CANADA POST CORPORATION

2017 **Second Quarter** Financial Report

For the period ended July 1, 2017

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the second quarter ended July 1, 2017, and for the first two quarters of 2017 for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 and 26 weeks ended July 1, 2017. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 1, 2017, which were prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2016. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to August 24, 2017, unless otherwise noted.

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

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Materiality

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

Forward-looking statements

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

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

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

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of August 24, 2017, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

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

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

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

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $3.2 billion for the first two quarters of 2017 (77.8% of total revenue) and $6.2 billion for the full year ended December 31, 2016 (78.1% of total revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

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

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

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

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

Financial highlights

For the second quarter ended July 1, 2017, the Canada Post Group of Companies reported a profit before tax of $71 million, compared to a profit before tax of $9 million in the same period in 2016. For the first two quarters of 2017, the Group of Companies recorded a profit before tax of $136 million, compared to a profit before tax of $44 million in the first two quarters of 2016.

The Canada Post segment reported a profit before tax of $31 million for the second quarter of 2017, compared to a profit before tax of $1 million for the second quarter of 2016. For the first two quarters of 2017, Canada Post reported a profit before tax of $75 million, compared to a profit before tax of $45 million for the same period in 2016.

Canada Post generated revenue of $1,560 million in the second quarter of 2017, an increase of $1 million or 0.1% compared to the same period in 2016. For the first two quarters of 2017, Canada Post generated revenue of $3,180 million, a decrease of $5 million or 0.2% compared to the same period in 2016. The strong growth in Parcels was offset by a decline in Transaction Mail and Direct Marketing.

Transaction Mail revenue decreased by $63 million, or 8.0%, in the second quarter of 2017 and by $95 million, or 5.8%, in the first two quarters of 2017 when compared to the same periods in 2016. Volumes continued to decline – by 95 million pieces or 10.9% in the second quarter of 2017 and by 151 million pieces or 8.3% for the first two quarters compared to the same periods in 2016. Volumes in 2017 continued to be adversely affected by mail erosion driven by electronic substitution. However, erosion in the second quarter of 2017 was higher than the same quarter in 2016 due to the one-time impact of the mail generated by the 2016 Census (almost 27 million pieces). Excluding these mailings, Transaction Mail volumes would have decreased by approximately 8.1% in the second quarter of 2017 and 6.9% in the first two quarters of 2017, compared to the same periods in 2016, which is consistent with the erosion experienced in prior periods.

Parcels revenue increased by $83 million, or 20.5%, in the second quarter of 2017 and by $128 million, or 15.5%, in the first two quarters of 2017, when compared to the same periods in 2016. Volumes increased by 10 million pieces or 23.0% in the second quarter of 2017 and by 16 million pieces, or 17.6%, in the first two quarters of 2017 compared to the same periods in 2016. Strong results for Parcels were driven by continuous growth in the business to consumer e-commerce delivery market and our success in delivering competitive offerings.

Direct Marketing revenue declined by $11 million, or 3.8%, in the second quarter of 2017 and by $21 million, or 3.6%, in the first two quarters of 2017, when compared to the same periods in 2016, as commercial customers in key advertising segments, including finance and telecommunications, redirect some of their marketing expenditures to other media channels.

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

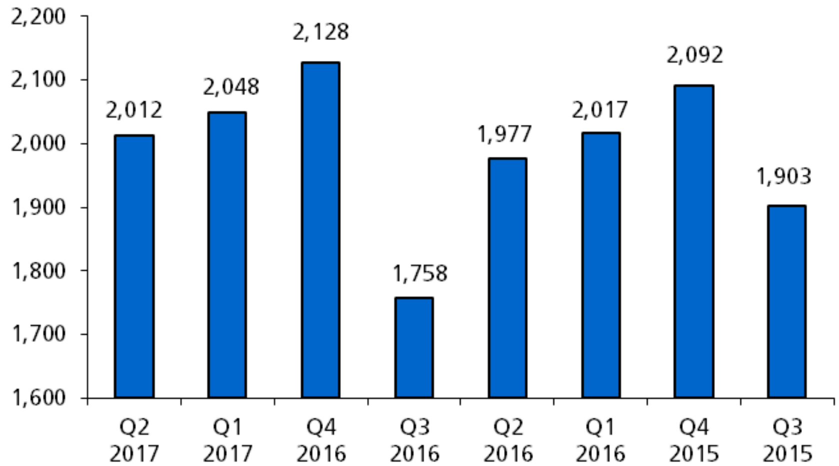
Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the second quarter of 2017, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $601 million, net of tax, recorded in other comprehensive loss, and worsening the Group of Companies' equity balance to negative $1,108 million as at July 1, 2017. These remeasurement losses in the second quarter of 2017 were mostly the result of a decrease in discount rates in 2017, offset by better than expected pension asset returns.

The prior year's discount rates and other actuarial assumptions, as well as pension asset balances, are used to calculate the current year's employee benefit expense, and thereby affect the Corporation's operating results. These factors led to a decrease in the employee benefit expense of $11 million or 3.9% in the second quarter of 2017 and $23 million or 3.0%[1] in the first two quarters of 2017, compared to the same periods in 2016. They also contributed to the increase in profitability in the Canada Post segment in the second quarter and the first two quarters of 2017, compared to the same periods in 2016. These results demonstrate how changing discount rates, investment returns and other actuarial assumptions can cause significant volatility in the Corporation's financial statements.

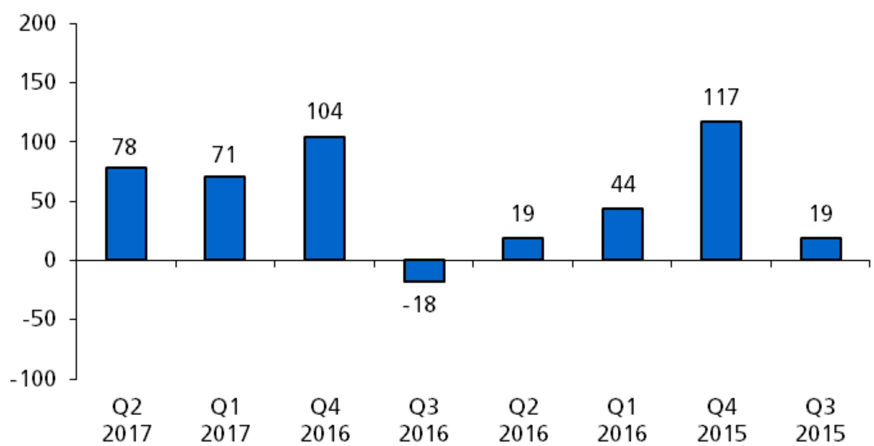
1. Adjusted for paid days, where applicable.

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

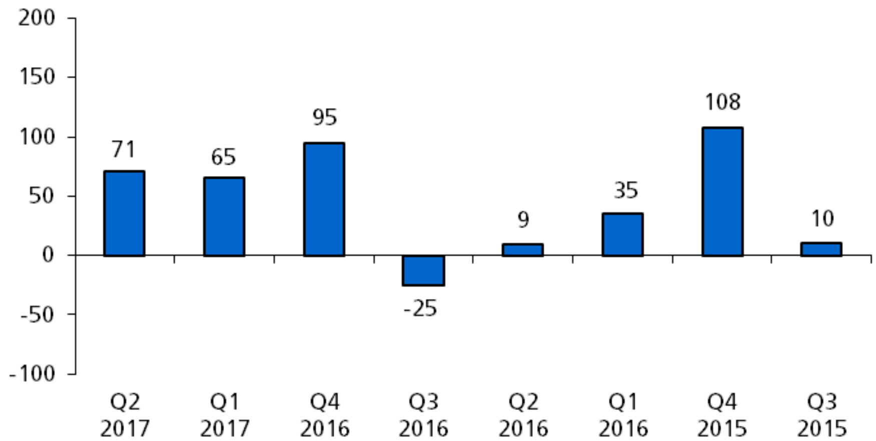
Quarterly consolidated revenue from operations
(in millions of dollars)



