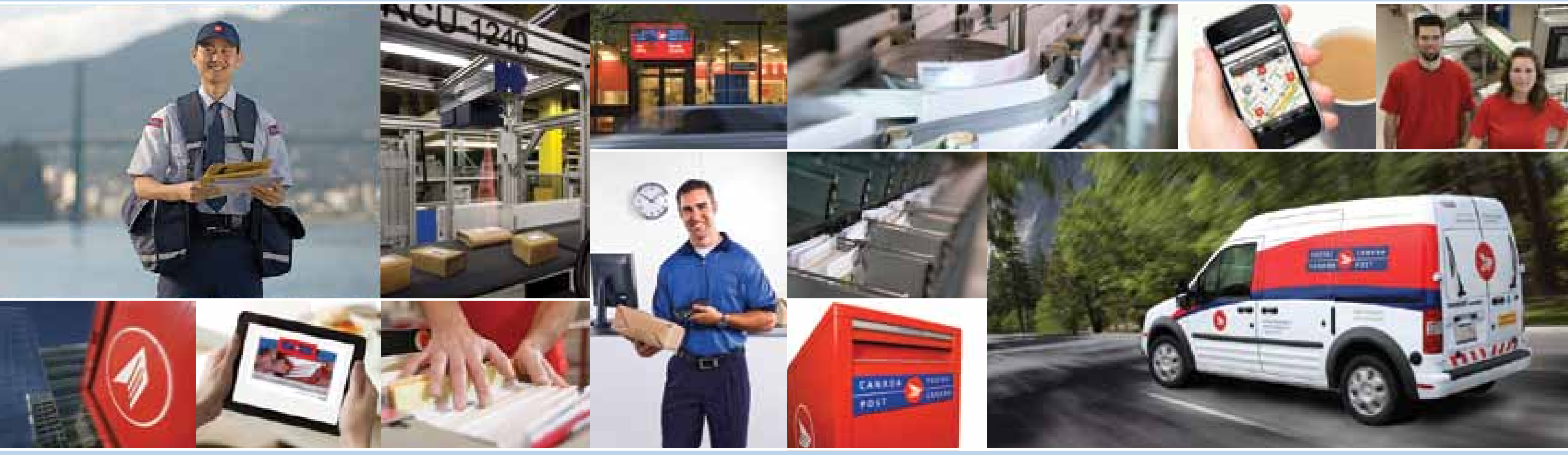
2012 Third Quarter Financial Report

For the period ended September 29, 2012



Canada

CANADA POST POSTES CANADA

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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 third quarter ended September 29, 2012, and for the first three quarters of 2012 for Canada Post Corporation (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 13 weeks and this MD&A covers the 13 and 39 weeks ended September 29, 2012. This discussion should be read together with the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2012, which have been prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and 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, the Quarterly Financial Report for the 13 weeks ended March 31, 2012, and the Quarterly Financial Report for the 13 and 26 weeks ended June 30, 2012. Financial results reported in the MD&A are rounded to the nearest million while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to November 22, 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 (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies 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 12 of this MD&A (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. Therefore, readers are cautioned that this information may not be appropriate for any other purpose. Furthermore, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the assumptions and subject to the risks.

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

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of 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 approximately 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 $4.3 billion for the first three quarters of 2012 (77% of total year-to-date revenue) and $5.9 billion for the full year ending December 2011 (78% 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, and uncertain market conditions 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, and significant volume declines in Transaction Mail and Direct Marketing. On another note, Canada Post is pleased to have reached tentative agreements with both bargaining units of the Canadian Union of Postal Workers. However, ongoing uncertainties make it difficult to determine if we will achieve our plan in 2012.

We are also continuing to invest in people and systems to improve service performance in the Canada Post segment's Physical Delivery Network. We are taking steps to defend and strengthen our core mail and parcel businesses and are building new capabilities in the Digital Delivery Network.

