2012 First Quarter Financial Report

For the period ended March 31, 2012

Canada

CANADA POST POSTES CANADA

From anywhere... to anyone

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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 first quarter ended March 31, 2012 for Canada Post Corporation (the "Corporation" or "Canada Post"), and our subsidiaries Purolator Inc. ("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 thirteen weeks and this MD&A covers the 13 weeks ended March 31, 2012. This discussion should be read together with the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 31, 2012 which have been prepared 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" (« IAS 34 »), and which are reported 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, 2011. Financial results reported in the MD&A are rounded to the nearest million while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to May 29, 2012, 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 Corporation's 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 (collectively, the "Assumptions"). While management considers these Assumptions to be reasonable, based on information currently available, 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 currently expect. 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 11 of this MD&A* (collectively the "Risks").

To the extent the Group of Companies provides forward-looking information that is 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 purposes of describing its future expectations. Readers are, therefore, cautioned that this information may not be appropriate for any other purpose. Further, 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 the date of this Quarterly Financial Report, 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

Canada Post Corporation is one of the largest federal Crown corporations and one of the largest employers in Canada, employing either directly or through our subsidiaries about 69,000 employees as at the end of 2011. On an annual basis, our employees deliver over 10 billion pieces of mail, parcels and messages to over 15 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with almost 6,500 retail post offices. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport, Infrastructure and Communities and has a single Shareholder, the Government of Canada.

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

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $1.5 billion for the first quarter of 2012 (79 per cent of total year-to-date revenue) and $5.9 billion for the full year ending December 2011 (78 per cent of total revenue). The Corporation manages its consolidated operations and determines its operating segments on the basis of the legal entities. There are three reportable operating segments: Canada Post, Purolator and Logistics. The remaining operations are combined and disclosed in the "Other" category.

The following table presents the Canada Post Group of Companies' 2012 Corporate Plan:

(in millions of dollars)	**2012 Plan**
Consolidated	
Revenue from operations	7,865
Cost of operations	7,793
Investing and financing expense	36
Profit before tax	36

Electronic substitution, competitive pressures, uncertain market conditions and the lasting impact of the June 2011 labour disruption have put significant pressures on our financial performance. We continue to face significant financial challenges because of large pension obligations relative to our revenue and profit, significant volume declines in Transaction Mail and Direct Marketing, and ongoing uncertainty around the collective agreement with our largest union, the Canadian Union of Postal Workers ("CUPW"), due to delays in the arbitration process. Despite these challenges, at this point in time we are still striving to achieve our plan but we continue to monitor our financial performance closely.

We have invested in people and systems to improve service performance in the Canada Post segment's Physical Delivery Network, in the midst of increased modernization. We are also taking steps to defend and strengthen our core mail and parcel businesses. As well, the work of building new capabilities is underway in the Digital Delivery Network.

Financial Highlights

For the quarter ended March 31, 2012, the Canada Post Group of Companies experienced a consolidated loss before tax of $3 million, a decrease of $25 million compared to the same quarter in 2011, due to a number of factors including competitive pressures, uncertain economic climate, and mail volume erosion.

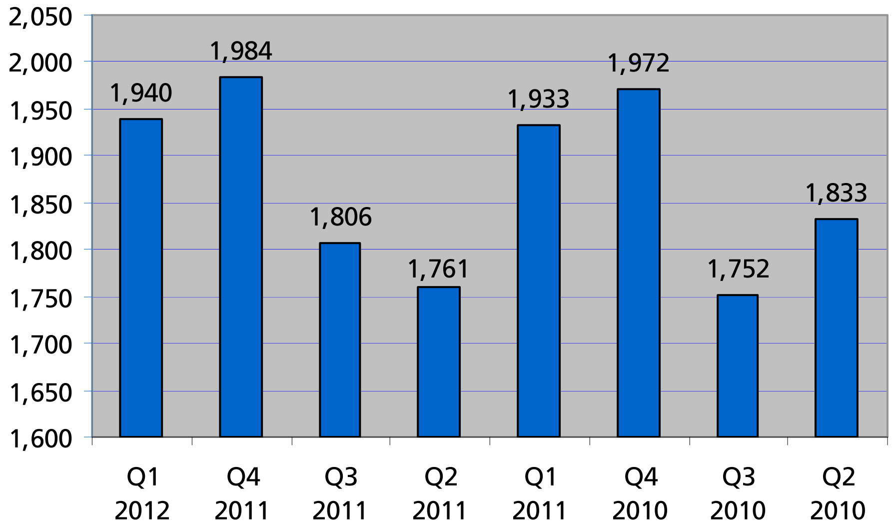
Volume erosion had a significant impact on the Canada Post segment's financial results. Revenue from operations declined in each of Canada Post's three major lines of business in the first quarter of 2012, resulting in a $33-million drop when compared to the same quarter last year. Volume erosion for Transaction Mail and Direct Marketing was higher than expected in the first quarter of 2012, with both Transaction Mail and Direct Marketing volumes experiencing significant decreases (4.5 per cent and 6.4 per cent respectively) when compared to the same quarter last year. Results for the Canada Post Parcel business were more favourable as volumes increased by 1.1% compared to 2011, but this growth was not enough to offset the mail volume declines in Transaction Mail and Direct Marketing.

Canada Post, as plan sponsor, is responsible for making current service contributions to the pension plan as well as special payments to cover any funding shortfalls. Large pension commitments have put a strain on the Corporation's financial performance and cash resources. Market volatility continued to negatively impact the Group of Companies' pension plans which triggered a re-measurement of pension, other post-employment and other long-term benefit liabilities. As a result, actuarial losses of $141 million, net of tax, were recorded in other comprehensive income (loss) in the first quarter of 2012 which further eroded the Group of Companies' equity to a negative $1.8 billion as at March 31, 2012.

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

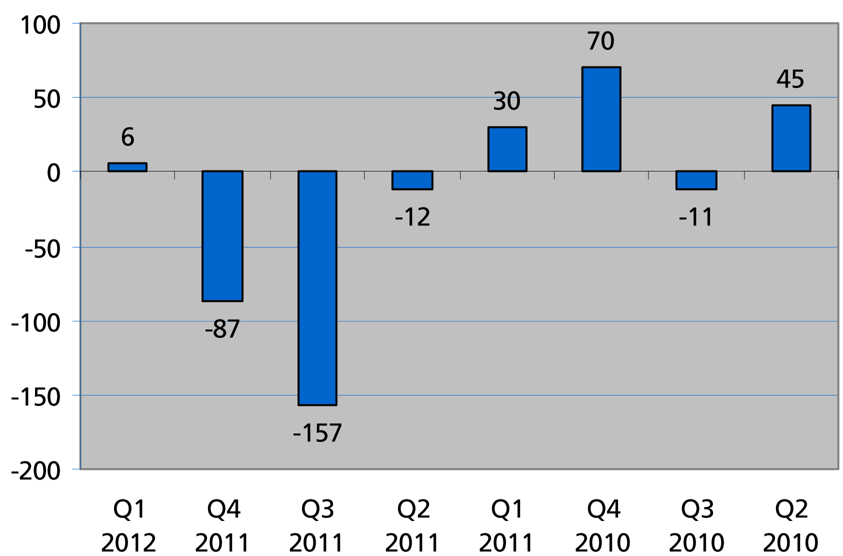
Quarterly consolidated revenue from operations

(in millions of dollars)

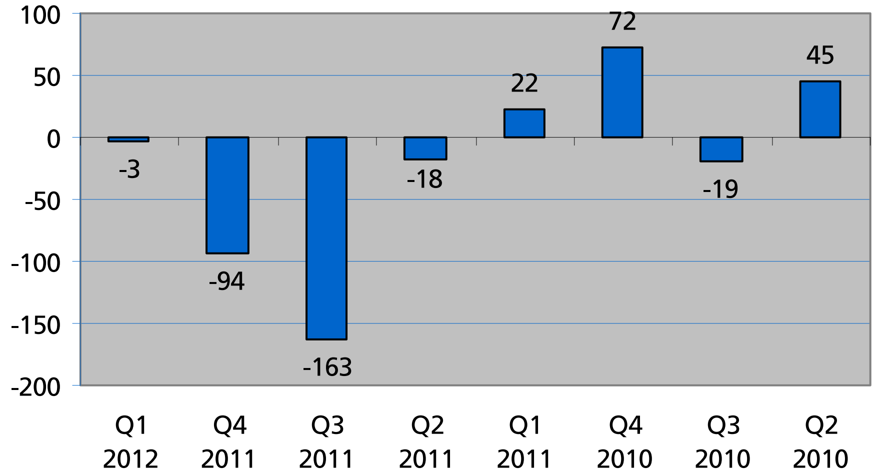


Quarterly consolidated profit (loss) from operations

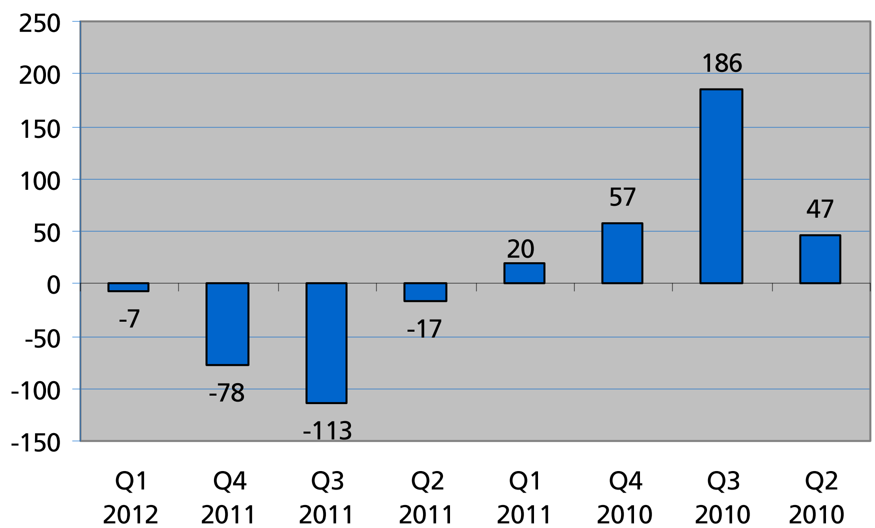
(in millions of dollars)



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 first quarter of 2012 compared to the same period in the prior year.