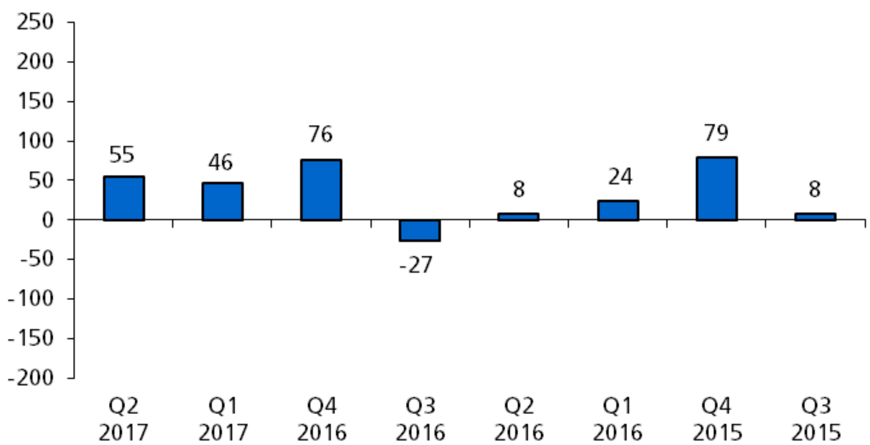
Quarterly consolidated profit (loss) from operations
(in millions of dollars)



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



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



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

(in millions of dollars)	13 weeks ended				26 weeks ended				
	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 8 – Discussion of Operations page 16.
Revenue from operations	2,012	1,977	35	1.8	4,060	3,994	66	1.7	For the second quarter and the first two quarters, increases mainly due to Parcels growth, offset by ongoing Lettermail erosion in the Canada Post segment, and higher revenue in the Purolator segment due to business growth.
Cost of operations	1,934	1,958	(24)	(1.2)	3,911	3,931	(20)	0.3[1]	For the second quarter, decrease mainly due to lower labour costs and a decrease in employee benefit expense in the Canada Post segment. The first two-quarter results were also affected by one less paid day in the first two quarters of 2017, compared to the same period in 2016.
Profit from operations	78	19	59	319.9	149	63	86	138.3	
Investing and financing income (expense), net	(7)	(10)	3	24.4	(13)	(19)	6	26.0	No material change.
Profit before tax	71	9	62	663.3	136	44	92	207.8	
Net profit	55	8	47	558.7	101	32	69	214.2	
Comprehensive loss	(534)	(755)	221	29.3	(804)	(1,766)	962	54.5	Mainly due to higher than targeted pension asset returns, offset by a decrease in discount rates.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 10.
Cash provided by operating activities	66	78	(12)	(16.2)	231	188	43	23.0	For the second quarter, mainly due to changes in non-cash operating working capital, partially offset by higher profits. For the first two quarters, mainly due to higher profits and lower taxes paid, partially offset by changes in non-cash working capital.
Cash (used in) provided by investing activities	(60)	(133)	73	54.9	58	(224)	282	–	For the second quarter, mainly due to lower net acquisition of securities. For the first two quarters, mainly due to higher net proceeds from the sale of investments, partially offset by higher acquisitions of securities.
Cash used in financing activities	(5)	(6)	1	25.8	(11)	(68)	57	84.4	Mainly due to the repayment of non-redeemable bonds that matured in March 2016.

1. Adjusted for paid days, where applicable.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

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

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

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

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

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

3 Key Performance Drivers

A discussion of our key achievements in 2017

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

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

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

4 Capabilities

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

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

4.1 Labour relations

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

Canada Post segment

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

The current agreement with CUPW-UPO, which was ratified in December 2016, expires January 31, 2018. Negotiations are set to commence in the fall of 2017.

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

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

The current agreement with CUPW-RSMC, which was ratified in December 2016, expires December 31, 2017. Negotiations are set to commence in the fall of 2017.

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

The Minister of Labour appointed an arbitrator February 2, 2017. Between April and June 2017, the parties held focus groups with employees as part of the validation study that was led by the pay equity consultants.

The parties are now working to develop a job evaluation tool and the process that will be used to compare the compensation between employees in the UPO bargaining group and RSMCs.

If there is a wage gap, any adjustment would be retroactive to January 1, 2016.

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

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

A notice to bargain was filed by PSAC/UPCE August 10, 2016, and a total of 14 meetings have been held to date, including 12 in 2017. Canada Post tabled a global offer to the union August 9, 2017. Canada Post remains fully committed to negotiating a new four-year collective agreement that is fair for employees, while meeting its business challenges and the needs of its customers.

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

Association of Postal Officials of Canada (APOC)

The current agreement with APOC expires March 31, 2018. Negotiations are set to commence in late 2017.

Purolator segment

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2021. All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have collective agreements that will expire December 31, 2017. Bargaining for the new agreements is expected to begin later in the third quarter of 2017.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

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

5 Risks and Risk Management

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

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

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

CPAA pay equity complaint

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

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

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

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

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

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

Health and Safety obligation under the Canada Labour Code – Burlington Points of Call

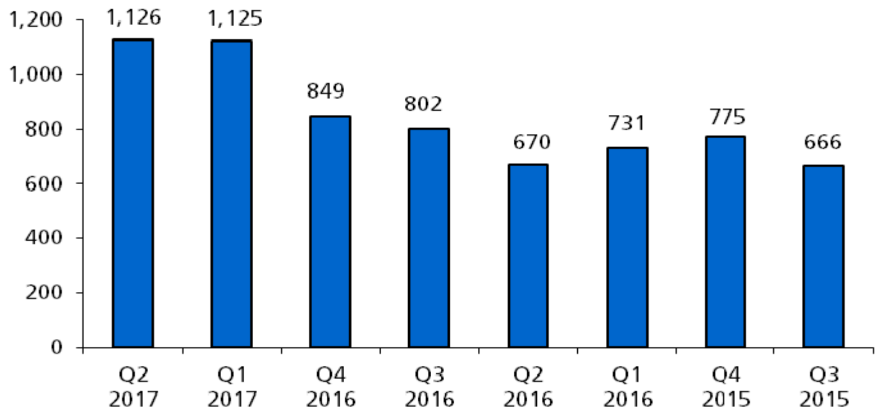
After the end of the second quarter, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington,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

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $1,126 million as at July 1, 2017 – an increase of $277 million compared to December 31, 2016. The increase was mainly due to profits in the first two quarters of 2017, as well as net proceeds from the sale of securities, partially offset by changes in non-cash operating working capital, taxes paid and acquisitions of capital assets.

6.2 Operating activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Cash provided by operating activities	66	78	(12)	231	188	43

The $12 million decrease in cash provided by operations in the second quarter of 2017 compared to the same period in 2016 was mainly due to changes in non-cash operating working capital, partially offset by higher profits. For the first two quarters of 2017, cash provided by operations increased by $43 million compared to the same period in 2016, primarily driven by higher profits and lower taxes paid, partially offset by changes in non-cash operating working capital.

6.3 Investing activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	July 1, 2017	July 2, 2016	Change
Cash (used in) provided by investing activities	(60)	(133)	73	58	(224)	282

Cash used in investing activities decreased by $73 million in the second quarter of 2017 compared to the same period in 2016. The change was mainly due to lower net acquisitions of securities in the second quarter of 2017, compared to the same period in 2016. For the first two quarters of 2017, cash provided by investing activities was $58 million, compared to cash used in investing activities of $224 million in the same period in 2016. This improvement of $282 million was mainly due to higher proceeds from the sale of investments, partially offset by higher acquisitions of securities.

Capital expenditures

(in millions of dollars)	13 weeks ended July 1, 2017	13 weeks ended July 2, 2016	13 weeks ended Change	26 weeks ended July 1, 2017	26 weeks ended July 2, 2016	26 weeks ended Change
Canada Post	46	44	2	62	63	(1)
Purolator	5	8	(3)	8	16	(8)
Logistics	2	–	2	3	2	1
Intersegment and consolidation	(2)	(1)	(1)	(3)	(3)	–
Canada Post Group of Companies	**51**	**51**	**–**	**70**	**78**	**(8)**

Capital expenditures for the Group of Companies remained flat in the second quarter of 2017 and decreased by $8 million in the first two quarters of 2017, when compared to the same periods in 2016. The decrease in 2017 was mainly due to reduced spending in the Purolator segment.

6.4 Financing activities

(in millions of dollars)	13 weeks ended July 1, 2017	13 weeks ended July 2, 2016	13 weeks ended Change	26 weeks ended July 1, 2017	26 weeks ended July 2, 2016	26 weeks ended Change
Cash used in financing activities	(5)	(6)	1	(11)	(68)	57

There were no significant changes in financing activities in the second quarter of 2017 compared to the same period in 2016. Cash used in financing activities decreased by $57 million in the first two quarters of 2017, compared to the same period in 2016. The change was mainly due to the repayment of non-redeemable bonds that matured in March 2016.

