.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect our financial performance and, if it weren't for temporary pension relief on special payments, they would put pressure on our cash resources. In February 2014, the Government of Canada provided relief to Canada Post from the requirement to make special payments to the Canada Post Corporation Registered Pension Plan (RPP) from 2014 to 2017.

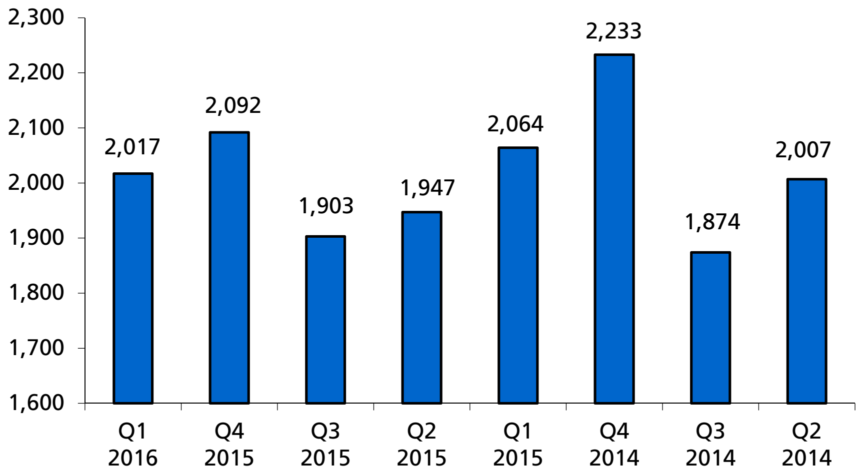
Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the first quarter of 2016, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $1,041 million, net of tax, recorded in other comprehensive income and worsening the Group of Companies' equity balance to negative $2,135 million as at April 2, 2016. These remeasurement losses in the first quarter of 2016 were mostly the result of lower than targeted pension asset returns as well as a decrease in discount rates.

The prior year's discount rates and other actuarial assumptions, as well as pension asset balances, are used to calculate the current year's employee benefit expense, and thereby affect the Corporation's operating results. An increase in the discount rates as at December 31, 2015, as well as positive pension asset returns in 2015, led to a decrease in the employee benefit expense of $19 million or 4.2%[1] in the first quarter of 2016, compared to the same period in 2015, and contributed to the increase in profitability in the Canada Post segment in the first quarter of 2016. These results demonstrate how changing discount rates, investment returns and other actuarial assumptions can cause significant volatility in the Corporation's financial statements.

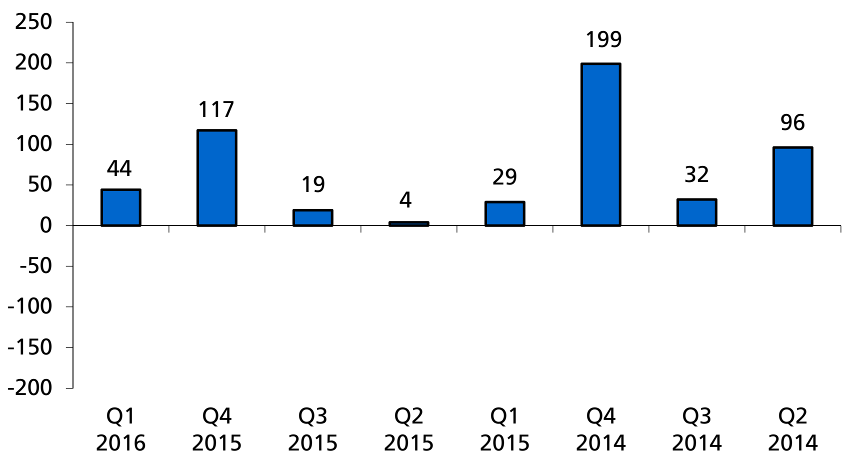
1. Adjusted for trading days or paid days, where applicable.

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

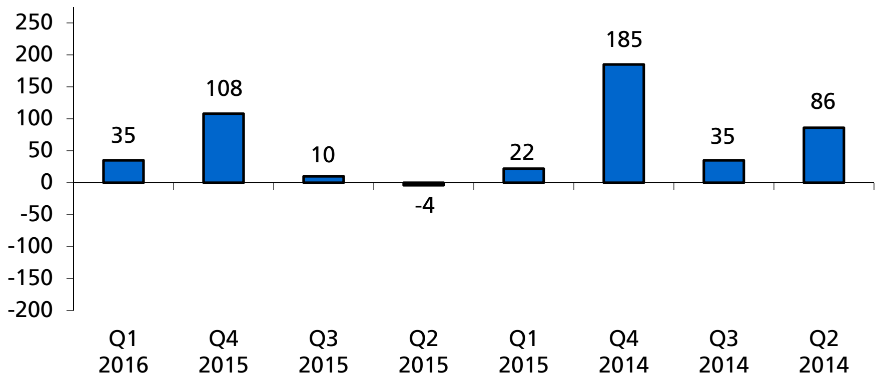
Quarterly consolidated revenue from operations
(in millions of dollars)



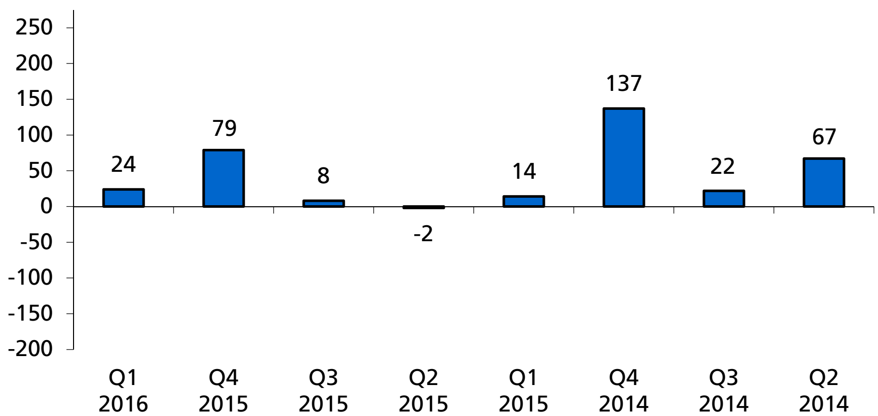
Quarterly consolidated profit from operations
(in millions of dollars)



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



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



The following table presents the Corporation's consolidated performance for the first quarter of 2016, compared to the same period in the prior year.