(in millions of dollars)	13 weeks ended				
	March 31, 2012	**April 2, 2011**	**Change**	**%**	**Explanation of change**
Consolidated Statement of Comprehensive Income					*Highlights, as discussed in Section 8 – Discussion of Operations on page 19*
Revenue from operations	1,940	1,933	7	0.4%*	Slight improvement in first quarter primarily driven by increased volumes in the Purolator segment, and annual pricing action partially offset by significant volume declines in Transaction Mail and Direct Marketing in the Canada Post segment
Cost of operations	1,934	1,903	31	1.6%	Increases largely driven by increased labour costs in the Purolator segment, and increased employee future benefits expense in the Canada Post segment
Profit (loss) before tax	(3)	22	(25)	(111.5)%	
Net profit (loss)	(7)	20	(27)	(132.6)%	
Comprehensive income (loss)	(153)	12	(165)	(1242.7)%	Actuarial losses were recorded as a result of the re-measurement of the defined benefit plans; positive return of the pension plan investments were offset by a decline in the discount rate which negatively impacted the Group of Companies' pension plans
Consolidated Statement of Cash Flows					*Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 12*
Cash provided by (used in) operating activities	3	(144)	147	102.1%	Positive cash flow variance in first quarter primarily due to a decrease in employee future benefits payments
Cash provided by (used in) investing activities	(113)	64	(177)	(275.9)%	Negative cash flow variance mainly due to $136 million less cash provided from the sale of short-term investments and a $49-million increase in capital expenditures
Cash provided by (used in) financing activities	(5)	(4)	(1)	(0.7)%	No material change

* Adjusted for trading days where applicable

Significant changes and business developments

On March 13, 2012, Labour Minister Lisa Raitt appointed Guy Dufort as the new arbitrator in the negotiations between Canada Post and the CUPW replacing the previous arbitrator, the Honourable Justice Coulter Osborne, who stepped down last fall and whose appointment was subsequently overturned by the Federal Court. Since the appointment, the CUPW made it known that they oppose the appointment of Mr. Dufort and after Mr. Dufort declined to step aside, the CUPW proceeded to the Federal Court to challenge arbitrator Dufort's decision not to recuse himself. On May 11, 2012, the Federal Court Judge granted a stay in the arbitration process (meaning the arbitration process cannot continue) until the CUPW challenge has been resolved. The hearing date has been set for July 25, 2012. Canada Post management remains hopeful that a resolution can be reached which will play a significant role in securing our short- and long-term future. For more details on the status of the negotiations, refer to *Section 4 – Capabilities on page 10 of this MD&A*.

On March 14, 2012, after receiving approval under the *Financial Administration Act* from the Treasury Board of Canada Secretariat, the Canada Post Group of Companies purchased CGI's voting shares in Innovapost for consideration of $26 million in cash. As a result, the Group of Companies' equity interest in Innovapost increased from 51 per cent to 98.6 per cent. Innovapost will continue to provide information systems and information technology ("IS/IT") services to the Canada Post Group of Companies and the new ownership structure will strengthen the synergies among the Group of Companies.

There were no other significant or material changes during the first quarter of 2012 with regard to operations, personnel and programs.

2 Core Business and Strategy

A discussion of the business and strategy of our core businesses

The postal industry worldwide is in transition. The Corporation is facing some of its greatest challenges due to continued declines in its core Lettermail™ business driven by competitive pressures, technological change, the slow economic recovery, and pension pressures due to the large pension obligations relative to revenue and profit. Deep and enduring shifts in technology and demand for postal services point to the urgent need to transform the business.

Our core business and strategy were described in *Section 2 – Core Business and Strategy of the 2011 Annual MD&A*. There were no material changes to the strategies during the first quarter of 2012.

3 Key Performance Drivers

A discussion of the key drivers of our performance and our progress against 2012 objectives

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

As discussed in *Section 2.3 – Our strategy and strategic priorities of the 2011 Annual MD&A*, Canada Post's strategic priorities include operational transformation to overcome structural cost issues and improve our competitiveness; and a pursuit of growth opportunities that build on or complement our core assets and capabilities. In this regard, Canada Post has developed a number of key performance measures that align with and measure our progress toward achieving our strategic priorities. In addition to financial and service performance imperatives and improving the safety of our employees, these performance measures include:

- Maximizing the value of mail by generating more revenue from consumer products, better leveraging the retail network and extracting more value from mail.
- Competing more aggressively in e-commerce by building desirable product sets to serve the e-commerce market, competing where we don't today and driving for cost leadership.
- Increasing our focus on digital products by improving our online channel performance, revitalizing and growing our epost™ service and commercializing and growing our data offerings.
- Achieving operating excellence by: improving our execution on quality and cost; delivering Postal Transformation on time and on budget; improving the customer experience; seeking changes to our labour-cost model; restructuring our information systems/information technology; and leveraging the respective strengths of all of the businesses in the Group of Companies.

Performance results for 2012 will be updated at the end of the year and will be included as part of the 2012 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 was provided in *Section 4 – Capabilities of the 2011 Annual MD&A*. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2011 and various bargaining activities were summarized in *Section 4.3 – Labour relations of the 2011 Annual MD&A*. An update of collective bargaining activity by segment is provided below.

Canada Post segment

In November 2011, the Supreme Court of Canada ruled in favour of the Public Service Alliance of Canada ("PSAC") and the Canadian Human Rights Commission in the PSAC pay equity complaint against Canada Post that dated back to the years 1982 to 2002. In doing so, it maintained the 2005 decision of the Canadian Human Rights Tribunal ("the Tribunal") that concluded that the Corporation had participated in "systematic discrimination" in the wages provided for a group of PSAC members and ordered payment to compensate the wage gap at a discount of 50 per cent. Canada Post recognized an estimate of these additional costs in 2011 and has begun consulting with PSAC in order to reach an agreement on the process and methodology to pay the affected current and past employees.

Collective bargaining continued in the first quarter of 2012, with the main focus being on the Canadian Union of Postal Workers ("CUPW"), which represents the plant and retail workers as well as letter carriers and mail service couriers, and the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers ("CUPW-RSMC"), which represents the mail carriers who are responsible for transportation and delivery of mail in rural and suburban areas of Canada.

CUPW

As discussed in the 2011 Annual MD&A, Canada Post experienced a labour disruption in June 2011 which culminated in return-to-work legislation. The legislation provides that an arbitrator is to be appointed for final offer selection and that the arbitrator renders a decision within 90 days of the appointment. An extension may be granted by the Minister of Labour. The terms of the previous collective agreement apply until the arbitration is concluded and a new collective agreement comes into force.

In October 2011, the CUPW filed a motion contesting the constitutionality of the legislation itself. In January 2012, the Federal Court overturned the appointment of the first arbitrator, Justice Coulter Osborne, as a result of the CUPW contesting his appointment. On March 13, 2012, the Minister of Labour appointed Guy Dufort as the new arbitrator in the negotiations between Canada Post and the CUPW, effective March 19, 2012. In announcing Mr. Dufort's appointment, the Minister of Labour noted that the arbitration process between Canada Post and the CUPW will start over from the beginning and that Mr. Dufort will not be bound by any previous decisions made by Justice Osborne. On March 15, 2012, the CUPW asked Mr. Dufort to recuse himself from the arbitration over an alleged apprehension of bias. Mr. Dufort later declined the CUPW request to step aside stating that the union's concerns are not justified. The CUPW then proceeded to the Federal Court to challenge his decision not to recuse himself and on May 2, 2012, the court heard an application by the CUPW to stay the proceedings until such time as the court has rendered a decision on the merits of the challenge. On May 11, 2012, the Federal Court granted the stay and set July 25, 2012 as the hearing date on the merits of Guy Dufort's decision not to recuse himself.

CUPW-RSMC

The eight-year collective agreement between Canada Post and the CUPW-RSMC expired on December 31, 2011. Bargaining for the new collective agreement began in November 2011 and the Corporation remains committed to reaching a negotiated settlement.

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

The collective agreement with PSAC/UPCE expires on August 31, 2012. Negotiations are expected to begin in the second quarter.

There were no new significant developments in labour relations activities in the first quarter of 2012 for the Canadian Postmasters and Assistants Association ("CPAA"), the Association of Postal Officials of Canada ("APOC") and the Union of Postal Communications Employees ("UPCE").