6.5 Canada Post Corporation Registered Pension Plan

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

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

On June 19, 2017, Canada Post filed the actuarial valuation of the RPP as at December 31, 2016, with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). The actuarial valuation as of December 31, 2016, disclosed a going-concern surplus of $1.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.8 billion (using the three-year average solvency ratio basis), or $6.5 billion (using market value of plan assets). At the end of the second quarter of 2017, there was no material change to the solvency deficit (using market value of plan assets).

Current service contributions for Canada Post amounted to $60 million and $127 million, respectively for the second quarter and first two quarters of 2017, compared to $53 million and $120 million, respectively for the same periods in 2016. The estimated amount of current service contributions for 2017 is approximately $264 million, a decrease of $7 million from those disclosed for the year ended December, 31, 2016, and the quarter ended April 1, 2017, due to an increase in employee contributions effective in July 2017.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the second quarter of 2017, remeasurement losses, net of tax, amounted to $429 million for the RPP. For the first two quarters of 2017, remeasurement losses, net of tax, amounted to $650 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

6.6 Liquidity and capital resources

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

Liquidity

During the second quarter of 2017, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $1,782 million of unrestricted liquid investments on hand as at July 1, 2017, and $100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

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

The Corporation's subsidiaries had a total of $245 million of unrestricted cash on hand and undrawn credit facilities of $73 million as at July 1, 2017, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

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

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at July 1, 2017, amounted to $997 million and $52 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2016 Annual MD&A.

Dividends

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

6.7 Risks associated with financial instruments

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. For more information on foreign exchange risk, refer to Note 11 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 1, 2017. There were no material changes to market risk during the second quarter of 2017.

Credit risk

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

Liquidity risk

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

6.8 Contractual obligations and commitments

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

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in the support of the Government of Canada's public policies. These transactions are not materially different from what is reported in Section 6.9 – Related party transactions of the 2016 Annual MD&A. For more information on related party transactions, refer to Note 14 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 1, 2017 and Note 24 – Related Party Transactions of the 2016 consolidated financial statements.

6.10 Contingent liabilities

Contingent liabilities are described in Note 10 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended July 1, 2017 and Note 16 – Contingent Liabilities of the 2016 consolidated financial statements.

7 Changes in Financial Position

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

(in millions of dollars)

ASSETS	July 1, 2017	Dec. 31, 2016	Change	%	Explanation of change
Cash and cash equivalents	1,126	849	277	32.6	Refer to Section 6 – Liquidity and Capital Resources page 10.
Marketable securities	901	1,038	(137)	(13.2)	Mainly due to timing of the maturation of short-term-investments.
Trade and other receivables	831	829	2	0.2	No material change.
Other assets	119	110	9	8.8	Mainly due to an increase in prepaid expenses in the Purolator and the Canada Post segments.
Total current assets	**2,977**	**2,826**	**151**	**5.3**	
Property, plant and equipment	2,592	2,672	(80)	(3.0)	Mainly due to depreciation in excess of acquisitions in the Canada Post segment.
Intangible assets	116	117	(1)	(0.9)	No material change.
Segregated securities	553	523	30	5.7	Mainly due to unrealized gains and interest income.
Pension benefit assets	110	135	(25)	(18.1)	Due to remeasurement losses on post-employment benefit plans, mainly resulting from a decrease in discount rates.
Deferred tax assets	1,733	1,384	349	25.2	Mainly due to the increase of temporary differences from remeasurement losses recognized in other comprehensive income for Canada Post segment's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	7	5	2	53.5	No material change.
Total non-current assets	**5,241**	**4,966**	**275**	**5.5**	
Total assets	**8,218**	**7,792**	**426**	**5.5**	

(in millions of dollars)

LIABILITIES AND EQUITY	July 1, 2017	Dec. 31, 2016	Change	%	Explanation of change
Trade and other payables	456	548	(92)	(16.8)	Mainly due to lower trade and sales tax payables, and a reduction in accrued liabilities in the Canada Post segment, primarily because of timing.
Salaries and benefits payable and related provisions	445	487	(42)	(8.6)	Mainly due to decreased statutory deductions payable (due to timing) and a reduction in accrued benefits and overtime, partially offset by an increase in accrued salaries in the Canada Post segment.
Provisions	78	70	8	10.7	Mainly due to an increase in the grievance provisions in the Canada Post segment.
Income tax payable	6	3	3	150.7	Mainly due to an expected tax liability in the Purolator segment.
Deferred revenue	109	115	(6)	(5.7)	No material change.
Loans and borrowings	18	22	(4)	(18.0)	No material change.
Other long-term benefit liabilities	62	62	–	–	No change.
Total current liabilities	**1,174**	**1,307**	**(133)**	**(10.2)**	
Loans and borrowings	1,031	1,037	(6)	(0.6)	No material change.
Pension, other post-employment and other long-term benefit liabilities	7,095	5,726	1,369	23.9	Mainly due to remeasurement losses on post-employment benefit plans in the Canada Post segment, mostly attributable to a decrease in discount rates, partially offset by positive asset returns.
Other liabilities	26	26	0	(2.2)	No material change.
Total non-current liabilities	**8,152**	**6,789**	**1,363**	**20.1**	
Total liabilities	**9,326**	**8,096**	**1,230**	**15.2**	
Equity					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	59	44	15	32.7	Mainly due to net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(2,348)	(1,530)	(818)	(53.4)	Mainly due to remeasurement losses on post-employment benefit plans as a result of a decrease in discount rates.
Equity of Canada	**(1,134)**	**(331)**	**(803)**	**(243.0)**	
Non-controlling interests	26	27	(1)	(3.0)	
Total equity	**(1,108)**	**(304)**	**(804)**	**(264.8)**	
Total liabilities and equity	**8,218**	**7,792**	**426**	**5.5**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

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

(in millions of dollars)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Revenue from operations	2,012	2,048	2,128	1,758	1,977	2,017	2,092	1,903
Cost of operations	1,934	1,977	2,024	1,776	1,958	1,973	1,975	1,884
Profit (loss) from operations	**78**	**71**	**104**	**(18)**	**19**	**44**	**117**	**19**
Investing and financing income (expense), net	(7)	(6)	(9)	(7)	(10)	(9)	(9)	(9)
Profit (loss) before tax	**71**	**65**	**95**	**(25)**	**9**	**35**	**108**	**10**
Tax expense	16	19	19	2	1	11	29	2
Net profit (loss)	**55**	**46**	**76**	**(27)**	**8**	**24**	**79**	**8**

8.2 Consolidated results from operations

Consolidated results for the second quarter and first two quarters of 2017

	13 weeks ended				**26 weeks ended**			
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%
Revenue from operations	2,012	1,977	35	1.8	4,060	3,994	66	1.7
Cost of operations	1,934	1,958	(24)	(1.2)	3,911	3,931	(20)	0.3[1]
Profit from operations	**78**	**19**	**59**	**319.9**	**149**	**63**	**86**	**138.3**
Investing and financing income (expense), net	(7)	(10)	3	24.4	(13)	(19)	6	26.0
Profit before tax	**71**	**9**	**62**	**663.3**	**136**	**44**	**92**	**207.8**
Tax expense	16	1	15	–	35	12	23	190.2
Net profit	**55**	**8**	**47**	**558.7**	**101**	**32**	**69**	**214.2**
Other comprehensive loss	(589)	(763)	174	22.8	(905)	(1,798)	893	49.7
Comprehensive loss	**(534)**	**(755)**	**221**	**29.3**	**(804)**	**(1,766)**	**962**	**54.5**

1. Adjusted for paid days, where applicable.

The Canada Post Group of Companies reported a profit before tax of $71 million for the second quarter of 2017, compared to a profit before tax of $9 million in the second quarter of 2016. For the first two quarters of 2017, the profit before tax was $136 million, an increase of $92 million compared to the same period in 2016. For the first two quarters of 2017, there was the same number of trading days but one less paid day compared to the same period in 2016. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated revenue from operations

For the second quarter of 2017, revenue from operations increased by $35 million when compared to the same quarter in 2016, primarily due to Parcels growth in the Canada Post segment, which was offset by Lettermail™ erosion, and higher revenue in the Purolator segment from business growth. For the first two quarters of 2017, revenue from operations increased by $66 million, when compared to the same period in 2016 mainly due to Parcels growth in the Canada Post segment, which was offset by ongoing Lettermail erosion, and an increase in Purolator segment revenue. 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 $24 million in the second quarter of 2017 when compared to the same quarter last year, and by $20 million in the first two quarters of 2017 when compared to the same periods in 2016. The decreases were mainly due to lower labour costs and a decrease in employee benefit expense in the Canada Post segment. The results for the first two quarters were also affected by one less paid day in the first two quarters of 2017 compared to the same period in 2016. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

The consolidated tax expense for the second quarter and first two quarters of 2017 increased by $15 million and $23 million, respectively, compared to the same periods in the prior year, primarily driven by an increase in the Group of Companies' profit before tax.