(in millions of dollars)	13 weeks ended				
	April 2, 2016	April 4, 2015	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations page 16.
Revenue from operations	2,017	2,064	(47)	(0.8)[1]	Mainly due to lower revenue in the Purolator segment due to a reduction in volume, Transaction mail volume erosion in the Canada Post segment, and one less business day in the first quarter of 2016 compared to the same period in 2015, partially offset by revenue growth in Parcels in the Canada Post segment.
Cost of operations	1,973	2,035	(62)	(1.6)[2]	Mainly a result of one less paid day in the first quarter of 2016, compared to the same period in 2015, and lower expenses in Purolator due to a reduction in volume.
Profit from operations	44	29	15	49.9	
Profit before tax	35	22	13	59.2	
Net profit	24	14	10	75.4	
Comprehensive loss	(1,011)	(244)	(767)	(314.1)	Mainly due to lower than targeted pension asset returns as well as a decrease in discount rates.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 10.
Cash provided by operating activities	110	33	77	228.5	Mainly due to changes in non-cash working capital, partially offset by higher income tax payments.
Cash used in investing activities	(91)	(109)	18	16.1	Mainly due to lower acquisitions of capital assets, partially offset by higher net acquisitions of investments.
Cash used in financing activities	(62)	(5)	(57)	(1,038.6)	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 a labour cost structure that 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 help the Corporation succeed in this digital age.

On May 5, 2016, the Government of Canada announced that it is undertaking an independent review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. 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 first 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 businesses.

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

Canadian Postmasters and Assistants Association (CPAA)

The collective agreement between Canada Post and the CPAA, which represents rural post office postmasters and assistants, expired December 31, 2014. Negotiations commenced in the first quarter of 2015. Despite ongoing discussions, Canada Post and the CPAA reached an impasse on key issues. On March 16, 2016, Canada Post notified the CPAA that it was referring 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. Meanwhile, the terms and conditions of the collective agreement that expired December 31, 2014, continue to apply.

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

The collective agreement expired January 31, 2016. Negotiations commenced in January 2016. This agreement provides for strike or lockout. On April 4, 2016, Canada Post filed a Notice of Dispute with the Minister of Employment, Workforce Development and Labour asking for a conciliator to help reach a negotiated collective agreement with the UPO bargaining unit of CUPW. On April 11, 2016, the Minister appointed conciliation officers. We hope that having a neutral party involved will help stimulate constructive discussion. Our goal remains a negotiated collective agreement that is fair for our employees, but also reflects the changing nature of our business and needs of our customers. Meanwhile, the terms and conditions of the collective agreement that expired January 31, 2016, continue to apply.

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

The collective agreement expired December 31, 2015. Negotiations commenced in January 2016. This agreement provides for strike or lockout. On April 4, 2016, Canada Post filed a Notice of Dispute with the Minister of Employment, Workforce Development and Labour asking for a conciliator to help reach a negotiated collective agreement with the RSMC bargaining unit of CUPW. On April 11, 2016, the Minister appointed conciliation officers. We hope that having a neutral party involved will help stimulate constructive discussion. Our goal remains a negotiated collective agreement that is fair for our employees, but also reflects the changing nature of our business and needs of our customers. Meanwhile, the terms and conditions of the collective agreement that expired December 31, 2015, continue to apply.

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

The collective agreement between Canada Post and the PSAC/UPCE will expire on August 31, 2016. This agreement provides for strike or lockout. Notice to bargain can be filed on or after May 1, 2016.

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016. 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 first 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 first quarter of 2016 are provided below.

Canada Post has determined that no provision needs to be made for 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.

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 is seeking $75 million in damages and $1 million in punitive damages. A pre-trial conference has been scheduled for September 20, 2016, followed by the commencement of trial on November 7, 2016.

CPAA pay equity complaint

A complaint was filed with the Canadian Human Rights Commission (CHRC) alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*. On October 10, 2012, the Corporation received notice from the Commission that the CPAA had requested the reactivation of its pay equity complaint. The Corporation filed a full legal brief December 10, 2012, in response to the Commission's request for submissions on the reactivation. The report of the Commission investigator was released December 8, 2014. The investigator found that, while agreements between the parties resolved pay equity issues for the period subsequent to 1997, the prior period (1991-97) remains in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. Canada Post made submissions to the Commission January 30, 2015. In March 2015, the Commission rendered a decision to refer the matter on its merits to the Tribunal. Canada Post's application for judicial review of the Commission's decision is scheduled to be heard by the Federal Court June 7, 2016. On August 28, 2015, notice was also given to the Tribunal that Canada Post will bring a motion for the dismissal of the complaint and, in the alternative, to adjourn the complaint pending determination of the judicial review. Canada Post has provided written materials in support of its motion on April 15, 2016. The judicial review is scheduled to be heard by the Federal Court June 7, 2016. As CPAA has objected to the motion, the Tribunal will consider written arguments from all parties. By June 22, 2016, the Tribunal will decide if it wants to hear oral argument and set July 20, 2016, as the potential hearing date.

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.

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

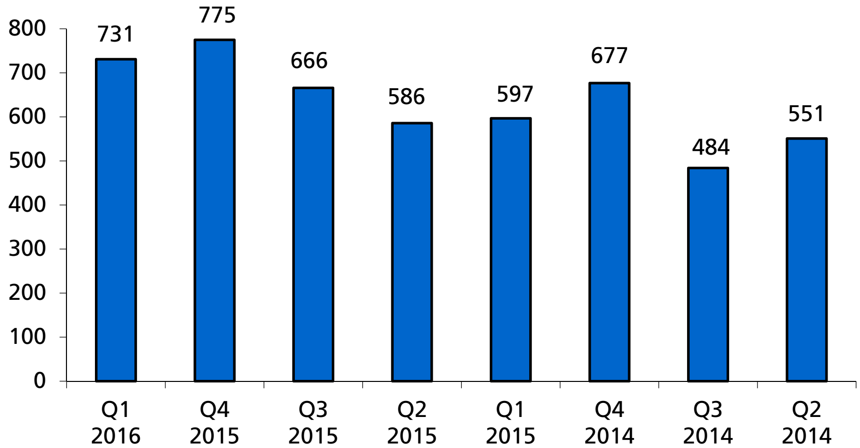
An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014. By motion to the Federal Court, a number of Montréal urban communities were granted intervenor status in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

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $731 million as at April 2, 2016 – a decrease of $44 million compared to December 31, 2015, mainly due to the repayment of non-redeemable bonds that matured in March 2016, acquisitions of capital assets and net acquisitions of securities, partially offset by cash provided by operating activities.