Financial highlights

For the third quarter ended September 29, 2012, the Canada Post Group of Companies experienced a consolidated loss before tax of $75 million, compared to a loss of $163 million in the third quarter of 2011. For the first three quarters of 2012, the Corporation reported a loss before tax of $88 million, compared to a loss before tax of $159 million in the same period of 2011. Losses have resulted from poor revenue performance due to a number of factors, including electronic substitution, competitive pressures, an uncertain economic climate and mail volume erosion. Losses in 2011 were more substantial than those in 2012 due to the 2011 pay equity ruling and the June 2011 labour disruption in the Canada Post segment.

Revenue in the Canada Post segment decreased by $61 million or 2.8% in the third quarter and remained flat for the first three quarters of 2012, compared to the same periods in 2011. The 2012 year-to-date change in revenue would have been significantly negative if results were adjusted for the June 2011 labour disruption, which led to estimated revenue losses of $173 million in the three quarters ended October 1, 2011. Revenue continued to be adversely affected by mail erosion driven by electronic substitution. Consumers, businesses, and governments are all increasingly moving to electronic delivery based on consumer preferences and by efforts of business and governments to reduce costs. We are in the midst of the largest technology shift in the history of paper-based communications, and this is causing accelerated mail volume declines.

Canada Post's Transaction Mail revenue and volume results continued to be negatively affected by this technology shift. In the third quarter of 2012, Transaction Mail revenue declined by $49 million, or 5.1% while mail volumes decreased by 119 million pieces, or 9.0%, over the same period in 2011. For the first three quarters of 2012, revenue declined by $80 million, or 3.4% and volumes dropped by 207 million pieces or 5.9% compared to the same period in 2011, despite price increases in 2012 and lost revenue in 2011 due to the June 2011 labour disruption.

Canada Post's Direct Marketing line of business has also experienced challenges with Direct Marketing revenue declining by $25 million or 6.4% in the third quarter of 2012 and by $8 million or 0.9% on a year-to-date basis, compared to the same periods in 2011. Volumes also decreased by 113 million pieces or 7.3% in the third quarter of 2012 and by 102 million pieces or 2.7% after the first three quarters. Overall 2012 results would have been substantially worse had it not been for the June 2011 labour disruption, which caused 2011 revenue and volume to be lower than normal. Expected to be a growth area, Direct Marketing volumes have declined by over 285 million pieces in the first three quarters of 2012 compared to the same period in 2010, caused by commercial customers (especially in the Telecommunications and Retail segments) reducing their marketing spend as well as redirecting some of their overall marketing expenditures to other media channels.

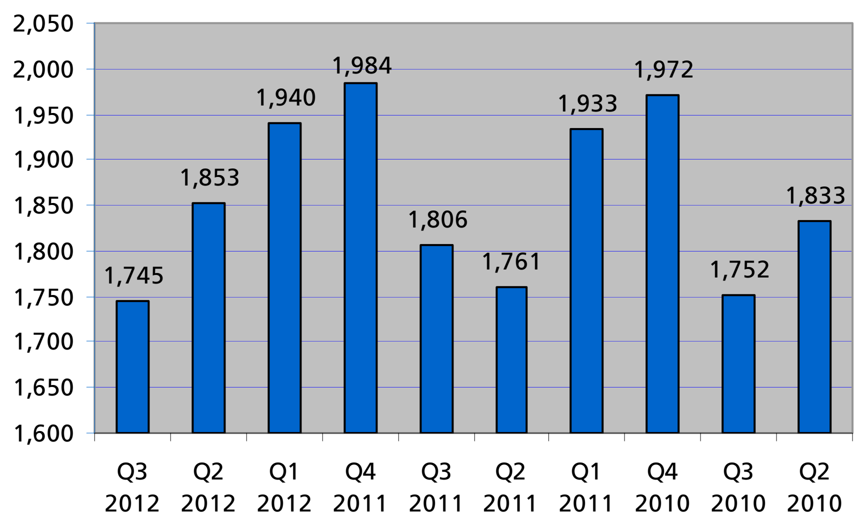
Canada Post is aggressively pursuing a parcel growth strategy by focusing on the fast-growing e-commerce segment. Results have been positive to date as 2012 revenue from parcels increased in the third quarter and first three quarters of 2012 by $5 million or 3.4% and $59 million or 7%, respectively. Parcel volumes were slightly higher in the third quarter and increased by 7 million pieces or 6.8% after the first three quarters of 2012, compared to the same periods in 2011. Continued growth in parcels is critical to Canada Post's future success and it will be imperative for us to lower our costs to ensure we remain price competitive in the highly competitive parcel industry.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its plans as well as special payments to cover any funding shortfalls. The large pension commitments, given their size compared to revenue and profit, have put a strain on the Corporation's financial performance and cash resources. In the third quarter of 2012, actuarial losses of $746 million, net of tax, were recorded in other comprehensive loss for the Canada Post Corporation Registered Pension Plan. This further eroded the Group of Companies' equity to a negative $3.4 billion as at September 29, 2012. Market volatility continued to negatively impact the Group of Companies' pension plans, which triggered this re-measurement of pension, other post-employment and other long-term benefit liabilities.