Consolidated other comprehensive loss

The consolidated other comprehensive loss for the second quarter and the first two quarters of 2017 amounted to $589 million and $905 million, respectively. The losses were mainly due to remeasurement losses on pension and other post-employment plans resulting from a decrease in discount rates, offset by higher than targeted pension asset returns. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have a significant impact on the Group of Companies' other comprehensive loss.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

	13 weeks ended				26 weeks ended			
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%
Canada Post	31	1	30	–	75	45	30	68.2
Purolator	36	15	21	134.4	53	3	50	–
Logistics	5	5	–	6.8	9	9	–	4.0
Other	(1)	(12)	11	85.6	(1)	(13)	12	88.3
Canada Post Group of Companies	**71**	**9**	**62**	**663.3**	**136**	**44**	**92**	**207.8**

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 $31 million in the second quarter of 2017, compared to a profit before tax of $1 million in the second quarter of 2016. For the first two quarters of 2017, Canada Post recorded a profit before tax of $75 million compared to a profit before tax of $45 million in same period in 2016.

Canada Post results for the second quarter and first two quarters of 2017

	13 weeks ended				26 weeks ended			
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%
Revenue from operations	1,560	1,559	1	0.1	3,180	3,185	(5)	(0.2)
Cost of operations	1,523	1,560	(37)	(2.5)	3,093	3,134	(41)	(0.6)[1]
Profit (loss) from operations	**37**	**(1)**	**38**	**–**	**87**	**51**	**36**	**73.8**
Investing and financing income (expense), net	(6)	2	(8)	–	(12)	(6)	(6)	(117.2)
Profit before tax	**31**	**1**	**30**	**–**	**75**	**45**	**30**	**68.2**
Tax expense (income)	5	(5)	10	–	17	8	9	134.3
Net profit	**26**	**6**	**20**	**312.0**	**58**	**37**	**21**	**55.5**

1. Adjusted for paid days, where applicable.

Revenue from operations

Canada Post earned revenue from operations of $1,560 million in the second quarter of 2017 – an increase of $1 million or 0.1% when compared to the same quarter in 2016. The increase was primarily due to solid growth in Parcels, partially offset by a decline in Transaction Mail and Direct Marketing revenues. For the first two quarters of 2017, Canada Post generated revenue of $3,180 million, a decrease of $5 million or 0.2% compared to the same period in 2016. The decrease in revenue was primarily due to continued Lettermail erosion and a drop in Direct Marketing revenue.

Quarterly revenue by line of business

	13 weeks ended				26 weeks ended			
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%
Transaction Mail	721	784	(63)	(8.0)	1,538	1,633	(95)	(5.8)
Parcels	487	404	83	20.5	953	825	128	15.5
Direct Marketing	284	295	(11)	(3.8)	560	581	(21)	(3.6)
Other revenue	68	76	(8)	(9.8)	129	146	(17)	(11.5)
Total	**1,560**	**1,559**	**1**	**0.1**	**3,180**	**3,185**	**(5)**	**(0.2)**

Transaction Mail

Transaction Mail revenue of $721 million for the second quarter of 2017 was made up of the following three product categories: Domestic Lettermail ($656 million), Outbound Letter-post ($25 million), and Inbound Letter-post ($40 million).

In the second quarter of 2017, Transaction Mail revenue decreased by $63 million or 8.0%, while volumes decreased by 95 million pieces or 10.9% compared to the same period in 2016. For Domestic Lettermail, the largest product category, revenue decreased by $61 million or 8.6% and volumes decreased by 91 million pieces and 11.0%.

In the first two quarters of 2017, Transaction Mail revenue decreased by $95 million or 5.8%, while volumes decreased by 151 million pieces or 8.3% compared to the same period in 2016. For Domestic Lettermail, revenue decreased by $90 million or 6.1%, and volumes decreased by 142 million pieces or 8.3%.

The overall decline was higher than prior periods due to the additional mail generated by the Census in the second quarter of 2016 (almost 27 million pieces or $25 million in revenue). Excluding the one-time impact of these mailings, Transaction Mail volumes and revenue would have decreased at a slightly slower pace in the second quarter of 2017, by 8.1% and 5.0%, respectively. In the first two quarters of 2017, volumes and revenue would have declined by approximately 6.9% and 4.4%, respectively.

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

Parcels

Parcels revenue of $487 million for the second quarter of 2017 were made up of the following four product categories: Domestic Parcels ($355 million), Outbound Parcels ($54 million), Inbound Parcels ($71 million) and Other ($7 million).

Parcels revenue increased by $83 million or 20.5% in the second quarter of 2017, while volumes increased by 10 million pieces or 23.0% when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued its growth as revenue increased by $62 million or 21.2%, and volumes grew by 7 million pieces or 19.6%.

In the first two quarters of 2017, Parcels revenue increased by $128 million or 15.5%, and volumes increased by 16 million pieces or 17.6% when compared to the same period in 2016. For Domestic Parcels, revenue increased by $98 million or 16.6% and volumes increased by 11 million pieces or 15.0% in the first two quarters of 2017, compared to the same period last year. The increase in revenue and volumes was a result of increased business from our major commercial customers and our solid delivery performance. It reflects the continued growth in the business-to-consumer e-commerce delivery market as customers continue to order more products online.

Direct Marketing

Direct Marketing revenue of $284 million for the second quarter of 2017 was made up of the following four categories: Canada Post Personalized Mail™ ($120 million), Canada Post Neighbourhood Mail™ ($112 million), Publications Mail™ ($44 million), Business Reply Mail™ and Other mail ($8 million).

In the second quarter of 2017, Direct Marketing revenue decreased by $11 million or 3.8%, while volumes increased by 23 million pieces or 1.8% when compared to the same period in 2016. Neighbourhood Mail, the largest volume product category, saw revenue increase by $5 million or 5.2%, while volumes grew by 54 million pieces or 5.7% compared to the same period in 2016, mainly due to new and incremental sales to commercial customers. Personalized Mail revenue decreased by $11 million or 9.1%, while volumes declined by 20 million pieces or 8.4%. This volume decline was caused by commercial customers in key advertising segments, including finance and telecommunications, redirecting some of their marketing expenditures to other media channels. Publications Mail revenue decreased by $4 million or 9.0%, and volumes were lower by 9 million pieces or 11.4%, due to a decline in mail publication subscriptions.

In the first two quarters of 2017, Direct Marketing revenue decreased by $21 million or 3.6%, while volumes increased by 20 million pieces or 0.8%, compared to the same period in 2016. Neighbourhood Mail revenue increased by $6 million or 3.0%, while volumes increased by 66 million pieces or 3.7 %. Revenue and volumes were positively affected by new and incremental sales to commercial customers. Personalized Mail revenue decreased by $16 million or 6.1% and volumes decreased by 25 million pieces or 5.1%. The declines were caused by commercial customers in key advertising segments, including finance and telecommunications, redirecting some of their marketing expenditures to other media channels. Publications Mail revenue declined by $10 million or 10.9%, and volumes decreased by 19 million pieces or 12.6% in the first two quarters of 2017 compared to the same period in 2016, due to a decline in mail publication subscriptions.