6.2 Operating activities

	13 weeks ended		
(in millions of dollars)	April 2, 2016	April 4, 2015	Change
Cash provided by operating activities	110	33	77

Cash provided by operations in the first quarter of 2016 increased by $77 million compared to the same period in 2015. The positive change in 2016 cash flow, compared to the same period in 2015, was primarily driven by changes in non-cash working capital, partially offset by higher income taxes paid.

6.3 Investing activities

	13 weeks ended		
(in millions of dollars)	April 2, 2016	April 4, 2015	Change
Cash used in investing activities	(91)	(109)	18

Cash used in investing activities decreased by $18 million in the first quarter of 2016 compared to the same period in 2015. The change was mainly due to lower acquisitions of capital assets, partially offset by higher net acquisitions of investments.

Capital expenditures

	13 weeks ended		
(in millions of dollars)	April 2, 2016	April 4, 2015	Change
Canada Post	19	47	(28)
Purolator	8	5	3
Logistics	2	2	–
Intersegment and consolidation	(2)	–	(2)
Canada Post Group of Companies	**27**	**54**	**(27)**

Capital expenditures for the Group of Companies decreased by $27 million in the first quarter of 2016, when compared to the same period 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

	13 weeks ended		
(in millions of dollars)	April 2, 2016	April 4, 2015	Change
Cash used in financing activities	(62)	(5)	(57)

Cash used in financing activities increased by $57 million in the first quarter of 2016 compared to the same period in 2015. The change was mainly due to the repayment of non-redeemable bonds that matured in March 2016.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $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 these regulations, the Corporation is exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standards Act, 1985*. 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. In the meantime, Canada Post is working with its unions and other representatives of RPP members to evaluate all options, including plan design changes, to make the RPP financially sustainable. It is also studying and evaluating other jurisdictions' approaches to modifying the design of their pension plans. A Communications and Consultation Group was established to facilitate the exchange of information between the Corporation and RPP members. The Group is composed of representatives of RPP members, as well as Canada Post as plan administrator.

The current estimate of the financial position of the RPP as at December 31, 2015, is a going-concern surplus of approximately $1.2 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.2 billion[1] (using the three-year average solvency ratio basis). These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2015, will be filed by the end of June 2016 and results may differ significantly from these estimates.

Current service contributions amounted to $67 million and $71 million respectively for the first quarter of 2016 and 2015. The employer's current service contributions for 2016 are estimated at $240 million. The special payments without any pension relief would amount to an additional $1.2 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 first quarter of 2016, remeasurement losses, net of tax, for the RPP amounted to $891 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

1. The solvency deficit when using market value of plan assets, as at December 31, 2015, was estimated at $5.9 billion.

6.6 Liquidity and capital resources

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

Liquidity

During the first quarter of 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 $1,460 million of unrestricted liquid investments on hand as at April 2, 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 $170 million of unrestricted cash on hand and undrawn credit facilities of $144 million as at April 2, 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 April 2, 2016, amounted to $997 million and $76 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, which 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 10 – Fair Values and Risks Arising From Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 2, 2016. There were no material changes to market risk during the first 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 first 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 first 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 first 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 on related party transactions, refer to Note 13 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 2, 2016.

6.10 Contingent liabilities

Contingent liabilities are described in Note 9 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 weeks ended April 2, 2016. There were no material changes to contingent liabilities during the first quarter of 2016.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between April 2, 2016, and December 31, 2015

(in millions of dollars)

ASSETS	April 2, 2016	Dec. 31, 2015	Change	%	Explanation of change
Cash and cash equivalents	731	775	(44)	(5.8)	Refer to Section 6 – Liquidity and Capital Resources page 10.
Marketable securities	899	837	62	7.4	Mainly due to the investment of cash in short-term investments for higher returns.
Trade and other receivables	750	790	(40)	(5.0)	Primarily due to decreased receivables for the Purolator and Canada Post segments that resulted from higher sales in December 2015.
Other assets	120	103	17	17.6	Mainly due to an increase in prepaid expenses in the Purolator segment.
Total current assets	**2,500**	**2,505**	**(5)**	**(0.2)**	
Property, plant and equipment	2,687	2,738	(51)	(1.9)	Mainly due to depreciation in excess of acquisitions in the Canada Post segment.
Intangible assets	109	107	2	1.9	No material change.
Segregated securities	554	539	15	2.7	Mainly due to unrealized gains and interest income.
Pension benefit assets	139	157	(18)	(11.8)	Due to remeasurement losses on post-employment benefit plans mainly due to a decrease in discount rates and lower than expected pension asset returns.
Deferred tax assets	1,898	1,540	358	23.2	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	4	4	–	22.9	No material change.
Total non-current assets	**5,521**	**5,215**	**306**	**5.9**	
Total assets	**8,021**	**7,720**	**301**	**3.9**	

(in millions of dollars)

LIABILITIES AND EQUITY	April 2, 2016	Dec. 31, 2015	Change	%	Explanation of change
Trade and other payables	433	530	(97)	(18.4)	Mainly due to decreased trade payables and bond interest payments in the Canada Post segment.
Salaries and benefits payable and related provisions	505	434	71	16.2	Mainly due to increased statutory deductions payable and accrued salaries (increased days outstanding) in the Canada Post segment.
Provisions	69	65	4	5.5	No material change.
Income tax payable	3	65	(62)	(95.5)	Mainly due to the payment of an expected tax liability for the Canada Post segment.
Deferred revenue	121	124	(3)	(2.1)	No material change.
Loans and borrowings	20	76	(56)	(73.4)	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	**1,213**	**1,356**	**(143)**	**(10.6)**	
Loans and borrowings	1,053	1,059	(6)	(0.6)	No material change.
Pension, other post-employment and other long-term benefit liabilities	7,861	6,398	1,463	22.9	Mainly due to remeasurement losses on post-employment benefit plans in the Canada Post segment mostly attributable to a decrease in discount rates and lower than expected pension asset returns.
Other liabilities	29	31	(2)	(4.5)	No material change.
Total non-current liabilities	**8,943**	**7,488**	**1,455**	**19.4**	
Total liabilities	**10,156**	**8,844**	**1,312**	**14.8**	
Equity					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	54	48	6	12.9	Mainly due to the net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(3,366)	(2,354)	(1,012)	(43.0)	Mainly due to remeasurement losses on post-employment benefit plans as a result of a decrease in discount rates and lower than expected pension asset returns.
Equity of Canada	**(2,157)**	**(1,151)**	**(1,006)**	**(87.5)**	
Non-controlling interests	22	27	(5)	(18.8)	
Total equity	**(2,135)**	**(1,124)**	**(1,011)**	**(90.0)**	
Total liabilities and equity	**8,021**	**7,720**	**301**	**3.9**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