The following bar charts show the Corporation's consolidated results for the last ten quarters. Two extra quarters, Q2 and Q3 2010, are being provided for comparative purposes given that the Q2 and Q3 2011 numbers are not considered typical as they were significantly impacted by the June 2011 labour disruption. 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 following 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.

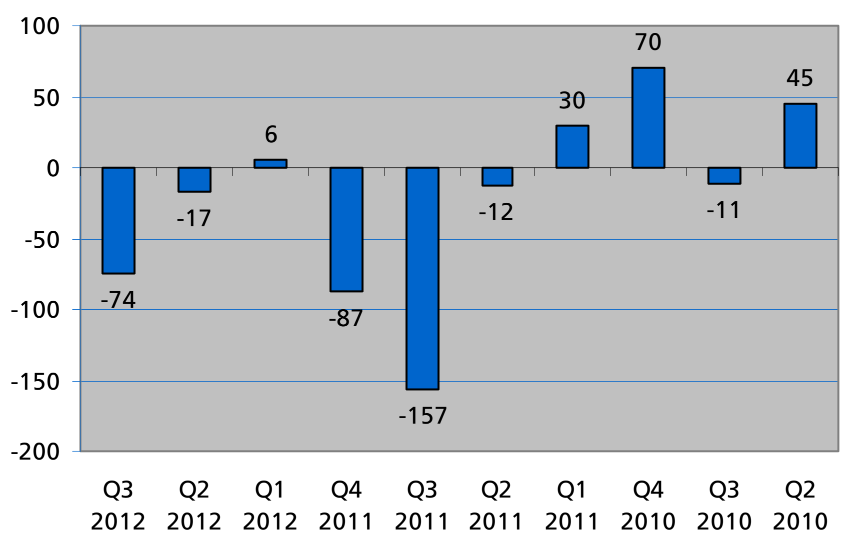
Quarterly consolidated revenue from operations

(in millions of dollars)



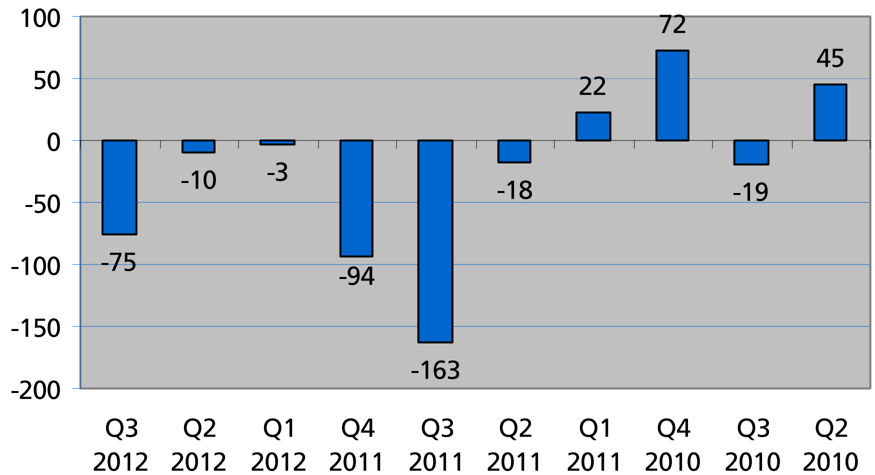
Quarterly consolidated profit (loss) from operations

(in millions of dollars)