Other revenue

Other revenue totalled $68 million in the second quarter of 2017 – a decrease of $8 million or 9.8%, when compared to the same period in the prior year. The decrease was due to a drop in sales of consumer products and fluctuations in foreign currency. At the end of two quarters in 2017, revenue was $129 million – a decrease of $17 million or 11.5% compared to the same period in 2016. The decrease was due to a reduction in sales of consumer and digital products, and fluctuations in foreign currency.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,523 million in the second quarter of 2017 – a decrease of $37 million or 2.5% when compared to the same quarter last year. After the first two quarters of 2017, the cost of operations was $3,093 million – a decrease of $41 million or 0.6%[1] compared to the same period in 2016. The decreases were mainly due to lower labour costs and a decrease in the employee benefit expense when compared to the same periods in 2016, as well as one less paid day for the first two quarters of 2017 compared to 2016.

	13 weeks ended				26 weeks ended			
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%[1]
Labour	777	802	(25)	(3.1)	1,565	1,585	(20)	(0.5)
Employee benefits	314	325	(11)	(3.9)	628	651	(23)	(3.0)
Total labour and employee benefits	**1,091**	**1,127**	**(36)**	**(3.3)**	**2,193**	**2,236**	**(43)**	**(1.2)**
Non-labour collection, processing and delivery	195	186	9	5.7	428	409	19	5.6
Property, facilities and maintenance	61	61	–	(0.1)	128	127	1	1.5
Selling, administrative and other	114	121	(7)	(6.7)	221	235	(14)	(5.2)
Total other operating costs	**370**	**368**	**2**	**0.7**	**777**	**771**	**6**	**1.6**
Depreciation and amortization	62	65	(3)	(5.1)	123	127	(4)	(2.9)
Total	**1,523**	**1,560**	**(37)**	**(2.5)**	**3,093**	**3,134**	**(41)**	**(0.6)**

Labour

Labour costs decreased by $25 million or 3.1% in the second quarter of 2017 and by $20 million or 0.5%[1] in the first two quarters of 2017, when compared to the same periods in the previous year. The decreases were primarily due to the impact on costs of the unpredictable outcome of labour negotiations in 2016, partially offset by wage increases in 2017.

Employee benefits

Employee benefits decreased by $11 million or 3.9% for the second quarter of 2017 and by $23 million or 3.0%[1] in the first two quarters of 2017 when compared to the same periods in 2016. The decreases were mainly due to the impact of favorable asset returns in 2016, used to calculate benefit plan costs in 2017, a decrease in the inflation adjustment and one less paid day in first two quarters of 2017 compared to 2016. These positive impacts were offset by a decrease in the 2016 discount rate used to calculate benefit plan costs in 2017 and updated demographic assumptions.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $9 million or 5.7% for the second quarter of 2017 and by $19 million or 5.6%[1] for the first two quarters of 2017, when compared to the same periods in 2016, mainly due to higher transportation costs.

Property, facilities and maintenance

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

Selling, administrative and other

Selling, administrative and other expenses decreased by $7 million or 6.7% for the second quarter of 2017 and by $14 million or 5.2%[1] for the first two quarters of 2017, when compared to the same periods last year, mainly due to lower contracted services and program expenses.

Depreciation and amortization

Depreciation and amortization expense decreased by $3 million or 5.1% in the second quarter of 2017 and by $4 million or 2.9%[1] in the first two quarters of 2017 compared to the same periods in 2016. The decreases were mainly due to the accelerated amortization of plant equipment in the second quarter of 2016.

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1. Adjusted for paid days, where applicable.

8.5 Purolator segment

The Purolator segment contributed a net profit of $27 million for the second quarter of 2017, an increase of 152.7% when compared to the same period in the prior year. For the first two quarters of 2017, Purolator earned a net profit of $38 million, a significant increase of $36 million when compared to the prior year.

Purolator results for the second quarter and first two quarters of 2017

			13 weeks ended				26 weeks ended	
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%
Revenue from operations	408	377	31	8.3	794	727	67	9.3
Cost of operations	371	361	10	3.0	740	723	17	3.3 [1]
Profit from operations	**37**	**16**	**21**	**127.8**	**54**	**4**	**50**	**–**
Investing and financing income (expense), net	(1)	(1)	–	28.5	(1)	(1)	–	(28.2)
Profit before tax	**36**	**15**	**21**	**134.4**	**53**	**3**	**50**	**–**
Tax expense	9	4	5	94.1	15	1	14	723.6
Net profit	**27**	**11**	**16**	**152.7**	**38**	**2**	**36**	**–**

Revenue from operations

Purolator generated revenue from operations of $408 million in the second quarter of 2017 – an increase of $31 million or 8.3% when compared to the same period last year. After the first two quarters of 2017, revenue totalled $794 million – an increase of $67 million or 9.3% compared to the same period in 2016. Increases were due mainly to higher volumes from business growth.

Cost of operations

Total labour costs

Total labour costs were $192 million in the second quarter of 2017 and remained flat compared to the second quarter of 2016. After the first two quarters of 2017, labour costs amounted to $385 million, an increase of $3 million or 1.9%[1] when compared the same period in 2016. The increase was due primarily to business growth.

Total non-labour costs

Total non-labour costs were $179 million in the second quarter of 2017 – an increase of $10 million or 5.7% when compared to the same period in the prior year. After the first two quarters of 2017, total non-labour costs were $355 million – an increase of $14 million or 4.9%[1] compared to the same period in 2016. Increases were driven primarily by business growth and higher fuel costs.

1. Adjusted for paid days, where applicable.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $4 million of net profit to the consolidated results for the second quarter of 2017, an increase of 7.0% when compared to the same period in the prior year. For the first two quarters of 2017, the Logistics segment earned a net profit of $7 million, an increase of 4.0% when compared to the prior year.

Logistics results for the second quarter and first two quarters of 2017

	13 weeks ended				**26 weeks ended**			
(in millions of dollars)	July 1, 2017	July 2, 2016	Change	%	July 1, 2017	July 2, 2016	Change	%
Revenue from operations	68	63	5	10.1[1]	134	126	8	6.8
Cost of operations	63	58	5	8.6	125	117	8	7.1
Profit from operations	**5**	**5**	**–**	**6.3**	**9**	**9**	**–**	**3.8**
Investing and financing income (expense), net	–	–	–	–	–	–	–	–
Profit before tax	**5**	**5**	**–**	**6.8**	**9**	**9**	**–**	**4.0**
Tax expense	1	1	–	6.3	2	2	–	3.9
Net profit	**4**	**4**	**–**	**7.0**	**7**	**7**	**–**	**4.0**

Revenue from operations

SCI generated revenue from operations of $68 million in the second quarter of 2017 – an increase of $5 million or 10.1%[1] when compared to the same period last year. After the first two quarters of 2017, revenue was $134 million – an increase of $8 million or 6.8% when compared to the same period in 2016. The increases were mainly driven by volume growth from current clients and new business.

Cost of operations

Total labour costs

Total labour costs were $32 million in the second quarter of 2017 – an increase of $3 million or 9.4% when compared to the same period in the prior year. After the first two quarters of 2017, total labour costs were $64 million – an increase of $4 million or 6.3% compared to the same period in 2016. Increases were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $31 million in the second quarter of 2017 – an increase of $2 million or 7.7% when compared to the same period in the previous year. After the first two quarters of 2017, total non-labour costs were $61 million – an increase of $4 million or 7.9% when compared to the same period in 2016. Increases were mainly due to growth from existing clients and new services.

8.7 Consolidated results to plan

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

1. Adjusted for trading days where applicable.

9 Critical Accounting Estimates and Accounting Policy Developments

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

9.1 Critical accounting estimates and estimation uncertainties

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

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

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2016 Annual MD&A and Note 4 – Critical Accounting Estimates and Judgments of the 2016 consolidated financial statements, which are contained in the *Canada Post Corporation 2016 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

Other than those disclosed in the 2017 First Quarter Financial Report, there were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that required mandatory adoption in the second quarter of 2017.

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

The following amendment issued by the IASB since April 1, 2017, and not already disclosed in the consolidated financial statements Note 5 (b) for the year ended December 31, 2016, has been assessed as having a possible effect on the Group of Companies in the future:

IFRIC 23 "Uncertainly over Income Tax Treatments" • This IFRIC clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The impact of adopting this amendment has not yet been determined.