Purolator segment

Collective agreements with various Teamsters local unions, representing the hourly clerical and administrative employees, as well as the Union of Postal Communications Employees affiliated with the Public Service Alliance of Canada, expire on December 31, 2012. Negotiations will begin in the latter half of the year. There were no other new developments in labour relations activities in the first quarter of 2012.

Logistics segment – SCI Group

There were no new developments in labour relations activities in the first quarter of 2012.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the first quarter of 2012, there were no changes in internal control over financial reporting that have materially affected, or are 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

Canada Post management considers risks and opportunities at all levels of decision-making and a rigorous approach to Enterprise Risk Management ("ERM") has been implemented for the Corporation. A description of our risks is provided in *Section 5.2 – Strategic risks* and *Section 5.3 – Operational risks of the 2011 Annual MD&A*. Updates to these risks for the first quarter of 2012 are provided below.

5.1 Strategic risks

Labour negotiations

Labour Minister Lisa Raitt appointed Guy Dufort as the new arbitrator in negotiations between Canada Post and the Canadian Union of Postal Workers (CUPW), effective March 19, 2012. The CUPW has since challenged the arbitrator's decision not to recuse himself in Federal Court. The appointment now remains in question and the arbitration process will not be able to proceed until the court hears the case on July 25, 2012. Further delays in reaching a final decision are expected to have a negative impact on the long-term economic viability of the Corporation.

Economic uncertainty

The global economic outlook remained uncertain through the first quarter of 2012. While progress has been made in managing the European debt crisis, the threat of an extended recession remains real. Increasing signs of traction in the U.S. economy, driven largely by consumer spending, are tentative and could be offset should the Chinese economy materially miss already-reduced growth projections.

Canada's economy experienced an unexpected contraction in February that has analysts revising their 2012 growth forecasts downward. While inflation rates returned to target levels in March, lingering economic uncertainty coupled with recent government budgetary spending restraints continue to have an adverse effect on Canada Post's ability to generate new revenues as customers look to reduce costs in all areas of their businesses.

5.2 Operational risks

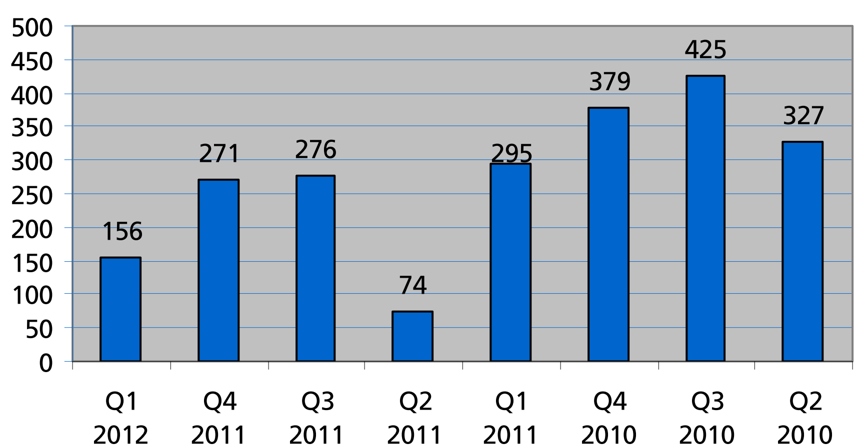
There are no material changes to the operational risks disclosed in *Section 5.3 – Operational risks of the 2011 Annual MD&A*. These risks include service quality, health and safety, security and privacy, business continuity, attrition, environmental sustainability and legal risks.

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 in the amount of $156 million as at March 31, 2012—a decrease of $115 million compared to December 31, 2011. The decline is mainly due to net capital expenditures of $104 million.

6.2 Operating activities

(in millions of dollars)	13 weeks ended March 31, 2012	April 2, 2011	Change
Cash provided by (used in) operating activities	3	(144)	147

Cash generated from operations in the first quarter of 2012 increased by $147 million compared to the same period in the prior year. This cash flow variance was primarily driven by an $87-million decrease in employee future benefit payments and a $60-million decrease in the growth of non cash operating working capital in 2012. The decrease in employee future benefits is mainly due to the use of government regulations supporting the reduction of special solvency contributions for the Canada Post segment's pension plan.

6.3 Investing activities

(in millions of dollars)	13 weeks ended March 31, 2012	April 2, 2011	Change
Cash provided by (used in) investing activities	(113)	64	(177)

Cash from investing activities decreased by $177 million in the first quarter of 2012 mainly due to lower net proceeds of $136 million from the sale of short-term investments and a $49-million increase in capital expenditures.

Capital expenditures

(in millions of dollars)	13 weeks ended March 31, 2012	April 2, 2011	Change
Canada Post	115	74	41
Purolator	10	2	8
Logistics	1	0	1
Other and intersegment	(2)	(1)	(1)
Canada Post Group of Companies	**124**	**75**	**49**

Capital expenditures for the Group of Companies grew in the first quarter of 2012 when compared to the same period last year due to increased spending on Postal Transformation.

6.4 Financing activities

(in millions of dollars)	13 weeks ended March 31, 2012	April 2, 2011	Change
Cash provided by (used in) financing activities	(5)	(4)	(1)

There were no significant changes in financing activities compared to 2011.

6.5 Canada Post Pension Plan

The Canada Post segment's pension plan is one of the largest single-employer pension plans in Canada, and has assets with a market value of over $15 billion. A description of the effects of the pension plan on liquidity is provided in *Section 6.5 – Canada Post Pension Plan of the 2011 Annual MD&A*. An update is provided below.

Based on existing legislation, the current estimate of the financial position of the Canada Post Pension Plan as at December 31, 2011, is a going-concern deficit to be funded of approximately $400 million and a solvency deficit to be funded, before any relief, of approximately $4.7 billion.

As the Plan sponsor, Canada Post is responsible for funding shortfalls in the pension plan and is required to make special contributions to cover going-concern or solvency deficits over specific periods of time. Employer special contributions for the first quarter of 2012 were $8 million compared to $106 million for the first quarter of 2011. The year-over-year difference is mainly due to a reduction in special solvency payments.

As reported in the 2011 Annual MD&A, changes to pension legislation provide Crown Corporations with funding relief on special solvency contributions if certain conditions are met. In August 2011, the Minister of Finance and the Minister of Transport, Infrastructure and Communities agreed to a funding relief from January 1, 2011 to June 30, 2012. It is the Corporation's intent to request additional relief based on the valuation to be filed in June 2012. Once agreed to, the aggregate amount of the relief for solvency payments required up to the end of 2012 is expected to total approximately $1.2 billion.

Current service contributions amounted to $83 million and $73 million respectively for the first quarter of 2012 and 2011. The estimated amount of current service contributions for 2012 is approximately $350 million.

6.6 Liquidity and capital resources

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

Liquidity

During the first quarter of 2012, 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 $881 million of unrestricted liquid investments on hand as at March 31, 2012, and $250 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

The Canada Post segment believes it has sufficient liquidity to support its operations over the next 12 months, including adequate financial resources for fluctuations in working capital, adverse changes in business results or unforeseen expenditures. This belief is, in part, based upon the expectation that (1) its short-term authority of $250 million which expires on December 31, 2012 will be renewed by the Government of Canada at an appropriately higher level through December 31, 2013 and (2) its agreement with the Government of Canada under the *Pension Benefits Standards Act, 1985,* which allows the Corporation to reduce its special solvency payments, will be renewed.

The Corporation's subsidiaries had a total of $110 million of unrestricted cash on hand and undrawn credit facilities of $131 million as at March 31, 2012, ensuring sufficient liquidity to support their operations over the next 12 months.

Access to capital markets

Pursuant to the *Canada Post Corporation Act*, the Canada Post segment may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4,* 2009-10, which received Royal Assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $250 million available for cash management purposes in the form of short-term borrowings.

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at March 31, 2012, amounted to $1,055 million and $69 million respectively. For more information on liquidity and access to capital markets, refer to *Section 6.6 – Liquidity and capital resources of the 2011 Annual MD&A*.

Dividends

For information on our dividend policy, refer to *Section 6.6 – Liquidity and capital resources of the 2011 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 the activities of the business which are described in *Section 6.7 – Risks associated with financial instruments of the 2011 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. In the first quarter of 2012, the Corporation entered into forward contracts and implemented an economic hedge program to mitigate its exposure to forecasted 2012 sales denominated in Special Drawing Rights and it also continued to hedge its exposure to foreign currency balances. These forward contracts are not designated as hedges for hedge accounting purposes. For more information on foreign exchange risk, please refer to *Note 10, Foreign Exchange Risk of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 31, 2012*. There were no other material changes to market risk during the first quarter of 2012.

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 in cash or using major credit cards. There were no material changes to credit risk during the first quarter of 2012.

Liquidity risk

Liquidity risk is the risk that the Group of Companies will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast to actual cash flows, and matching the maturity profiles of financial assets and liabilities. There were no material changes to liquidity risk during the first quarter of 2012.

6.8 Contractual obligations and commitments

Contractual obligations and commitments were explained in *Section 6.8 – Contractual obligations and commitments of the 2011 Annual MD&A*. There were no material changes to contractual obligations and commitments during the first quarter of 2012.