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

(in millions of dollars)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Revenue from operations	2,017	2,092	1,903	1,947	2,064	2,233	1,874	2,007
Cost of operations	1,973	1,975	1,884	1,943	2,035	2,034	1,842	1,911
Profit from operations	**44**	**117**	**19**	**4**	**29**	**199**	**32**	**96**
Investing and financing income (expense), net	(9)	(9)	(9)	(8)	(7)	(14)	3	(10)
Profit (loss) before tax	**35**	**108**	**10**	**(4)**	**22**	**185**	**35**	**86**
Tax expense (income)	11	29	2	(2)	8	48	13	19
Net profit (loss)	**24**	**79**	**8**	**(2)**	**14**	**137**	**22**	**67**

8.2 Consolidated results from operations

Consolidated results for the first quarter of 2016

	13 weeks ended			
(in millions of dollars)	April 2, 2016	April 4, 2015	Change	%
Revenue from operations	2,017	2,064	(47)	(0.8)[1]
Cost of operations	1,973	2,035	(62)	(1.6)[1]
Profit from operations	**44**	**29**	**15**	**49.9**
Investing and financing expense, net	(9)	(7)	(2)	(23.2)
Profit before tax	**35**	**22**	**13**	**59.2**
Tax expense	11	8	3	32.4
Net profit	**24**	**14**	**10**	**75.4**
Other comprehensive loss	(1,035)	(258)	(777)	(301.5)
Comprehensive loss	**(1,011)**	**(244)**	**(767)**	**(314.1)**

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

The Canada Post Group of Companies reported a profit before tax of $35 million for the first quarter of 2016, compared to a profit before tax of $22 million in the first quarter of 2015. The increase in profit before tax in 2016 was primarily driven by the Canada Post segment. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated revenue from operations

For the first quarter of 2016, revenue from operations decreased by $47 million when compared to the same quarter in 2015, primarily due to Lettermail™ erosion in the Canada Post segment, a decrease in revenue in the Purolator segment, driven by reduced courier volumes, and one less business day in the first quarter of 2016 compared to the same period in 2015. This was partially offset by Parcels growth in the Canada Post segment. 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 $62 million in the first quarter of 2016, when compared to the same quarter in 2015. The decline was mainly due to one less paid day in the first quarter of 2016, compared to the same period in 2015, and lower labour costs and fuel expenses driven by a reduction in volume in the Purolator segment. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

The consolidated tax expense for the first quarter of 2016 increased by $3 million, compared to the same period in the prior year, primarily driven by an increase in the Group of Companies' profit before tax.

Consolidated other comprehensive income (loss)

In the first quarter of 2016, the consolidated other comprehensive loss amounted to $1,035 million. This loss was mainly due to lower than targeted pension asset returns in the first quarter as well as 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

	13 weeks ended			
(in millions of dollars)	April 2, 2016	April 4, 2015	Change	%
Canada Post	44	24	20	79.7
Purolator	(12)	(6)	(6)	(90.4)
Logistics	4	4	–	6.1
Other	(1)	–	(1)	–
Canada Post Group of Companies	**35**	**22**	**13**	**59.2**

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

8.4 Canada Post segment

The Canada Post segment recorded a profit before tax of $44 million in the first quarter of 2016, compared to a profit before tax of $24 million in the first quarter of 2015. The $20 million increase was mainly due to Parcels revenue growth, cost savings initiatives and a decrease in employee benefits expense, partially offset by Transaction Mail volume erosion.

Canada Post results for the first quarter of 2016

			13 weeks ended	
(in millions of dollars)	April 2, 2016	April 4, 2015	Change	%
Revenue from operations	1,626	1,637	(11)	0.9[1]
Cost of operations	1,574	1,606	(32)	(0.5)[1]
Profit from operations	**52**	**31**	**21**	**63.6**
Investing and financing expense, net	(8)	(7)	(1)	(12.4)
Profit before tax	**44**	**24**	**20**	**79.7**
Tax expense	13	8	5	47.4
Net profit	**31**	**16**	**15**	**97.3**

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

Revenue from operations

Canada Post earned revenue from operations of $1,626 million in the first quarter of 2016 – a drop of $11 million when compared to the same quarter in 2015. The decline was primarily due to Lettermail erosion, a drop in Direct Marketing revenue, and one less business day in the first quarter of 2016, compared to the same period in 2015. This was partially offset by continued solid growth in Parcels.

Quarterly revenue by line of business

			13 weeks ended	
(in millions of dollars)	April 2, 2016	April 4, 2015	Change	%[1]
Transaction Mail	849	889	(40)	(3.0)
Parcels	421	380	41	12.5
Direct Marketing	286	301	(15)	(3.5)
Other revenue	70	67	3	6.0
Total	**1,626**	**1,637**	**(11)**	**0.9**

1. Adjusted for trading days, where applicable.

Transaction Mail

Transaction Mail revenue of $849 million for the first quarter of 2016 was made up of the following three product categories: Domestic Lettermail ($771 million), Outbound Letter-post ($35 million), and Inbound Letter-post ($43 million).

In the first quarter of 2016, Transaction Mail revenue decreased by $40 million or 3.0%,[1] while volumes decreased by 83 million pieces or 6.6%[1] compared to the same period in 2015. For Domestic Lettermail, the largest product category, revenue and volumes decreased by $40 million or 3.5%[1] and 71 million pieces or 6.0%[1] respectively.