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

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

Management's Responsibility for Interim Financial Reporting

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

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

President and Chief Executive Officer

Chief Financial Officer

August 24, 2017

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**July 1, 2017**	December 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**$ 1,126**	$ 849
Marketable securities		**901**	1,038
Trade and other receivables		**831**	829
Other assets	**4**	**119**	110
Total current assets		**2,977**	2,826
Non-current assets			
Property, plant and equipment	**5**	**2,592**	2,672
Intangible assets	**5**	**116**	117
Segregated securities		**553**	523
Pension benefit assets	**6**	**110**	135
Deferred tax assets		**1,733**	1,384
Goodwill		**130**	130
Other assets		**7**	5
Total non-current assets		**5,241**	4,966
Total assets		**$ 8,218**	$ 7,792
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 456**	$ 548
Salaries and benefits payable and related provisions		**445**	487
Provisions		**78**	70
Income tax payable		**6**	3
Deferred revenue		**109**	115
Loans and borrowings		**18**	22
Other long-term benefit liabilities	**6**	**62**	62
Total current liabilities		**1,174**	1,307
Non-current liabilities			
Loans and borrowings		**1,031**	1,037
Pension, other post-employment and other long-term benefit liabilities	**6**	**7,095**	5,726
Other liabilities		**26**	26
Total non-current liabilities		**8,152**	6,789
Total liabilities		**9,326**	8,096
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**59**	44
Accumulated deficit		**(2,348)**	(1,530)
Equity of Canada		**(1,134)**	(331)
Non-controlling interests		**26**	27
Total equity		**(1,108)**	(304)
Total liabilities and equity		**$ 8,218**	$ 7,792
Contingent liabilities	**10**		

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the		13 weeks ended		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	**Notes**	**July 1, 2017**	July 2, 2016	**July 1, 2017**	July 2, 2016
Revenue from operations		**$ 2,012**	$ 1,977	**$ 4,060**	$ 3,994
Cost of operations					
Labour		**979**	1,001	**1,964**	1,980
Employee benefits	**6**	**362**	374	**732**	752
		1,341	1,375	**2,696**	2,732
Other operating costs	**12**	**517**	503	**1,064**	1,042
Depreciation and amortization	**5**	**76**	80	**151**	157
Total cost of operations		**1,934**	1,958	**3,911**	3,931
Profit from operations		**78**	19	**149**	63
Investing and financing income (expense)					
Investment and other income	**13**	**4**	2	**9**	5
Finance costs and other expense	**13**	**(11)**	(12)	**(22)**	(24)
Investing and financing expense, net		**(7)**	(10)	**(13)**	(19)
Profit before tax		**71**	9	**136**	44
Tax expense	**7**	**16**	1	**35**	12
Net profit		**$ 55**	$ 8	**$ 101**	$ 32
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net profit (loss)					
Change in unrealized fair value of available-for-sale financial assets	**8**	**$ 12**	$ 14	**$ 15**	$ 21
Foreign currency translation adjustment	**8**	**–**	–	**–**	(1)
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	**8**	**(601)**	(777)	**(920)**	(1,818)
Other comprehensive loss		**(589)**	(763)	**(905)**	(1,798)
Comprehensive loss		**$ (534)**	$ (755)	**$ (804)**	$ (1,766)
Net profit attributable to					
Government of Canada		**$ 53**	$ 7	**$ 98**	$ 32
Non-controlling interests		**2**	1	**3**	–
		$ 55	$ 8	**$ 101**	$ 32
Comprehensive loss attributable to					
Government of Canada		**$ (534)**	$ (753)	**$ (803)**	$ (1,759)
Non-controlling interests		**–**	(2)	**(1)**	(7)
		$ (534)	$ (755)	**$ (804)**	$ (1,766)

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 July 1, 2017 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at April 1, 2017	**$ 1,155**	**$ 47**	**$ (1,802)**	**$ (600)**	**$ 26**	**$ (574)**
Net profit	**–**	**–**	**53**	**53**	**2**	**55**
Other comprehensive income (loss)	**–**	**12**	**(599)**	**(587)**	**(2)**	**(589)**
Comprehensive income (loss)	**–**	**12**	**(546)**	**(534)**	**–**	**(534)**
Balance at July 1, 2017	**$ 1,155**	**$ 59**	**$ (2,348)**	**$ (1,134)**	**$ 26**	**$ (1,108)**

For the 13 weeks ended July 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 April 2, 2016	$ 1,155	$ 54	$ (3,366)	$ (2,157)	$ 22	$ (2,135)
Net profit	–	–	7	7	1	8
Other comprehensive income (loss)	–	14	(774)	(760)	(3)	(763)
Comprehensive income (loss)	–	14	(767)	(753)	(2)	(755)
Transactions with shareholders – Dividend	–	–	–	–	(1)	(1)
Balance at July 2, 2016	$ 1,155	$ 68	$ (4,133)	$ (2,910)	$ 19	$ (2,891)

For the 26 weeks ended July 1, 2017 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2016	**$ 1,155**	**$ 44**	**$ (1,530)**	**$ (331)**	**$ 27**	**$ (304)**
Net profit	**–**	**–**	**98**	**98**	**3**	**101**
Other comprehensive income (loss)	**–**	**15**	**(916)**	**(901)**	**(4)**	**(905)**
Comprehensive income (loss)	**–**	**15**	**(818)**	**(803)**	**(1)**	**(804)**
Balance at July 1, 2017	**$ 1,155**	**$ 59**	**$ (2,348)**	**$ (1,134)**	**$ 26**	**$ (1,108)**

For the 26 weeks ended July 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	–	–	32	32	–	32
Other comprehensive income (loss)	–	20	(1,811)	(1,791)	(7)	(1,798)
Comprehensive income (loss)	–	20	(1,779)	(1,759)	(7)	(1,766)
Transactions with shareholders – Dividend	–	–	–	–	(1)	(1)
Balance at July 2, 2016	$ 1,155	$ 68	$ (4,133)	$ (2,910)	$ 19	$ (2,891)

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

Interim Condensed Consolidated Statement of Cash Flows

For the		13 weeks ended		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	**July 1, 2017**	July 2, 2016	**July 1, 2017**	July 2, 2016
Cash flows from operating activities					
Net profit		**$ 55**	$ 8	**$ 101**	$ 32
Adjustments to reconcile net profit to cash provided by operating activities:					
Depreciation and amortization	**5**	**76**	80	**151**	157
Pension, other post-employment and other long-term benefit expense	**6**	**215**	221	**431**	444
Pension, other post-employment and other long-term benefit payments	**6**	**(129)**	(122)	**(265)**	(254)
(Gain) loss on sale of capital assets and assets held for sale	**13**	**–**	3	**–**	3
Tax expense	**7**	**16**	1	**35**	12
Net interest expense	**13**	**8**	7	**14**	16
Change in non-cash operating working capital:					
(Increase) decrease in trade and other receivables		**(45)**	(10)	**(2)**	30
Increase (decrease) in trade and other payables		**2**	(16)	**(92)**	(103)
(Decrease) increase in salaries and benefits payable and related provisions		**(92)**	(43)	**(42)**	27
Increase in provisions		**–**	5	**8**	9
Net increase in other non-cash operating working capital		**(18)**	(22)	**(32)**	(34)
Other income not affecting cash, net		**(5)**	(6)	**(12)**	(13)
Cash provided by operations before interest and tax		**83**	106	**295**	326
Interest received		**13**	11	**20**	17
Interest paid		**–**	–	**(22)**	(25)
Tax paid		**(30)**	(39)	**(62)**	(130)
Cash provided by operating activities		**66**	78	**231**	188
Cash flows from investing activities					
Acquisition of securities		**(561)**	(479)	**(976)**	(940)
Proceeds from sale of securities		**550**	397	**1,102**	794
Acquisition of capital assets		**(51)**	(51)	**(70)**	(78)
Proceeds from sale of capital assets		**2**	–	**2**	–
Cash (used in) provided by investing activities		**(60)**	(133)	**58**	(224)
Cash flows from financing activities					
Repayment of loans and borrowings		**–**	–	**–**	(55)
Payments on finance lease obligations		**(5)**	(5)	**(11)**	(12)
Dividend paid to non-controlling interests		**–**	(1)	**–**	(1)
Cash used in financing activities		**(5)**	(6)	**(11)**	(68)
Net increase (decrease) in cash and cash equivalents		**1**	(61)	**278**	(104)
Cash and cash equivalents, beginning of period		**1,125**	731	**849**	775
Effect of exchange rate changes on cash and cash equivalents		**–**	–	**(1)**	(1)
Cash and cash equivalents, end of period		**$ 1,126**	$ 670	**$ 1,126**	$ 670

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

Notes to Interim Condensed Consolidated Financial Statements

For the 13 and 26 weeks ended July 1, 2017
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

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

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

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

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

2. Basis of Presentation

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

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors August 24, 2017.