6.9 Related party transactions

The Corporation has a variety of transactions with related parties both in the normal course of business and in supporting the Government of Canada's public policies. These transactions are not materially different from what was reported in *Section 6.9 – Related party transactions of the 2011 Annual MD&A*. For more information on related party transactions, please refer to *Note 11 Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 31, 2012*.

6.10 Contingent liabilities

Contingent liabilities are described in *Note 7 Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 weeks ended March 31, 2012.*

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between March 31, 2012 and December 31, 2011

(in millions of dollars)

ASSETS	March 31, 2012	Dec. 31, 2011	Change	%	Explanation of Change
Cash and cash equivalents	156	271	(115)	(42.4)%	*Refer to Section 6 – Liquidity and Capital Resources on page 12*
Marketable securities	835	842	(7)	(0.8)%	No material change
Trade and other receivables	624	662	(38)	(5.7)%	Mainly due to decreased receivables for the Canada Post and Purolator segments that resulted from higher sales in December 2011
Income tax receivable	59	56	3	5.8%	No material change
Other assets	84	115	(31)	(27.2)%	Mainly due to decreased prepaid expenses and assets held for sale
Total current assets	**1,758**	**1,946**	**(188)**	**(9.6)%**	
Property, plant and equipment	2,428	2,379	49	2.1%	Due to the Canada Post segment's net capital acquisitions
Intangible assets	168	165	3	1.8%	No material change
Segregated securities	552	553	(1)	(0.2)%	No material change
Pension benefit assets	96	93	3	3.0%	No material change
Deferred tax assets	1,519	1,472	47	3.2%	Primarily due to the increase of temporary differences resulting from actuarial losses recognized in other comprehensive income for Canada Post's Registered Pension Plan asset and post-employment benefits
Goodwill	125	125	–	–	No material change
Other assets	13	11	2	23.6%	No material change
Total non-current assets	**4,901**	**4,798**	**103**	**2.1%**	
Total assets	**6,659**	**6,744**	**(85)**	**(1.3)%**	

(in millions of dollars)

LIABILITIES & EQUITY	March 31, 2012	Dec. 31, 2011	Change	%	Explanation of Change
Trade and other payables	436	482	(46)	(9.5)%	Primarily due to decreased trade payables and bond interest payments for the Canada Post segment, partially offset by increased payables for the Purolator segment due to timing
Salaries and benefits payable and related provisions	661	732	(71)	(9.7)%	Primarily due to decreased accrued salaries and benefits due to timing in the Canada Post segment
Provisions	73	75	(2)	(2.3)%	No material change
Income tax payable	2	2	(0)	(11.8)%	No material change
Deferred revenue	118	129	(11)	(8.6)%	Due to a reduction in stamp deferrals, partially offset by an increase in customer prepayments
Loans and borrowings	15	16	(1)	(5.1)%	No material change
Other long-term benefit liabilities	86	86	–	–	No material change
Total current liabilities	**1,391**	**1,522**	**(131)**	**(8.6)%**	
Loans and borrowings	1,109	1,111	(2)	(0.2)%	No material change
Pension, other post-employment and other long-term benefit liabilities	5,915	5,719	196	3.4%	Primarily resulting from actuarial losses for the Canada Post segment
Deferred tax liabilities	1	–	1	305.9%	No material change
Provisions	4	4	(0)	(4.0)%	No material change
Other liabilities	23	19	4	23.3%	Primarily due to deferred gain on sale of assets
Total non-current liabilities	**7,052**	**6,853**	**199**	**2.9%**	
Total liabilities	**8,443**	**8,375**	**68**	**0.8%**	
Equity					
Contributed capital	1,155	1,155	–	–	No material change
Accumulated other comprehensive income	40	45	(5)	(11.1)%	Mainly due to net unrealized loss on available-for-sale financial assets for the Canada Post segment
Accumulated deficit	(3,003)	(2,855)	(148)	(5.2)%	Primarily due to net actuarial losses resulting from asset and accrued benefits re-measurement
Equity of Canada	**(1,808)**	**(1,655)**	**(153)**	**(9.2)%**	
Non-controlling interests	24	24	(0)	(1.1)%	
Total equity	**(1,784)**	**(1,631)**	**(153)**	**(9.3)%**	
Total liabilities and equity	**6,659**	**6,744**	**(85)**	**(1.3)%**	

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

(in millions of dollars)	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Revenue from operations	1,940	1,984	1,806	1,761	1,933	1,972	1,752	1,833
Cost of operations	1,934	2,071	1,963	1,773	1,903	1,902	1,763	1,788
Profit (loss) from operations	**6**	**(87)**	**(157)**	**(12)**	**30**	**70**	**(11)**	**45**
Investing and financing income (expense)	(9)	(7)	(6)	(6)	(8)	2	(8)	(0)
Profit (loss) before tax	**(3)**	**(94)**	**(163)**	**(18)**	**22**	**72**	**(19)**	**45**
Tax expense (income)	4	(16)	(50)	(1)	2	15	(205)	(2)
Net profit (loss)	**(7)**	**(78)**	**(113)**	**(17)**	**20**	**57**	**186**	**47**

8.2 Consolidated results from operations

Consolidated results for the first quarter of 2012

	13 weeks ended			
(in millions of dollars)	March 31, 2012	April 2, 2011	Change	%
Revenue from operations	1,940	1,933	7	0.4%*
Cost of operations	1,934	1,903	31	1.6%
Profit from operations	**6**	**30**	**(24)**	**(78.6)%**
Investing and financing income (expense)	(9)	(8)	(1)	(6.4)%
Profit (loss) before tax	**(3)**	**22**	**(25)**	**(111.5)%**
Tax expense (income)	4	2	2	251.2%
Net profit (loss)	**(7)**	**20**	**(27)**	**(132.6)%**
Other comprehensive loss	(146)	(8)	(138)	(1859.8)%
Comprehensive income(loss)	**(153)**	**12**	**(165)**	**(1242.7)%**

* Adjusted for trading days where applicable

The Canada Post Group of Companies reported a net loss of $7 million for the first quarter of 2012—a decrease of $27 million when compared to the same quarter in the previous year.

Consolidated revenue from operations

For the first quarter of 2012, revenue from operations increased by $7 million or 0.4 per cent when compared to the same quarter in the previous year. Significant volume erosion in both Canada Post's Transaction Mail and Direct Marketing lines of business caused revenues to remain relatively flat despite price increases and revenue growth in the Purolator segment. A detailed discussion of revenue by segment follows in *Sections 8.4 to 8.7*.

Consolidated cost of operations

Cost of operations increased by $31 million or 1.6 per cent in the first quarter of 2012 when compared to the same quarter last year. A detailed discussion by segment is provided in *Sections 8.4 to 8.7.*

Consolidated investing and financing income (expense)

Expenses from investing and financing activities increased by $1 million in the first quarter of 2012 when compared to the same period in the prior year.

Consolidated tax expense (income)

Consolidated tax expense increased for the first quarter of 2012 when compared to the same period in the prior year. This increase is primarily driven by the impact of the declining statutory rate on the 2011 loss carry back as well as the 2011 temporary differences.

Consolidated other comprehensive income (loss)

Actuarial losses were recorded as a result of the re-measurement of the defined benefit plans; positive returns on the pension plan investments were offset by a decline in the discount rate which negatively impacted the Group of Companies' pension plans.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

	13 weeks ended			
(in millions of dollars)	**March 31, 2012**	**April 2, 2011**	**Change**	**%**
Canada Post	11	23	(12)	(51.8)%
Purolator	(11)	(6)	(5)	(70.9)%
Logistics	2	2	(0)	(11.0)%
Other	4	4	0	10.3%
Intersegment and unallocated	(9)	(1)	(8)	(875.7)%
Canada Post Group of Companies	**(3)**	**22**	**(25)**	**(111.5)%**

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

8.4 Canada Post segment

The Canada Post segment contributed $11 million of profit before tax to the consolidated results in the first quarter of 2012, a decrease of $12 million when compared to the same quarter in the prior year. The decrease in profit would have been even more significant if not for $8 million of non-operating, one-time adjustments. These adjustments were recorded in investing and financing income with the majority linked to intersegment and unallocated activities which were eliminated on consolidation. A detailed discussion of revenue and cost of operations is provided below.

Canada Post results for the first quarter of 2012

	13 weeks ended			
(in millions of dollars)	**March 31, 2012**	**April 2, 2011**	**Change**	**%**
Revenue from operations	1,539	1,561	(22)	(1.4)%*
Cost of operations	1,529	1,531	(2)	(0.2)%
Profit from operations	**10**	**30**	**(20)**	**(64.6)%**
Investing and financing income (expense)	1	(7)	8	109.8%
Profit before tax	**11**	**23**	**(12)**	**(51.8)%**
Tax expense	4	1	3	344.2%
Net profit	**7**	**22**	**(15)**	**(67.6)%**

* Adjusted for trading days where applicable

Revenue from operations

Canada Post generated revenue from operations of $1,539 million in the first quarter of 2012—a decrease of $22 million or 1.4 per cent, when compared with the same quarter last year. The decrease in revenue was due to a number of factors including electronic substitution, competitive pressures, economic uncertainty, and the lingering impact of the June 2011 labour disruption.