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

Parcels

Parcels revenue of $421 million for the first quarter of 2016 was made up of the following four product categories: Domestic Parcels ($301 million), Outbound Parcels ($60 million), Inbound Parcels ($56 million), and Other ($4 million).

Parcels revenue increased by $41 million or 12.5%,[1] while volumes increased by over five million pieces or 14.4%[1] when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued its growth as revenue increased by $40 million or 17.4%,[1] and volumes grew by over five million pieces or 20.5%.[1]

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

Direct Marketing

Direct Marketing revenue of $286 million for the first quarter of 2016 was made up of the following four categories: Canada Post Personalized Mail™ ($137 million), Canada Post Neighbourhood Mail™ ($95 million), Publications Mail™ ($45 million), Business Reply Mail™ and Other mail ($9 million).

In the first quarter of 2016, Direct Marketing revenue decreased by $15 million or 3.5%[1], while volumes dropped by 50 million pieces or 2.6%[1] when compared to the same period in 2015. Neighbourhood Mail™, the largest volume product category, saw revenue remain relatively flat; however, volumes declined by 23 million pieces or 1.2%[1] compared to the same period in 2015. Personalized Mail™ revenue decreased by $9 million or 4.9%,[1] and volumes were down by 17 million pieces or 4.7%.[1] The declines were caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels. Publications Mail revenue and volumes also were lower by $5 million or 9.1%[1] and 9 million pieces or 9.8%[1] respectively, due to a decline in mail publication subscriptions.

Other revenue

Other revenue totalled $70 million in the first quarter of 2016 – an increase of $3 million or 6.0%,[1] when compared to the same period in the prior year.

1. Adjusted for trading days, where applicable.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,574 million in the first quarter of 2016 – a decrease of $32 million or 0.5%[1] when compared to the same quarter last year. The decrease in the first quarter of 2016 was mainly due to one less paid day compared to the first quarter of 2015.

			13 weeks ended	
(in millions of dollars)	April 2, 2016	April 4, 2015	Change	%[1]
Labour	783	782	1	1.7
Employee benefits	326	345	(19)	(4.2)
Total labour and employee benefits	**1,109**	**1,127**	**(18)**	**(0.1)**
Non-labour collection, processing and delivery	223	218	5	4.2
Property, facilities and maintenance	66	72	(6)	(6.3)
Selling, administrative and other	114	125	(11)	(7.4)
Total other operating costs	**403**	**415**	**(12)**	**(1.1)**
Depreciation and amortization	62	64	(2)	(2.3)
Total	**1,574**	**1,606**	**(32)**	**(0.5)**

1. Adjusted for paid days, where applicable.

Labour

Labour costs were $783 million in the first quarter of 2016, and remained relatively consistent when compared to the same period in the previous year.

Employee benefits

Employee benefits decreased by $19 million or 4.2%[1] for the first quarter of 2016, when compared to the same period in 2015. The drop was mainly due to the positive impacts from an increase in the 2015 discount rates used to calculate benefit plan costs in 2016, as well as positive pension asset returns in 2015.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $5 million or 4.2%[1] for the first quarter of 2016 when compared to the same period in 2015, mainly due to higher international settlement costs, customs fees, automotive services, and maintenance and repairs expenses.

Property, facilities and maintenance

The cost of facilities dropped by $6 million or 6.3%[1] for the first quarter of 2016 when compared to the same period last year, mainly due to a decrease in the cost of utilities.

Selling, administrative and other

Selling, administrative and other expenses decreased by $11 million or 7.4%[1] for the first quarter of 2016, when compared to the same period last year, due to lower program expenses relating to the suspension of the Five-point Action Plan.

Depreciation and amortization

Depreciation and amortization expenses were $62 million for the first quarter of 2016, and remained relatively consistent when compared to the same period in 2015.

1. Adjusted for paid days, where applicable.

8.5 Purolator segment

The Purolator segment incurred a net loss of $9 million for the first quarter of 2016, an increase in net loss of $4 million or 83.1% when compared to the same period in the prior year.

Purolator results for the first quarter of 2016

			13 weeks ended	
(in millions of dollars)	April 2, 2016	April 4, 2015	Change	%
Revenue from operations	350	402	(52)	(11.5)[1]
Cost of operations	362	408	(46)	(10.0)[1]
Loss from operations	**(12)**	**(6)**	**(6)**	**(87.9)**
Investing and financing income (expense), net	–	–	–	–
Loss before tax	**(12)**	**(6)**	**(6)**	**(90.4)**
Tax expense (income)	(3)	(1)	(2)	(116.7)
Net loss	**(9)**	**(5)**	**(4)**	**(83.1)**

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

Revenue from operations

Purolator generated revenue from operations of $350 million in the first quarter of 2016 – a decrease of $52 million or 11.5%[1] when compared to the same period in 2015. The decrease in the first quarter of 2016 was mainly due to a reduction in volume and the termination of the provision of air cargo services to Canada Post.

Cost of operations

Total labour costs

Total labour costs were $190 million in the first quarter of 2016. The decrease of $8 million or 2.9%[1] in the first quarter of 2016 when compared to the same period in 2015, was driven by a reduction in volume and one less paid day in the first quarter of 2016.

Total non-labour costs

Total non-labour costs were $172 million in the first quarter of 2016 – a decrease of $38 million or 16.7%[1] when compared to the same period in 2015. The decrease in the first quarter of 2016 was driven primarily by lower fuel costs.

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 first quarter of 2016, an increase of 5.7% when compared to the same period in the prior year.

Logistics results for the first quarter of 2016

	13 weeks ended			
(in millions of dollars)	April 2, 2016	April 4, 2015	Change	%
Revenue from operations	63	60	3	5.0[1]
Cost of operations	59	56	3	3.3[1]
Profit from operations	**4**	**4**	**–**	**5.5**
Investing and financing income (expense), net	–	–	–	–
Profit before tax	**4**	**4**	**–**	**6.1**
Tax expense	1	1	–	7.3
Net profit	**3**	**3**	**–**	**5.7**

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

Revenue from operations

SCI generated revenue from operations of $63 million in the first quarter of 2016 – an increase of $3 million or 5.0%,[1] when compared to the same period in 2015. Increases in the first quarter of 2016 were mainly driven by volume growth from current clients and new services.