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

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

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

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

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

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

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

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

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

Other than those disclosed in the 2017 First Quarter Financial Report, there were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that required mandatory adoption in the second quarter.

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

The following amendment issued by the IASB since April 1, 2017, and not already disclosed in the consolidated financial statements Note 5 (b) for the year ended December 31, 2016, has been assessed as having a possible effect on the Group of Companies in the future:

IFRIC 23 "Uncertainty over Income Tax Treatments" • This IFRIC clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The impact of adopting this amendment has not yet been determined.

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

4. Other Current Assets

As at	**July 1, 2017**	December 31, 2016
Income tax receivable	$ 5	$ 18
Prepaid expenses	113	90
Assets held for sale	1	2
Total other current assets	**$ 119**	$ 110

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

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

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2016	$ 315	$ 2,057	$ 286	$ 1,330	$ 547	$ 409	$ 944	$ 91	$ 5,979
Additions	11	7	4	7	1	5	2	16	53
Retirements	–	–	(1)	(65)	(1)	(38)	–	–	(105)
Transfers	–	3	8	8	–	1	10	(30)	–
July 1, 2017	**$ 326**	**$ 2,067**	**$ 297**	**$ 1,280**	**$ 547**	**$ 377**	**$ 956**	**$ 77**	**$ 5,927**
Accumulated depreciation									
December 31, 2016	$ –	$ 1,063	$ 223	$ 827	$ 349	$ 338	$ 507	$ –	$ 3,307
Depreciation	–	29	6	38	25	11	22	–	131
Retirements	–	–	–	(65)	(1)	(37)	–	–	(103)
July 1, 2017	**$ –**	**$ 1,092**	**$ 229**	**$ 800**	**$ 373**	**$ 312**	**$ 529**	**$ –**	**$ 3,335**
Carrying amounts									
December 31, 2016	$ 315	$ 994	$ 63	$ 503	$ 198	$ 71	$ 437	$ 91	$ 2,672
July 1, 2017	**$ 326**	**$ 975**	**$ 68**	**$ 480**	**$ 174**	**$ 65**	**$ 427**	**$ 77**	**$ 2,592**

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2016	$ 734	$ 21	$ 25	$ 780
Additions	–	19	–	19
July 1, 2017	**$ 734**	**$ 40**	**$ 25**	**$ 799**
Accumulated amortization				
December 31, 2016	$ 640	$ –	$ 23	$ 663
Amortization	20	–	–	20
July 1, 2017	**$ 660**	**$ –**	**$ 23**	**$ 683**
Carrying amounts				
December 31, 2016	$ 94	$ 21	$ 2	$ 117
July 1, 2017	**$ 74**	**$ 40**	**$ 2**	**$ 116**

(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	**July 1, 2017**	December 31, 2016
Pension benefit assets	**$ 110**	$ 135
Pension benefit liabilities	$ 3,228	$ 2,176
Other post-employment and other long-term benefit liabilities	3,929	3,612
Total pension, other post-employment and other long-term benefit liabilities	$ 7,157	$ 5,788
Current other long-term benefit liabilities	**$ 62**	$ 62
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,095**	$ 5,726

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended		**July 1, 2017**			July 2, 2016	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 127	$ 26	$ 153	$ 122	$ 27	$ 149
Interest cost	263	36	299	263	38	301
Interest income on plan assets	(243)	–	(243)	(235)	–	(235)
Other administration costs	3	–	3	3	–	3
Defined benefit expense	150	62	212	153	65	218
Defined contribution expense	3	–	3	3	–	3
Total expense	153	62	215	156	65	221
Return on segregated securities	–	(5)	(5)	–	(5)	(5)
Component included in employee benefits expense	**$ 153**	**$ 57**	**$ 210**	$ 156	$ 60	$ 216
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (162)	$ –	$ (162)	$ (334)	$ –	$ (334)
Actuarial losses (gains)	794	170	964	1,203	168	1,371
Component included in other comprehensive income (loss)	**$ 632**	**$ 170**	**$ 802**	$ 869	$ 168	$ 1,037

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

For the 26 weeks ended		**July 1, 2017**			July 2, 2016	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 252	$ 52	$ 304	$ 245	$ 54	$ 299
Interest cost	526	72	598	529	76	605
Interest income on plan assets	(485)	–	(485)	(473)	–	(473)
Other administration costs	7	–	7	7	–	7
Defined benefit expense	300	124	424	308	130	438
Defined contribution expense	7	–	7	6	–	6
Total expense	307	124	431	314	130	444
Return on segregated securities	–	(10)	(10)	–	(10)	(10)
Component included in employee benefits expense	**$ 307**	**$ 114**	**$ 421**	$ 314	$ 120	$ 434
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (662)	$ –	$ (662)	$ 91	$ –	$ 91
Actuarial losses (gains)	1,619	271	1,890	2,064	272	2,336
Component included in other comprehensive income (loss)	**$ 957**	**$ 271**	**$ 1,228**	$ 2,155	$ 272	$ 2,427

(c) Total cash payments

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

For the	**13 weeks ended**		**26 weeks ended**	
	July 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Benefits paid directly to beneficiaries for other benefit plans	$ 39	$ 41	$ 78	$ 77
Employer regular contributions to pension benefit plans	74	66	156	145
Employer special contributions to pension benefit plans	13	12	24	26
Cash payments for defined benefit plans	126	119	258	248
Contributions to defined contribution plans	3	3	7	6
Total cash payments	**$ 129**	$ 122	**$ 265**	$ 254

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2017 decreased by $7 million from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2016, due to an increase in employee contributions effective July 2017. These estimated total contributions take into consideration the Corporation's exemption from making special contributions into the Canada Post Corporation Registered Pension Plan from 2014 to 2017, as permitted by the *Canada Post Corporation Pension Plan Funding Regulations*. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standard Act, 1985*. On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985*, were amended to change the solvency reduction limits applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, the aggregate amount of relief is limited to 15% of the plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

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

7. Income Taxes

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

For the	**13 weeks ended**		**26 weeks ended**	
	July 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Current tax expense	$ 56	$ 38	$ 79	$ 60
Deferred tax income relating to origination and reversal of temporary differences	(40)	(37)	(44)	(48)
Tax expense	**$ 16**	$ 1	**$ 35**	$ 12

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 July 1, 2017	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance April 1, 2017	$ 42	$ 5	$ 47		
Amount arising	$ 16	$ –	$ 16	$ (802)	$ (786)
Income taxes	(4)	–	(4)	201	197
Net	**$ 12**	**$ –**	**$ 12**	**$ (601)**	**$ (589)**
Accumulated balance as at July 1, 2017	**$ 54**	**$ 5**	**$ 59**		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended July 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 April 2, 2016	$ 50	$ 4	$ 54		
Amount arising	$ 19	$ –	$ 19	$ (1,037)	$ (1,018)
Income taxes	(5)	–	(5)	260	255
Net	$ 14	$ –	$ 14	$ (777)	$ (763)
Accumulated balance as at July 2, 2016	$ 64	$ 4	$ 68		

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

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 26 weeks ended July 1, 2017	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at December 31, 2016	$ 39	$ 5	$ 44		
Amount arising	$ 20	$ –	$ 20	$ (1,228)	$ (1,208)
Income taxes	(5)	–	(5)	308	303
Net	**$ 15**	**$ –**	**$ 15**	**$ (920)**	**$ (905)**
Accumulated balance as at July 1, 2017	**$ 54**	**$ 5**	**$ 59**		

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 26 weeks ended July 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	$ 28	$ (1)	$ 27	$ (2,427)	$ (2,400)
Income taxes	(7)	–	(7)	609	602
Net	$ 21	$ (1)	$ 20	$ (1,818)	$ (1,798)
Accumulated balance as at July 2, 2016	$ 64	$ 4	$ 68		

9. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matters have evolved over the 26-week period ended July 1, 2017:

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

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

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

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

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

10. Contingent Liabilities

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

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

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

11. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

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

As at July 1, 2017	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 945	$ 181	$ –	**$ 1,126**
Marketable securities	$ –	$ 901	$ –	**$ 901**
Segregated securities	$ –	$ 553	$ –	**$ 553**
Trade and other receivables: risk management financial assets	$ –	$ 1	$ –	**$ 1**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,269	$ –	**$ 1,269**

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

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

There were no transfers between levels of the fair value hierarchy during the 26-week period ended July 1, 2017.