Quarterly revenue by line of business

	13 weeks ended			
	March 31, 2012	**April 2, 2011**	**Change**	**%***
Transaction Mail	830	847	(17)	(2.0)%
Direct Marketing	313	326	(13)	(3.8)%
Parcels	319	322	(3)	(1.0)%
Other revenue	77	66	11	17.2%
Total	**1,539**	**1,561**	**(22)**	**(1.4)%**

* Adjusted for trading days where applicable

Transaction Mail

Transaction Mail revenue of $830 million for the first quarter of 2012 was comprised of the following three product categories: domestic Lettermail ($747 million); outbound Letter-post ($50 million); and inbound Letter-post ($33 million).

In the first quarter of 2012, Transaction Mail volume decreased by 58 million pieces or 4.5 per cent and revenue decreased by $17 million or 2.0 per cent when compared to the same period last year. For domestic Lettermail, the largest product category, volumes decreased by 57 million pieces or 4.9 per cent and revenues decreased by $26 million or 3.4 per cent. Decreases in the volume and revenue in the first quarter were primarily driven by erosion due to electronic substitution including promotion and development of pay-for-paper initiatives by some of our largest customers, and lingering economic uncertainty.

Direct Marketing

Direct Marketing revenue of $313 million for the first quarter of 2012 was comprised of the following four categories: Addressed Admail™ ($148 million); Unaddressed Admail™ ($97 million); Publications Mail™ ($61 million); and Business Reply Mail™ & Other Mail ($7 million).

Direct Marketing revenue decreased for the first quarter by $13 million or 3.8 per cent when compared to the same period in the prior year. Volumes decreased for the first quarter of 2012 by 87 million pieces or 6.4 per cent over the same period in the prior year. Decreases in revenues and volumes were primarily due to corporate customers in the financial, telecom and retailer segments reducing their marketing spend as well as shifting to other media.

Parcels

Parcel revenue of $319 million for the first quarter of 2012 was comprised of four product categories: domestic parcels ($222 million); outbound parcels ($50 million); inbound parcels ($41 million); and other ($6 million).

Parcel revenue for the first quarter experienced a decline of $3 million or 1.0 per cent while volumes increased by 0.4 million pieces or 1.1 per cent compared to the same quarter last year. The revenue decline was primarily driven by our exiting the Food Mail Program in 2011. The volume increase reflects growth in e-commerce orders.

Other revenue

Other revenue of $77 million increased by $11 million or 17.2 per cent in the first quarter of 2012, when compared to the same period in the prior year, due to increased sales from new stamp issues and strong performance in Mail Redirection and other data products, partially offset by the impact of the 2011 census in the SmartFlow™ products.

Cost of operations

Cost of operations for the Canada Post segment totaled $1,529 million in the first quarter of 2012—a decrease of $2 million or 0.2 per cent when compared to the same quarter last year.

	13 weeks ended			
(in millions of dollars)	March 31, 2012	April 2, 2011	Change	%
Labour	811	825	(14)	(1.7)%
Employee benefits	257	238	19	8.1%
Total labour and employee benefits	**1,068**	**1,063**	**5**	**0.5%**
Non-labour collection, processing and delivery	220	232	(12)	(5.3)%
Property, facilities and maintenance	60	60	0	0.3%
Selling, administrative and other	121	119	2	1.2%
Total other operating costs	**401**	**411**	**(10)**	**(2.6)%**
Depreciation and amortization	60	57	3	5.3%
Total	**1,529**	**1,531**	**(2)**	**(0.2)%**

Labour

The cost of labour decreased by $14 million, or 1.7 per cent, for the first quarter of 2012 when compared to the same period in the previous year mostly due to a reduction of overtime, volume related payments, and one-time adjustments. These decreases were partially offset by increased usage of temporary employees, increased labour costs for RSMCs and regular annual anticipated wage increases.

Employee benefits

Employee benefits for the first quarter of 2012 increased by $19 million, or 8.1 per cent, when compared to the same period last year. The increase was mainly due to a change in actuarial assumptions including a reduction in discount rates and a lower rate of return on plan assets.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $12 million or 5.3 per cent for the first quarter of 2012, when compared to the same period in the prior year, mainly as a result of exiting the Government of Canada's Food Mail Program (as at March 31, 2011) partially offset by inflationary pressures.

Property, facilities and maintenance

Cost of facilities remained stable for the first quarter of 2012, when compared to the same period last year.

Selling, administrative and other

Selling, administrative and other expenses (which includes information technology, administration, program expense, selling and other costs) remained relatively flat increasing by $2 million or 1.2 per cent for the first quarter of 2012 when compared to the same quarter in the prior year.

Depreciation and amortization

Depreciation and amortization expenses increased by $3 million or 5.3 per cent for the first quarter of 2012, when compared to the same period in the prior year. The increase was primarily due to increased capital asset acquisitions relating to Postal Transformation and replenishment of the existing asset base.

8.5 Purolator segment

The Purolator segment experienced a net loss of $9 million for the first quarter of 2012, an increase of $4 million when compared with the same period in the prior year.

Purolator results for the first quarter of 2012

	13 weeks ended			
(in millions of dollars)	**March 31, 2012**	**April 2, 2011**	**Change**	**%**
Revenue from operations	398	372	26	6.9 %*
Cost of operations	408	378	30	8.0 %
Profit (loss) from operations	**(10)**	**(6)**	**(4)**	**(90.8) %**
Investing and financing income (expense)	(1)	(0)	(1)	(48.4) %
Profit (loss) before tax	**(11)**	**(6)**	**(5)**	**(70.9) %**
Tax expense (income)	(2)	(1)	(1)	(32.0) %
Net profit (loss)	**(9)**	**(5)**	**(4)**	**(81.7) %**

* Adjusted for trading days where applicable

Revenue from operations

Overall, Purolator generated revenue from operations of $398 million in the first quarter of 2012—an increase of $26 million or 6.9 per cent, when compared with the same period last year, mainly driven by increased volumes.

Cost of operations

Labour

Cost of labour increased by $12 million or 9.1 per cent for the first quarter of 2012, when compared to the same period in the previous year due to increased volumes, increased spending in previously understaffed areas and filling of vacant positions.

Operational Costs

Operational costs increased by $8 million or 5.5 per cent for the first quarter of 2012 when compared to the same period in the previous year, due to increases in volumes and inflationary pressures.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $1 million of net profit to the consolidated results for the first quarter of 2012, substantially unchanged compared to the same period in the prior year.

Logistics results for the first quarter of 2012

	13 weeks ended			
(in millions of dollars)	**March 31, 2012**	**April 2, 2011**	**Change**	**%**
Revenue from operations	35	34	1	3.3%*
Cost of operations	33	32	1	6.1%
Profit from operations	**2**	**2**	**(0)**	**(14.9)%**
Investing and financing income (expense)	0	(0)	0	243.8%
Profit before tax	**2**	**2**	**(0)**	**(11.0)%**
Tax expense	1	0	1	60.3%
Net profit	**1**	**2**	**(1)**	**(42.9)%**

* Adjusted for trading days where applicable

Revenue from operations

Overall, SCI generated revenue from operations of $35 million in the first quarter of 2012—an increase of $1 million or 3.3 per cent, when compared with the same period last year, mainly driven by new business in logistics as well as transportation.

Cost of operations

Labour

Cost of labour totalled $12.1 million in the first quarter of 2012 and remained flat when compared to the same period in the previous year.

Operational Costs

Operational costs increased by $1.6 million for the first quarter of 2012 when compared to the same period in the previous year, due to new business growth and higher volume in transportation clients.

8.7 Other segment

The Other segment includes the financial results of Innovapost. Virtually all of the services provided by Innovapost are provided to the Canada Post Group of Companies. Accordingly, the Corporation's proportionate share of Innovapost revenue was eliminated against the other segments' cost of operations upon consolidation. Cost of operations included in the Corporation's unaudited interim condensed consolidated financial statements for the 13 weeks ended March 31, 2012 include the Corporation's proportionate share of expenses related to these services for the first quarter of 2012 of approximately $36 million, an increase of $4 million when compared to the same quarter of 2011.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2012 and future years

9.1 Critical accounting estimates

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 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 considerable 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 in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. Refer to our discussion of critical accounting estimates in our 2011 Annual MD&A and in *Note 3 Critical Accounting Judgments and Key Sources of Estimation Uncertainty* of our 2011 consolidated financial statements, which are contained in our 2011 Annual Report, for additional information.

9.2 Accounting policy developments

The following table presents the new standards and amendments issued by the International Accounting Standards Board ("IASB"), which were assessed as having a possible impact on the Group of Companies in the future. A more detailed description of these pronouncements can be found under the accounting policy developments of our 2011 Annual MD&A, which is contained in our 2011 Annual Report. No additional pronouncements applicable to the Group of Companies have been issued since the Group of Companies' year end.

Standard or amendment	**Effective for annual periods beginning on or after**
IFRS 9 Financial Instruments	January 1, 2015
IFRS 10 Consolidated Financial Statements	January 1, 2013
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interests in Others	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013
IAS 27 Separate Financial Statements	January 1, 2013
IAS 28 Investments in Associates and Joint Ventures	January 1, 2013
Amendments to IAS 19 Employee Benefits	January 1, 2013
Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income	July 1, 2012
Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures	January 1, 2015
Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	January 1, 2014

The Corporation is currently determining the impact of these standards and amendments on its consolidated financial statements. The Corporation is expecting that the amendments to IAS 19 will have a material negative impact on net profit or loss.