Cost of operations

Total labour costs

Total labour costs were $31 million in the first quarter of 2016 – an increase of $3 million or 9.0%[1] when compared to the same period in 2015. Increases in the first quarter of 2016 were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $28 million in the first quarter of 2016 – remaining unchanged when compared to the same period in the previous year.

8.7 Consolidated results to plan

On May 5, 2016, the Government of Canada announced that it is undertaking an independent review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. 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 its stated plan to conduct a review of Canada Post.

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

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 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.

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 effective January 1, 2016

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2016, resulted in no changes in accounting policies for the Corporation interim condensed consolidated financial statements for the 13 weeks ended April 2, 2016.

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations • The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The adoption of these amendments had no impact on the interim condensed consolidated financial statements.

Annual Improvements to IFRS – 2012-2014 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments were as follows: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies the accounting for changes in methods of disposal; IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 "Employee Benefits" clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 "Interim Financial Reporting" clarifies the meaning of disclosure of information elsewhere in the interim financial report. The adoption of these annual improvements had no impact on the interim condensed consolidated financial statements.

Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) • The IASB issued amendments to IAS 1 that provide additional guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The adoption of these amendments had a minimal impact on the interim condensed consolidated financial statements, such as the geography of certain financial statements notes.

(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

The following amendment was issued by the IASB since December 31, 2015, and was not already reported in the consolidated financial statements for the year ended December 31, 2015:

Amendments to IFRS 15 "Revenue from Contracts with Customers" • The amendments do not change the underlying principles of IFRS 15, but clarify how those principles should be applied and include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The amendments have the same effective date as IFRS 15, January 1, 2018. The impact of adopting this amendment has not yet been determined.

Management's Responsibility for Interim Financial Reporting

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

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

President and Chief Executive Officer

Chief Financial Officer

May 26, 2016

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**April 2, 2016**	December 31, 2015
Assets			
Current assets			
Cash and cash equivalents		**$ 731**	$ 775
Marketable securities		**899**	837
Trade and other receivables		**750**	790
Other assets	**4**	**120**	103
Total current assets		**2,500**	2,505
Non-current assets			
Property, plant and equipment	**5**	**2,687**	2,738
Intangible assets	**5**	**109**	107
Segregated securities		**554**	539
Pension benefit assets	**6**	**139**	157
Deferred tax assets		**1,898**	1,540
Goodwill		**130**	130
Other assets		**4**	4
Total non-current assets		**5,521**	5,215
Total assets		**$ 8,021**	$ 7,720
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 433**	$ 530
Salaries and benefits payable and related provisions		**505**	434
Provisions		**69**	65
Income tax payable		**3**	65
Deferred revenue		**121**	124
Loans and borrowings		**20**	76
Other long-term benefit liabilities	**6**	**62**	62
Total current liabilities		**1,213**	1,356
Non-current liabilities			
Loans and borrowings		**1,053**	1,059
Pension, other post-employment and other long-term benefit liabilities	**6**	**7,861**	6,398
Other liabilities		**29**	31
Total non-current liabilities		**8,943**	7,488
Total liabilities		**10,156**	8,844
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**54**	48
Accumulated deficit		**(3,366)**	(2,354)
Equity of Canada		**(2,157)**	(1,151)
Non-controlling interests		**22**	27
Total equity		**(2,135)**	(1,124)
Total liabilities and equity		**$ 8,021**	$ 7,720
Contingent liabilities	**9**		

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**April 2, 2016**	April 4, 2015
Revenue from operations		**$ 2,017**	$ 2,064
Cost of operations			
Labour		**979**	981
Employee benefits	**6**	**378**	399
		1,357	1,380
Other operating costs	**11**	**539**	576
Depreciation and amortization	**5**	**77**	79
Total cost of operations		**1,973**	2,035
Profit from operations		**44**	29
Investing and financing income (expense)			
Investment and other income	**12**	**3**	5
Finance costs and other expense	**12**	**(12)**	(12)
Investing and financing expense, net		**(9)**	(7)
Profit before tax		**35**	22
Tax expense	**7**	**11**	8
Net profit		**$ 24**	$ 14
Other comprehensive income (loss)			
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of available-for-sale financial assets	**8**	**$ 7**	$ 23
Foreign currency translation adjustment	**8**	**(1)**	1
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans	**8**	**(1,041)**	(282)
Other comprehensive loss		**(1,035)**	(258)
Comprehensive loss		**$ (1,011)**	$ (244)
Net profit (loss) attributable to			
Government of Canada		**$ 25**	$ 14
Non-controlling interests		**(1)**	–
		$ 24	$ 14
Comprehensive loss attributable to			
Government of Canada		**$ (1,006)**	$ (242)
Non-controlling interests		**(5)**	(2)
		$ (1,011)	$ (244)

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

Interim Condensed Consolidated Statement of Changes in Equity

For the 13 weeks ended April 2, 2016 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2015	**$ 1,155**	**$ 48**	**$ (2,354)**	**$ (1,151)**	**$ 27**	**$ (1,124)**
Net profit (loss)	**–**	**–**	**25**	**25**	**(1)**	**24**
Other comprehensive income (loss)	**–**	**6**	**(1,037)**	**(1,031)**	**(4)**	**(1,035)**
Comprehensive income (loss)	**–**	**6**	**(1,012)**	**(1,006)**	**(5)**	**(1,011)**
Balance at April 2, 2016	**$ 1,155**	**$ 54**	**$ (3,366)**	**$ (2,157)**	**$ 22**	**$ (2,135)**

For the 13 weeks ended April 4, 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	–	–	14	14	–	14
Other comprehensive income (loss)	–	24	(280)	(256)	(2)	(258)
Comprehensive income (loss)	–	24	(266)	(242)	(2)	(244)
Balance at April 4, 2015	$ 1,155	$ 78	$ (3,510)	$ (2,277)	$ 22	$ (2,255)