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

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

Financial risk factors

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

(a) Market risk

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

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

For the 26 weeks ended		**July 1, 2017**			July 2, 2016	
	Foreign exchange losses	**Derivative gains (losses)**	**Total**	Foreign exchange gains (losses)	Derivative gains	Total
Unrealized	$ –	$ 1	$ 1	$ (10)	$ 13	$ 3
Realized	(1)	(3)	(4)	3	1	4
Total	**$ (1)**	**$ (2)**	**$ (3)**	$ (7)	$ 14	$ 7

(b) Liquidity risk

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

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

12. Other Operating Costs

For the		**13 weeks ended**		**26 weeks ended**
	July 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Non-labour collection, processing and delivery	$ 310	$ 286	$ 653	$ 608
Property, facilities and maintenance	90	87	189	179
Selling, administrative and other	117	130	222	255
Other operating costs	**$ 517**	$ 503	**$ 1,064**	$ 1,042

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

13. Investing and Financing Income (Expense)

For the	13 weeks ended		26 weeks ended	
	July 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Interest revenue	$ 4	$ 5	$ 9	$ 8
Loss on sale of capital assets and assets held for sale	–	(3)	–	(3)
Investment and other income	**$ 4**	$ 2	**$ 9**	$ 5
Interest expense	$ (12)	$ (12)	$ (23)	$ (24)
Other expense	1	–	1	–
Finance costs and other expense	**$ (11)**	$ (12)	**$ (22)**	$ (24)
Investing and financing expense, net	**$ (7)**	$ (10)	**$ (13)**	$ (19)

14. Related Party Transactions

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

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

For the	13 weeks ended		26 weeks ended	
	July 1, 2017	July 2, 2016	**July 1, 2017**	July 2, 2016
Related party revenue	**$ 65**	$ 102	**$ 137**	$ 174
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 5**	$ 5	**$ 11**	$ 11
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2	**$ 4**	$ 4
Related party expenditures	**$ 7**	$ 8	**$ 13**	$ 17

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

As at	**July 1, 2017**	December 31, 2016
Due to/from related parties		
Included in trade and other receivables	**$ 17**	$ 20
Included in trade and other payables	**$ 9**	$ 11
Deferred revenue from related parties	**$ 2**	$ 2

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 26 weeks ended July 1, 2017, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amounts of $3 million and $5 million for the 13 and 26 weeks ended July 1, 2017, respectively (July 2, 2016 – $3 million and $5 million, respectively). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 and 26 weeks ended July 1, 2017, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $3 million and $6 million, respectively (July 2, 2016 – $3 million and $6 million, respectively). As at July 1, 2017, $12 million (December 31, 2016 – $4 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables.

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

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

15. Segmented Information

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

For the 13 and 26 weeks ended July 1, 2017, the IT business unit earned intercompany revenue of $61 million and $114 million, respectively (July 2, 2016 – $59 million and $126 million, respectively), incurred cost of operations of $61 million and $114 million, respectively (July 2, 2016 – $59 million and $126 million, respectively), and earned net profit of nil for the 13 and 26 week reporting periods in 2017 and 2016. Total assets and liabilities at July 1, 2017, were $119 million and $69 million, respectively (December 31, 2016 – $120 million and $70 million, respectively).

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

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,550	$ 403	$ 59	$ –	$ 2,012
Intersegment revenue	10	5	9	(24)	–
Revenue from operations	$ 1,560	$ 408	$ 68	$ (24)	$ 2,012
Labour and employee benefits	$ 1,091	$ 192	$ 32	$ 26	$ 1,341
Other operating costs	370	166	29	(48)	517
Depreciation and amortization	62	13	2	(1)	76
Cost of operations	$ 1,523	$ 371	$ 63	$ (23)	$ 1,934
Profit (loss) from operations	$ 37	$ 37	$ 5	$ (1)	$ 78
Investment and other income	$ 4	$ –	$ –	$ –	$ 4
Finance costs and other expense	(10)	(1)	–	–	(11)
Profit (loss) before tax	$ 31	$ 36	$ 5	$ (1)	$ 71
Tax expense	5	9	1	1	16
Net profit (loss)	$ 26	$ 27	$ 4	$ (2)	$ 55
Total assets	$ 7,537	$ 888	$ 124	$ (331)	$ 8,218
Acquisition of capital assets	$ 46	$ 6	$ 2	$ (2)	$ 52
Total liabilities	$ 8,914	$ 401	$ 47	$ (36)	$ 9,326

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

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,552	$ 373	$ 52	$ –	$ 1,977
Intersegment revenue	7	4	11	(22)	–
Revenue from operations	$ 1,559	$ 377	$ 63	$ (22)	$ 1,977
Labour and employee benefits	$ 1,127	$ 192	$ 29	$ 27	$ 1,375
Other operating costs	368	157	26	(48)	503
Depreciation and amortization	65	12	3	–	80
Cost of operations	$ 1,560	$ 361	$ 58	$ (21)	$ 1,958
Profit (loss) from operations	$ (1)	$ 16	$ 5	$ (1)	$ 19
Investment and other income	$ 13	$ –	$ –	$ (11)	$ 2
Finance costs and other expense	(11)	(1)	–	–	(12)
Profit (loss) before tax	$ 1	$ 15	$ 5	$ (12)	$ 9
Tax expense (income)	(5)	4	1	1	1
Net profit (loss)	$ 6	$ 11	$ 4	$ (13)	$ 8
Total assets	$ 7,691	$ 853	$ 117	$ (351)	$ 8,310
Acquisition of capital assets	$ 43	$ 7	$ 1	$ (1)	$ 50
Total liabilities	$ 10,737	$ 474	$ 49	$ (59)	$ 11,201

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

As at and for the 26 weeks ended July 1, 2017

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 3,159	$ 785	$ 116	$ –	$ 4,060
Intersegment revenue	21	9	18	(48)	–
Revenue from operations	$ 3,180	$ 794	$ 134	$ (48)	$ 4,060
Labour and employee benefits	$ 2,193	$ 385	$ 64	$ 54	$ 2,696
Other operating costs	777	329	57	(99)	1,064
Depreciation and amortization	123	26	4	(2)	151
Cost of operations	$ 3,093	$ 740	$ 125	$ (47)	$ 3,911
Profit (loss) from operations	$ 87	$ 54	$ 9	$ (1)	$ 149
Investment and other income	$ 9	$ –	$ –	$ –	$ 9
Finance costs and other expense	(21)	(1)	–	–	(22)
Profit (loss) before tax	$ 75	$ 53	$ 9	$ (1)	$ 136
Tax expense	17	15	2	1	35
Net profit (loss)	$ 58	$ 38	$ 7	$ (2)	$ 101
Total assets	$ 7,537	$ 888	$ 124	$ (331)	$ 8,218
Acquisition of capital assets	$ 62	$ 9	$ 3	$ (2)	$ 72
Total liabilities	$ 8,914	$ 401	$ 47	$ (36)	$ 9,326

As at and for the 26 weeks ended July 2, 2016

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 3,171	$ 718	$ 105	$ –	$ 3,994
Intersegment revenue	14	9	21	(44)	–
Revenue from operations	$ 3,185	$ 727	$ 126	$ (44)	$ 3,994
Labour and employee benefits	$ 2,236	$ 382	$ 60	$ 54	$ 2,732
Other operating costs	771	315	52	(96)	1,042
Depreciation and amortization	127	26	5	(1)	157
Cost of operations	$ 3,134	$ 723	$ 117	$ (43)	$ 3,931
Profit (loss) from operations	$ 51	$ 4	$ 9	$ (1)	$ 63
Investment and other income	$ 17	$ –	$ –	$ (12)	$ 5
Finance costs and other expense	(23)	(1)	–	–	(24)
Profit (loss) before tax	$ 45	$ 3	$ 9	$ (13)	$ 44
Tax expense (income)	8	1	2	1	12
Net profit (loss)	$ 37	$ 2	$ 7	$ (14)	$ 32
Total assets	$ 7,691	$ 853	$ 117	$ (351)	$ 8,310
Acquisition of capital assets	$ 62	$ 15	$ 3	$ (1)	$ 79
Total liabilities	$ 10,737	$ 474	$ 49	$ (59)	$ 11,201

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