9.3 Changes in accounting policies

Our significant accounting policies were described in *Note 2 Basis of Presentation and Significant Accounting Policies* of our 2011 consolidated financial statements, which are contained in our 2011 Annual Report. There were no changes in accounting policies or adoption of new standards by the Group of Companies in the 13 weeks ended March 31, 2012.

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

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

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

President and Chief Executive Officer

Chief Financial Officer

May 29, 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**March 31, 2012**	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		**$ 156**	$ 271
Marketable securities		**835**	842
Trade and other receivables		**624**	662
Income tax receivable		**59**	56
Other assets		**84**	115
Total current assets		**1,758**	1,946
Non-current assets			
Property, plant and equipment	**4**	**2,428**	2,379
Intangible assets	**4**	**168**	165
Segregated securities		**552**	553
Pension benefit assets	**5**	**96**	93
Deferred tax assets		**1,519**	1,472
Goodwill		**125**	125
Other assets		**13**	11
Total non-current assets		**4,901**	4,798
Total assets		**$ 6,659**	$ 6,744
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 436**	$ 482
Salaries and benefits payable and related provisions		**661**	732
Provisions		**73**	75
Income tax payable		**2**	2
Deferred revenue		**118**	129
Loans and borrowings		**15**	16
Other long-term benefit liabilities	**5**	**86**	86
Total current liabilities		**1,391**	1,522
Non-current liabilities			
Loans and borrowings		**1,109**	1,111
Pension, other post-employment and other long-term benefit liabilities	**5**	**5,915**	5,719
Deferred tax liabilities		**1**	–
Provisions		**4**	4
Other liabilities		**23**	19
Total non-current liabilities		**7,052**	6,853
Total liabilities		**8,443**	8,375
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**40**	45
Accumulated deficit		**(3,003)**	(2,855)
Equity of Canada		**(1,808)**	(1,655)
Non-controlling interests		**24**	24
Total equity		**(1,784)**	(1,631)
Total liabilities and equity		**$ 6,659**	$ 6,744
Contingent liabilities	**7**		
Subsequent event	**13**		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**March 31, 2012**	April 2, 2011
Revenue from operations		**$ 1,940**	$ 1,933
Cost of operations			
Labour		**983**	983
Employee benefits	**5**	**298**	274
		1,281	1,257
Other operating costs	**8**	**577**	575
Depreciation and amortization		**76**	71
Total cost of operations		**1,934**	1,903
Profit from operations		**6**	30
Investing and financing income (expense)			
Investment and other income	**9**	**7**	5
Finance costs and other expense	**9**	**(16)**	(13)
Investing and financing income (expense), net		**(9)**	(8)
Profit (loss) before tax		**(3)**	22
Tax expense (income)	**6**	**4**	2
Net profit (loss)		**$ (7)**	$ 20
Other comprehensive income (loss)			
Non-reclassifying to Net profit (loss)			
Actuarial losses on defined benefit plans	**5**	**$ (185)**	$ –
Reclassifying to Net profit (loss)			
Unrealized losses on available-for-sale financial assets		**(7)**	(9)
Realized gains reclassified to Net profit (loss)		**–**	(1)
Tax relating to all components of Other comprehensive loss	**6**	**46**	2
Other comprehensive loss		**(146)**	(8)
Comprehensive income (loss)		**$ (153)**	$ 12
Net profit (loss) attributable to:			
Government of Canada		**$ (6)**	$ 20
Non-controlling interests		**(1)**	–
		$ (7)	$ 20
Comprehensive income (loss) attributable to:			
Government of Canada		**$ (152)**	$ 12
Non-controlling interests		**(1)**	–
		$ (153)	$ 12

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 March 31, 2012 (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, 2011	**$ 1,155**	**$ 45**	**$ (2,855)**	**$ (1,655)**	**$ 24**	**$ (1,631)**
Net loss	**–**	**–**	**(6)**	**(6)**	**(1)**	**(7)**
Other comprehensive income (loss)						
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	**–**	**–**	**(185)**	**(185)**	**–**	**(185)**
Reclassifying to Net profit (loss)						
Unrealized losses on available-for-sale financial assets	**–**	**(7)**	**–**	**(7)**	**–**	**(7)**
Tax relating to all components of Other comprehensive loss	**–**	**2**	**44**	**46**	**–**	**46**
Other comprehensive loss	**–**	**(5)**	**(141)**	**(146)**	**–**	**(146)**
Comprehensive loss	**–**	**(5)**	**(147)**	**(152)**	**(1)**	**(153)**
Transactions with shareholders						
Non-controlling interest arising on business combination	**–**	**–**	**–**	**–**	**1**	**1**
Other transactions with non-controlling interests	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Total transactions with shareholders	**–**	**–**	**(1)**	**(1)**	**1**	**–**
Balance at March 31, 2012	**$ 1,155**	**$ 40**	**$ (3,003)**	**$ (1,808)**	**$ 24**	**$ (1,784)**

For the 13 weeks ended April 2, 2011 (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, 2010	$ 1,155	$ 9	$ (1,485)	$ (321)	$ 27	$ (294)
Net profit	–	–	20	20	–	20
Other comprehensive income (loss)						
Reclassifying to Net profit (loss)						
Unrealized losses on available-for-sale financial assets	–	(9)	–	(9)	–	(9)
Realized gains reclassified to Net profit	–	(1)	–	(1)	–	(1)
Tax relating to all components of Other comprehensive loss	–	2	–	2	–	2
Other comprehensive loss	–	(8)	–	(8)	–	(8)
Comprehensive income (loss)	–	(8)	20	12	–	12
Balance at April 2, 2011	$ 1,155	$ 1	$ (1,465)	$ (309)	$ 27	$ (282)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	Notes	March 31, 2012	April 2, 2011
Cash flows from operating activities			
Net profit (loss)		**$ (7)**	$ 20
Adjustments to reconcile Net profit (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	4	**76**	71
Pension, other post-employment and other long-term benefit expense	5	**151**	132
Pension, other post-employment and other long-term benefit payments	5	**(142)**	(229)
Gain on sale of capital assets		**(1)**	–
Tax expense (income)		**4**	2
Net interest expense	9	**9**	8
Change in non-cash operating working capital:			
Decrease in trade and other receivables		**56**	6
Decrease in trade and other payables		**(42)**	(58)
Decrease in salaries and benefits payable and related provisions		**(78)**	(48)
Decrease in provisions		**(3)**	(5)
Net decrease (increase) in other non-cash operating working capital		**10**	(12)
Other income not affecting cash, net		**(4)**	(8)
Cash provided by (used in) operations before interest and taxes		**29**	(121)
Interest received		**7**	5
Interest paid		**(25)**	(25)
Tax paid		**(8)**	(3)
Cash provided by (used in) operating activities		**3**	(144)
Cash flows from investing activities			
Business acquisition, net of cash acquired	3	**(11)**	–
Acquisition of securities		**(462)**	(591)
Proceeds from sale of securities		**485**	712
Acquisition of capital assets		**(124)**	(75)
Proceeds from sale of capital assets		**20**	1
Other investing activities, net		**(21)**	17
Cash provided by (used in) investing activities		**(113)**	64
Cash flows from financing activities			
Payments on finance lease obligations		**(4)**	(3)
Other financing activities, net		**(1)**	(1)
Cash used in financing activities		**(5)**	(4)
Net decrease in cash and cash equivalents		**(115)**	(84)
Cash and cash equivalents, beginning of period		**271**	379
Cash and cash equivalents, end of period		**$ 156**	$ 295

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the 13 weeks ended March 31, 2012
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

Under the Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business not covered by the exclusive privilege include parcels and direct marketing products and services. The Corporation's principal subsidiaries include Purolator, Inc. ("Purolator"), SCI Group Inc. ("SCI") and Innovapost Inc. ("Innovapost"). Purolator and SCI offer courier, transportation and logistics services, while Innovapost provides information technology services to the Corporation and its subsidiaries. The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation on September 1, 2005, while respecting all applicable laws. The Corporation is continuing to assess the safety risks related to rural roadside mailboxes in 2012.

2. Basis of Presentation

Statement of compliance • These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34"). As permitted under IAS 34, 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, 2011.

The interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on May 29, 2012. They have been prepared based on IFRS issued and effective as at the time these statements were prepared. The comparative reporting period has not been reviewed by the Corporation's external auditors.

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

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.

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

Basis of consolidation • These interim condensed consolidated financial statements include the accounts of the Canada Post Group of Companies. The results of Purolator and SCI are consolidated for the thirteen weeks ended March 31, 2012 and April 2, 2011. The results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation (Note 3). Innovapost was previously a joint venture accounted for using proportionate consolidation.

Significant accounting policies • Significant accounting policies applied in these interim condensed consolidated financial statements are disclosed in Note 2 of the Corporation's annual consolidated financial statements for the year ended December 31, 2011. The accounting policies have been applied consistently to the current and comparative quarters.

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 considerable 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 in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2011.

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

3. Business Combination

After receiving approval under the *Financial Administration Act* from Treasury Board of Canada Secretariat, the Canada Post Group of Companies' purchase of all remaining voting shares in Innovapost became effective on March 14, 2012 (the acquisition date). As a result, the equity interest of the Group of Companies in Innovapost increased by a further 47.6%, from 51% to 98.6%.