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

Interim Condensed Consolidated Statement of Cash Flows

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	Notes	April 2, 2016	April 4, 2015
Cash flows from operating activities			
Net profit		**$ 24**	$ 14
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**5**	**77**	79
Pension, other post-employment and other long-term benefit expense	**6**	**223**	239
Pension, other post-employment and other long-term benefit payments	**6**	**(132)**	(140)
Tax expense	**7**	**11**	8
Net interest expense	**12**	**9**	7
Change in non-cash operating working capital:			
Decrease (increase) in trade and other receivables		**40**	(7)
Decrease in trade and other payables		**(87)**	(97)
Increase in salaries and benefits payable and related provisions		**70**	45
Increase (decrease) in provisions		**4**	(2)
Net increase in other non-cash operating working capital		**(12)**	(24)
Other income not affecting cash, net		**(7)**	(7)
Cash provided by operations before interest and tax		**220**	115
Interest received		**6**	7
Interest paid		**(25)**	(25)
Tax paid		**(91)**	(64)
Cash provided by operating activities		**110**	33
Cash flows from investing activities			
Acquisition of securities		**(461)**	(408)
Proceeds from sale of securities		**397**	349
Acquisition of capital assets		**(27)**	(54)
Proceeds from sale of capital assets		**–**	4
Cash used in investing activities		**(91)**	(109)
Cash flows from financing activities			
Repayment of loans and borrowings		**(55)**	–
Payments on finance lease obligations		**(7)**	(5)
Cash used in financing activities		**(62)**	(5)
Net decrease in cash and cash equivalents		**(43)**	(81)
Cash and cash equivalents, beginning of period		**775**	677
Effect of exchange rate changes on cash and cash equivalents		**(1)**	1
Cash and cash equivalents, end of period		**$ 731**	$ 597

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

Notes to Interim Condensed Consolidated Financial Statements

For the 13 weeks ended April 2, 2016
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

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

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

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

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 current corporate policies as well as Treasury Board policies, directives and related instruments in order to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of Treasury Board, without undue delays and by no later than 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 May 26, 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.

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 these interim condensed consolidated financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 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 effective January 1, 2016

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2016, resulted in no changes in accounting policies for the Corporation's interim condensed consolidated financial statements:

Amendments to IFRS 11 "Joint Arrangements"– Accounting for Acquisitions of Interest in Joint Operations • The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The adoption of these amendments had no impact on the interim condensed consolidated financial statements.

Annual Improvements to IFRS – 2012-2014 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments were as follows: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies the accounting for changes in methods of disposal; IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 "Employee Benefits" clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 "Interim Financial Reporting" clarifies the meaning of disclosure of information elsewhere in the interim financial report. The adoption of these annual improvements had no impact on the interim condensed consolidated financial statements.

Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) • The IASB issued amendments to IAS 1 that provide additional guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The adoption of these amendments had a minimal impact on the interim condensed consolidated financial statements, such as the geography of certain financial statements notes.

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

The following amendment issued by the IASB since December 31, 2015, and not already disclosed in the consolidated financial statements Note 4 (b) for the year ended December 31, 2015, has been assessed as having a possible effect on the Group of Companies in the future:

Amendments to IFRS 15 "Revenue from Contracts with Customers" • The amendments do not change the underlying principles of IFRS 15, but clarify how those principles should be applied and include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The amendments have the same effective date as IFRS 15, January 1, 2018. The impact of adopting this amendment has not yet been determined.

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

4. Other Current Assets

As at	**April 2, 2016**	December 31, 2015
Income tax receivable	$ 14	$ 6
Prepaid expenses	103	94
Assets held for sale	3	3
Total other current assets	**$ 120**	$ 103

As at April 2, 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.

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	–	2	4	2	–	1	2	5	16
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	–	–	(2)	(1)	–	–	–	(3)
Transfers	–	–	–	2	–	–	–	(2)	–
April 2, 2016	**$ 315**	**$ 2,018**	**$ 277**	**$ 1,317**	**$ 523**	**$ 422**	**$ 906**	**$ 92**	**$ 5,870**
Accumulated depreciation									
December 31, 2015	$ –	$ 1,013	$ 210	$ 764	$ 305	$ 351	$ 478	$ –	$ 3,121
Depreciation	–	14	3	19	13	6	11	–	66
Reclassified as held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	–	–	(2)	(1)	–	–	–	(3)
April 2, 2016	**$ –**	**$ 1,026**	**$ 213**	**$ 781**	**$ 317**	**$ 357**	**$ 489**	**$ –**	**$ 3,183**
Carrying amounts									
December 31, 2015	$ 315	$ 1,005	$ 63	$ 551	$ 219	$ 70	$ 426	$ 89	$ 2,738
April 2, 2016	**$ 315**	**$ 992**	**$ 64**	**$ 536**	**$ 206**	**$ 65**	**$ 417**	**$ 92**	**$ 2,687**

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2015	$ 684	$ 21	$ 30	$ 735
Additions	2	11	–	13
April 2, 2016	**$ 686**	**$ 32**	**$ 30**	**$ 748**
Accumulated amortization				
December 31, 2015	$ 601	$ –	$ 27	$ 628
Amortization	11	–	–	11
April 2, 2016	**$ 612**	**$ –**	**$ 27**	**$ 639**
Carrying amounts				
December 31, 2015	$ 83	$ 21	$ 3	$ 107
April 2, 2016	**$ 74**	**$ 32**	**$ 3**	**$ 109**

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

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

(a) Net defined benefit liability

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

As at	**April 2, 2016**	December 31, 2015
Pension benefit assets	**$ 139**	$ 157
Pension benefit liabilities	$ 4,150	$ 2,820
Other post-employment and other long-term benefit liabilities	3,773	3,640
Total pension, other post-employment and other long-term benefit liabilities	$ 7,923	$ 6,460
Current other long-term benefit liabilities	**$ 62**	$ 62
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,861**	$ 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		**April 2, 2016**			April 4, 2015	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 123	$ 27	$ 150	$ 132	$ 29	$ 161
Interest cost	266	38	304	260	37	297
Interest income on plan assets	(238)	–	(238)	(225)	–	(225)
Other administration costs	4	–	4	3	–	3
Defined benefit expense	155	65	220	170	66	236
Defined contribution expense	3	–	3	3	–	3
Total expense	158	65	223	173	66	239
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Component included in employee benefits expense	**$ 158**	**$ 60**	**$ 218**	$ 173	$ 61	$ 234
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ 425	$ –	$ 425	$ (1,102)	$ –	$ (1,102)
Actuarial losses	861	104	965	1,322	157	1,479
Component included in other comprehensive loss	**$ 1,286**	**$ 104**	**$ 1,390**	$ 220	$ 157	$ 377

(c) Total cash payments

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

For the 13 weeks ended	**April 2, 2016**	April 4, 2015
Benefits paid directly to beneficiaries for other benefit plans	$ 36	$ 40
Employer regular contributions to pension benefit plans	79	81
Employer special contributions to pension benefit plans	14	16
Cash payments for defined benefit plans	129	137
Contributions to defined contribution plans	3	3
Total cash payments	**$ 132**	$ 140

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

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 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.

7. Income Taxes

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

For the 13 weeks ended	**April 2, 2016**	April 4, 2015
Current tax expense	$ 22	$ 17
Deferred tax income relating to origination and reversal of temporary differences	(11)	(9)
Tax expense	**$ 11**	$ 8

8. Other Comprehensive Income (Loss)

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

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended April 4, 2015	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, 2014	$ 53	$ 1	$ 54		
Amount arising	$ 29	$ 1	$ 30	$ (377)	$ (347)
Income taxes	(6)	–	(6)	95	89
Net	$ 23	$ 1	$ 24	$ (282)	$ (258)
Accumulated balance as at April 4, 2015	$ 76	$ 2	$ 78		

9. Contingent Liabilities

(a) 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 is scheduled to be heard by the Federal Court June 7, 2016.

On August 28, 2015, notice was also given to the Tribunal that Canada Post will 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. Canada Post provided written materials in support of its motion April 15, 2016. As the CPAA has objected to the motion, the Tribunal will consider written arguments from all parties. By June 22, 2016, the Tribunal will decide if it wants to hear oral arguments and set July 20, 2016, as the potential hearing date.

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

(b) The 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 on April 28, 2016, and found that the back-to-work legislation was invalid. No other remedy was granted, financial or otherwise.

(c) 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 recently announced 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.

(d) 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.

(e) 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.

(f) 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.

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

10. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

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

As at April 2, 2016	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 562	$ 169	$ –	**$ 731**
Marketable securities	$ –	$ 899	$ –	**$ 899**
Segregated securities	$ –	$ 554	$ –	**$ 554**
Trade and other receivables: risk management financial assets	$ –	$ 11	$ –	**$ 11**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,344	$ –	**$ 1,344**

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 period ended April 2, 2016.

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

Financial risk factors

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

(a) Market risk

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

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

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

As at April 2, 2016

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$71	$ 99	$1.40/US$	April 14 – December 15, 2016	Sell forward	$ 7
Euro	€44	68	$1.53/€	April 15 – December 16, 2016	Sell forward	2
British pound	£11	22	$2.04/£	April 15 – December 16, 2016	Sell forward	2
Yen	¥1,190	14	$0.012/¥	April 15 – December 16, 2016	Sell forward	–
Total		**$ 203**				**$ 11**

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) recognized were as follows:

For the 13 weeks ended		**April 2, 2016**			April 4, 2015	
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (11)	$ 12	$ 1	$ 1	$ (1)	$ –
Realized	4	(2)	2	4	(3)	1
Total	**$ (7)**	**$ 10**	**$ 3**	$ 5	$ (4)	$ 1

(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.

11. Other Operating Costs

For the 13 weeks ended	**April 2, 2016**	April 4, 2015
Non-labour collection, processing and delivery	$ 322	$ 340
Property, facilities and maintenance	92	99
Selling, administrative and other	125	137
Other operating costs	**$ 539**	$ 576

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

12. Investing and Financing Income (Expense)

For the 13 weeks ended	April 2, 2016	April 4, 2015
Interest revenue	$ 3	$ 5
Investment and other income	**$ 3**	$ 5
Interest expense	$ (12)	$ (12)
Finance costs and other expense	**$ (12)**	$ (12)
Investing and financing expense, net	**$ (9)**	$ (7)

13. Related Party Transactions

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

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

For the 13 weeks ended	April 2, 2016	April 4, 2015
Related party revenue	**$ 72**	$ 72
Compensation payments for programs		
Government mail and mailing of materials for the blind	**$ 6**	$ 6
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2
Related party expenditures	**$ 9**	$ 7

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

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

As at	April 2, 2016	December 31, 2015
Due to/from related parties		
Included in trade and other receivables	**$ 35**	$ 29
Included in trade and other payables	**$ 7**	$ 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 13 weeks ended April 2, 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 amount of $2 million (April 4, 2015 – $24 million). As at April 2, 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 weeks ended April 2, 2016, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million (April 4, 2015 – $3 million). As at April 2, 2016, $12 million (December 31, 2015 – $9 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables.

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

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

14. Segmented Information

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

For the 13 weeks ended April 2, 2016, the IT business unit earned intercompany revenue of $67 million (April 4, 2015 – $66 million), incurred cost of operations of $67 million (April 4, 2015 – $66 million), and earned net profit of nil (April 4, 2015 – nil). Total assets and liabilities at April 2, 2016, were $145 million and $95 million, respectively (December 31, 2015 – $125 million and $74 million, respectively).

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

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

As at and for the 13 weeks ended April 4, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,630	$ 383	$ 51	$ –	$ 2,064
Intersegment revenue	7	19	9	(35)	–
Revenue from operations	$ 1,637	$ 402	$ 60	$ (35)	$ 2,064
Labour and employee benefits	$ 1,127	$ 198	$ 28	$ 27	$ 1,380
Other operating costs	415	196	26	(61)	576
Depreciation and amortization	64	14	2	(1)	79
Cost of operations	$ 1,606	$ 408	$ 56	$ (35)	$ 2,035
Profit (loss) from operations	$ 31	$ (6)	$ 4	$ –	$ 29
Investment and other income	$ 5	$ –	$ –	$ –	$ 5
Finance costs and other expense	(12)	–	–	–	(12)
Profit (loss) before tax	$ 24	$ (6)	$ 4	$ –	$ 22
Tax expense (income)	8	(1)	1	–	8
Net profit (loss)	$ 16	$ (5)	$ 3	$ –	$ 14
Total assets	$ 7,106	$ 815	$ 106	$ (338)	$ 7,689
Acquisition of capital assets	$ 47	$ 5	$ 2	$ –	$ 54
Total liabilities	$ 9,538	$ 394	$ 59	$ (47)	$ 9,944

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