The consideration for the business combination was $26 million in cash, paid on the acquisition date. The business combination has been accounted for using the acquisition method and the results of the acquired subsidiary were included in the consolidated financial statements from the date of acquisition.

Innovapost provides information systems and information technology ("IS/IT") services to the Canada Post Group of Companies. The new ownership structure will strengthen synergies among the Group of Companies by building increased business capabilities and embracing a standardized IS/IT service delivery mode as a means of reducing costs, driving efficiencies, improving service delivery and extracting greater business value from the entity.

Fair values approximated carrying amounts at the acquisition date. The non-controlling interest in Innovapost has been measured at the proportionate share in the recognized amounts of the identifiable net assets.

The details of assets acquired and liabilities assumed were as follows:

		Purchase price allocation
Assets		
Current assets	$	38
Non-current assets		5
Total assets	**$**	**43**
Liabilities		
Current liabilities	$	18
Non-current liabilities		2
Total liabilities	**$**	**20**
Equity	**$**	**23**
Equity attributable to Equity of Canada	$	22
Non-controlling interest	$	1

The purchase price also includes a consideration for gaining control over the acquiree, enabling the Group of Companies to align its goals and interests for the future direction of Innovapost.

Included in current assets acquired were cash of $15 million and trade receivables of $18 million. The fair value of the receivables equals the gross contractual amount as all of the receivables are from the Group of Companies.

The Group of Companies' consolidated revenue and net loss for the 13 weeks ended March 31, 2012 would not differ materially had the Innovapost acquisition taken place on January 1, 2012, the beginning of the reporting period, nor were they materially affected subsequent to the acquisition date after taking into account the effect of the intersegment eliminations.

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

4. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost or deemed cost									
December 31, 2011	$ 312	$ 1,644	$ 240	$ 1,164	$ 329	$ 431	$ 860	$ 95	$ 5,075
Additions	12	8	3	31	12	4	5	40	115
Acquisition through business combination	–	–	–	–	–	2	–	–	2
Reclassified as held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	–	(1)	(28)	(7)	(4)	–	–	(40)
Transfers (nets to nil with Note 4 (b))	–	19	1	1	–	–	–	(26)	(5)
March 31, 2012	**$ 324**	**$ 1,670**	**$ 243**	**$ 1,168**	**$ 334**	**$ 433**	**$ 865**	**$ 109**	**$ 5,146**
Accumulated depreciation									
December 31, 2011	$ –	$ 830	$ 171	$ 696	$ 173	$ 301	$ 525	$ –	$ 2,696
Depreciation	–	16	3	16	7	10	10	–	62
Reclassified as held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	–	(1)	(28)	(7)	(3)	–	–	(39)
March 31, 2012	**$ –**	**$ 845**	**$ 173**	**$ 684**	**$ 173**	**$ 308**	**$ 535**	**$ –**	**$ 2,718**
Carrying amounts									
December 31, 2011	$ 312	$ 814	$ 69	$ 468	$ 156	$ 130	$ 335	$ 95	$ 2,379
March 31, 2012	**$ 324**	**$ 825**	**$ 70**	**$ 484**	**$ 161**	**$ 125**	**$ 330**	**$ 109**	**$ 2,428**

During 2012, capitalized borrowing costs related to property, plant and equipment amounted to $1 million (April 2, 2011 – nil), with a capitalization rate of 4.3%.

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

(b) Intangible assets

Intangible assets consisted of the following items:

	Software	Software under development	Customer contracts & relationships	Total
Cost				
December 31, 2011	$ 585	$ 44	$ 27	$ 656
Additions	1	10	–	11
Acquisition through business combination	3	–	–	3
Retirements	(7)	–	–	(7)
Transfers (nets to nil with Note 4 (a))	–	5	–	5
March 31, 2012	**$ 582**	**$ 59**	**$ 27**	**$ 668**
Accumulated amortization				
December 31, 2011	$ 467	$ –	$ 24	$ 491
Amortization	14	–	–	14
Retirements	(5)	–	–	(5)
March 31, 2012	**$ 476**	**$ –**	**$ 24**	**$ 500**
Carrying amounts				
December 31, 2011	$ 118	$ 44	$ 3	$ 165
March 31, 2012	**$ 106**	**$ 59**	**$ 3**	**$ 168**

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

5. Pension, Other Post-Employment and Other Long-Term Benefit Plans

(a) Costs

The elements of employee benefit costs recognized in the period, and presented in Employee benefits in the interim condensed consolidated statement of comprehensive income, were as follows:

For the 13 weeks ended	**March 31, 2012**			April 2, 2011		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 106	$ 34	$ 140	$ 100	$ 36	$ 136
Interest cost	243	44	287	241	47	288
Expected return on plan assets	(277)	–	(277)	(290)	–	(290)
Past service cost (credit)	–	(2)	(2)	–	(2)	(2)
Defined benefit costs	72	76	148	51	81	132
Defined contribution costs	3	–	3	–	–	–
Total costs	75	76	151	51	81	132
Return on segregated securities	–	(5)	(5)	–	(6)	(6)
Net costs recognized in net profit (loss)	**$ 75**	**$ 71**	**$ 146**	$ 51	$ 75	$ 126
Actuarial losses on defined benefit plans recognized in other comprehensive loss	22	163	185	–	–	–
Recognized in comprehensive loss	**$ 97**	**$ 234**	**$ 331**	$ 51	$ 75	$ 126

In the first quarter of 2012, the Canada Post Group of Companies updated the measurement of its employee benefit assets and liabilities, resulting in a pre-tax other comprehensive loss of $185 million (April 2, 2011 – nil), in a decrease in pension benefit assets of $1 million (April 2, 2011 – nil) and an increase in pension, other post-employment and other long-term benefit liabilities of $184 million (April 2, 2011 – nil). This loss was a result of a decrease in the discount rates, which are sensitive to falling bond yields, partly offset by higher-than-expected returns from the Group of Companies' pension plan assets.

(b) Total cash payments

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	**March 31, 2012**	April 2, 2011
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 37	$ 40
Employer regular contributions to funded pension benefit plans	91	80
Employer special contributions to funded pension benefit plans	11	109
Total cash payments for defined benefit plans	139	229
Contributions to defined contribution plans	3	–
Total cash payments	**$ 142**	$ 229

In 2012, the Group of Companies' total contributions to pension benefit plans are estimated to be $488 million. These contributions include the Corporation's special contributions of $61 million, which reflect the Corporation's intent to seek agreement, from the Minister of Finance and the Minister of Transport, Infrastructure and Communities, to use the special contribution relief for the full year as permitted by the legislation.

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

(c) Assets and liabilities

The amounts recognized and presented in the interim condensed consolidated statement of financial position were as follows:

As at	March 31, 2012	December 31, 2011
Pension benefit assets	**$ 96**	$ 93
Pension benefit liabilities	$ 2,475	$ 2,481
Other post-employment and other long-term benefit liabilities	3,526	3,324
Less current other long-term benefit liabilities	**(86)**	(86)
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 5,915**	$ 5,719

6. 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.

The major components of tax expense (income) were as follows:

For the 13 weeks ended	March 31, 2012	April 2, 2011
Current tax expense (income)	$ 5	$ (21)
Deferred tax expense (income) relating to:		
Origination and reversal of temporary differences	(1)	21
Reduction in tax rate	–	2
Tax expense (income)	**$ 4**	$ 2

Income tax recognized in other comprehensive income was as follows:

For the 13 weeks ended	March 31, 2012			April 2, 2011		
	Before tax	**Tax impact**	**Net of tax**	Before tax	Tax impact	Net of tax
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (185)	$ 44	$ (141)	$ –	$ –	$ –
Reclassifying to Net profit (loss)						
Net unrealized loss on available-for-sale financial assets	(7)	2	(5)	(10)	2	(8)
	$ (192)	**$ 46**	**$ (146)**	$ (10)	$ 2	$ (8)

7. Contingent Liabilities

(a) A complaint was filed with the Canadian Human Rights Commission (the "Commission") alleging discrimination by the Corporation concerning work of equal value. The complaint, filed by the Canadian Postmasters and Assistants Association initially in December 1982 was, in February 2006, recommended by a conciliator to be declined by the Commission on the basis that the complaint is one that could more appropriately be dealt with under the *Canada Labour Code*. There have been no new developments in respect of this complaint. The outcome of this complaint is currently not determinable and as a result no provision has been recorded in the interim condensed consolidated financial statements.

(b) The current collective agreement between the Corporation and the Canadian Union of Postal Workers (the "CUPW") expired January 31, 2011. The parties began negotiating a new contract in October 2010. In January 2011, the CUPW applied for conciliation as provided for under the *Canada Labour Code*. The CUPW exercised its right to strike through rotating strikes across the country beginning June 2, 2011, and the Corporation locked out employees on June 14, 2011. The Government of Canada tabled back-to-work legislation on June 20, 2011, and the legislation received Royal Assent on June 26, 2011.

After having been appointed arbitrator by the Minister of Labour for final offer selection arbitration as provided for in the legislation, the Honourable Justice Coulter Osborne submitted his resignation as arbitrator to the Minister of Labour on November 1, 2011. The Minister of Labour subsequently appointed Guy Dufort as the new arbitrator in the negotiations between the Corporation and the CUPW, effective March 19, 2012. The CUPW has asked Mr. Dufort to recuse himself from the arbitration, which he declined. The CUPW proceeded to the Federal Court to oppose Mr. Dufort's appointment and on May 2, 2012, the Federal Court heard an application by the CUPW to stay the proceedings until such time as they have rendered a decision on the appointment of Mr. Dufort. On May 11, 2012, the Federal Court granted the stay and set July 25, 2012, as the hearing date for whether Mr. Dufort's decision to not recuse himself from the arbitration was appropriate. The CUPW has also filed an application contesting the constitutionality of the legislation itself.

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

(c) In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees to indemnify them, subject to the terms of these agreements, against claims and expenses incurred by them as a result of serving as a director or officer of the Group of Companies or as a director, officer or in a similar capacity of another entity at the request of the Group of Companies.

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

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

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

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

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

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

8. Other Operating Costs

Other operating costs consisted of:

For the 13 weeks ended	**March 31, 2012**	April 2, 2011
Non-labour collection, processing and delivery	$ 352	$ 352
Property, facilities and maintenance	84	84
Selling, administrative and other	141	139
Other operating costs	**$ 577**	$ 575

9. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of:

For the 13 weeks ended	**March 31, 2012**	April 2, 2011
Interest revenue	$ 3	$ 5
Gain on sale of capital assets	1	–
Other income	3	–
Investment and other income	**$ 7**	$ 5
Interest expense	$ (12)	$ (13)
Other expense	(4)	–
Finance costs and other expense	**$ (16)**	$ (13)
Investing and financing income (expense), net	**$ (9)**	$ (8)

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

10. Foreign Exchange Risk

The Group of Companies' exposure to foreign exchange risk mostly arises from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in Special Drawing Rights ("SDRs"), a basket of currencies comprising the US Dollar ("US$"), Euro, British Pound and Yen, whereas payment is usually denominated in US$.

In the first quarter, the Corporation continued the economic hedge program to mitigate its exposure to foreign exchange balances and also implemented an economic hedge program to mitigate its exposure to 2012 forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the four currencies which underlie one SDR. Hedging is permitted on up to 70% of forecasted net exposures where cash flows are highly probable. The notional amounts of forward contracts outstanding were as follows:

As at March 31, 2012

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity Range**	**Type**	**Fair value**
US Dollar	US$75	$ 76	$1.01/US$	April 12-Dec. 21, 2012	Sell forward	$ 1
Euro	€44	57	$1.30/€	April 13-Dec. 21, 2012	Sell forward	(1)
British Pound	£10	16	$1.60/£	April 13-Dec. 21, 2012	Sell forward	–
Yen	¥1,153	15	$0.013/¥	April 13-Dec. 21, 2012	Sell forward	1
Total		$ 164				**$ 1**

As at April 2, 2011

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
US Dollar	US$28	$ 27	$0.97/US$	April 12, 2011	Sell forward	$ –
Euro	€11	15	$1.36/€	April 12, 2011	Sell forward	–
Total		$ 42				$ –

The related unrealized gains (losses) were as follows:

For the 13 weeks ended	**March 31, 2012**	April 2, 2011
US Dollar	$ 1	$ –
Euro	(1)	–
British Pound	–	–
Yen	1	–
Total	**$ 1**	$ –

The fair value of these contracts is recorded in Trade and other receivables as risk management financial assets, or in Trade and other payables as risk management financial liabilities. The Corporation does not apply hedge accounting and the fair value measurement of these contracts is level 2 in the fair value hierarchy.

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

11. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other governmental agencies and departments, and Crown corporations. The Canada Post 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

Revenue earned from related parties for the 13 weeks ended March 31, 2012, was $87 million (April 2, 2011 – $99 million), the majority of which was for commercial contracts relating to postal services with the Government of Canada.

Revenue earned from related parties included compensation provided by the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage. Also included in prior year's related party revenue, pursuant to an agreement with the Department of Indian Affairs and Northern Development (now Aboriginal Affairs and Northern Development Canada), was compensation from the Government of Canada for the difference between the Corporation's cost of shipping eligible goods under the federal Food Mail Program and the applicable postage paid by shippers. The Food Mail Program was terminated March 31, 2011, and a new northern food subsidy program, Nutrition North Canada, came into effect April 1, 2011. The Corporation has no role in the shipment of goods under the new program.

The compensation payments relating to both of these programs were as follows:

For the 13 weeks ended	**March 31, 2012**	April 2, 2011
Government mail and mailing of materials for the blind	$ 6	$ 6
Food Mail Program	–	14
Total compensation	**$ 6**	$ 20

Excluded from the related party revenue amount disclosed above for the 13 weeks ended March 31, 2012, is $2 million (April 2, 2011 – $2 million) received by the Corporation relating to payments from related parties for premises leased from the Corporation.

Related party expenditures for the 13 weeks ended March 31, 2012, amounted to $9 million (April 2, 2011 – $5 million).

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

As at	**March 31, 2012**	December 31, 2011
Due to/from related parties		
Included in Trade and other receivables	**$ 25**	$ 28
Included in Trade and other payables	**$ 8**	$ 9
Deferred revenue from related parties	**$ 6**	$ 6

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

(b) Transactions with the Canada Post Corporation Registered Pension Plan

During the 13 weeks ended March 31, 2012, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $2 million (April 2, 2011 – $2 million). As at March 31, 2012, $4 million (December 31, 2011 – $1 million) relating to transactions with the Registered Pension Plan is outstanding and included in Trade and other receivables.

Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies are disclosed in Note 5, Pension, Other Post-Employment and Other Long-Term Benefit Plans.

(c) Other

During the 13 weeks ended March 31, 2012, a subsidiary of the Corporation had business transactions with a company controlled by a minority shareholder of that subsidiary. The minority shareholder is also a director of the subsidiary. This company provided air services to the subsidiary in the amount of $29 million for the 13 weeks ended March 31, 2012 (April 2, 2011 – $29 million). As at March 31, 2012, $6 million is due to the company from the subsidiary (December 31, 2011 – $6 million) and is included in Trade and other payables. These transactions were made at prices and terms comparable to those given to other suppliers of the subsidiary.

12. Segmented Information

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

Transactions occur between the operating segments at commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between operating segments. On a consolidated basis, no individual external customer's purchases account for more than 10% of total revenues.

As at and for the 13 weeks ended March 31, 2012

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 1,534	$ 374	$ 32	$ –	$ –	$ 1,940
Intersegment revenue	5	24	3	40	(72)	–
Revenue from operations	$ 1,539	$ 398	$ 35	$ 40	$ (72)	$ 1,940
Labour and employee benefits	$ 1,068	$ 186	$ 14	$ 13	$ –	$ 1,281
Other operating costs	401	206	18	23	(71)	577
Depreciation and amortization	60	16	1	–	(1)	76
Cost of operations	$ 1,529	$ 408	$ 33	$ 36	$ (72)	$ 1,934
Profit (loss) from operations	$ 10	$ (10)	$ 2	$ 4	$ –	$ 6
Investment and other income	13	–	–	–	(6)	7
Finance costs and other expense	(12)	(1)	–	–	(3)	(16)
Profit (loss) before tax	$ 11	$ (11)	$ 2	$ 4	$ (9)	$ (3)
Tax expense (income)	4	(2)	1	1	–	4
Net profit (loss)	$ 7	$ (9)	$ 1	$ 3	$ (9)	$ (7)
Total assets	$ 6,125	$ 759	$ 81	$ 95	$ (401)	$ 6,659

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

As at and for the 13 weeks ended April 2, 2011

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 1,556	$ 346	$ 31	$ –	$ –	$ 1,933
Intersegment revenue	5	26	3	35	(69)	–
Revenue from operations	$ 1,561	$ 372	$ 34	$ 35	$ (69)	$ 1,933
Labour and employee benefits	$ 1,063	$ 168	$ 15	$ 11	$ –	$ 1,257
Other operating costs	411	197	15	20	(68)	575
Depreciation and amortization	57	13	2	–	(1)	71
Cost of operations	$ 1,531	$ 378	$ 32	$ 31	$ (69)	$ 1,903
Profit (loss) from operations	$ 30	$ (6)	$ 2	$ 4	$ –	$ 30
Investment and other income	6	–	–	–	(1)	5
Finance costs and other expense	(13)	–	–	–	–	(13)
Profit (loss) before tax	$ 23	$ (6)	$ 2	$ 4	$ (1)	$ 22
Tax expense (income)	1	(1)	–	2	–	2
Net profit (loss)	$ 22	$ (5)	$ 2	$ 2	$ (1)	$ 20
Total assets	$ 5,714	$ 676	$ 78	$ 45	$ (342)	$ 6,171

13. Subsequent Event

On May 14, 2012, a subsidiary of SCI Group Inc. purchased 100% of the shares of E&J Truck Leasing Ltd., White Glove Transportation Systems Ltd., and White Glove Logistix Solutions Ltd. for cash consideration of $9.6 million. The acquisition will provide synergies with SCI's existing operations. The financial effect of this business combination that occurred after the end of the reporting period is being assessed and the purchase price allocation will be made available in the second quarter financial report.

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