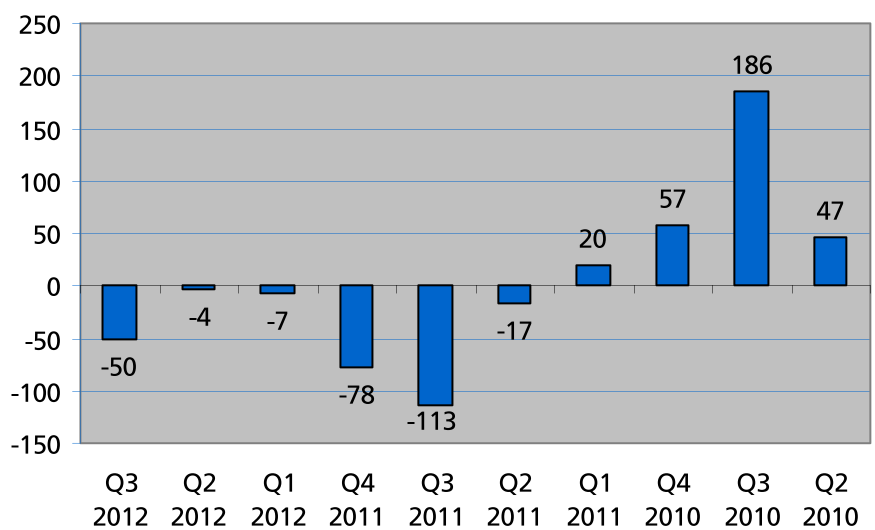
Quarterly consolidated profit (loss) before tax

(in millions of dollars)



Quarterly consolidated net profit (loss)

(in millions of dollars)



The following table presents the Corporation's consolidated performance for the third quarter and the first three quarters of 2012, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				39 weeks ended				
	Sept. 29, 2012	Oct. 1, 2011	Change	%	Sept. 29, 2012	Oct. 1, 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	1,745	1,806	(61)	(1.9)%*	5,538	5,500	38	0.7%*	Third quarter decline primarily caused by the significant volume erosion in the Canada Post segment's Transaction Mail and Direct Marketing lines of business resulting from electronic substitution, competitive pressures, and an uncertain economy. Improvement in the first three quarters of 2012 primarily driven by the 2011 labour disruption which negatively impacted 2011 revenue in the Canada Post segment.
Cost of operations	1,819	1,963	(144)	(7.4)%	5,623	5,639	(16)	(0.3)%	Third quarter decrease mainly driven by Supreme Court ruling on pay equity in 2011. In the first three quarters, the decrease was due to the pay equity ruling partially offset by increased labour costs in the Canada Post segment as there were no cost savings due to labour disruptions in 2012.
Loss before tax	(75)	(163)	88	54.0%	(88)	(159)	71	44.9%	
Net loss	(50)	(113)	63	56.6%	(61)	(110)	49	45.1%	
Comprehensive loss	(988)	(1,748)	760	43.5%	(1,756)	(1,746)	(10)	(0.6)%	Actuarial losses were recorded in all three quarters of 2012 as a result of re-measurements of the defined benefit and other post-employment plans: the fluctuations in pension plans' investment returns and the decline in the discount rate 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 13.
Cash provided by (used in) operating activities	25	332	(307)	(92.4)%	57	(46)	103	224.6%	Third quarter negative cash flow variance primarily due to an increase in non-cash working capital and lower taxes received. Positive cash flow variance year-to-date was mainly due to a reduction in pension, other post-employment and other long-term benefit payments, partially offset by lower taxes received.
Cash used in investing activities	(117)	(127)	10	8.5%	(74)	(46)	(28)	(60.0)%	Less cash was used in investing activities in the third quarter mainly due to lower net capital asset acquisitions. In the first three quarters more cash was used in investing activities due to higher net capital asset and business acquisitions.
Cash used in financing activities	(5)	(3)	(2)	(57.5)%	(14)	(11)	(3)	(21.7)%	No material change.

* Adjusted for trading days, where applicable.

Significant changes and business developments

Canada Post reached two tentative agreements on October 5, 2012, with the Canadian Union of Postal Workers (CUPW). The first agreement applies to the urban bargaining unit, while the second agreement involves the bargaining group for the rural and suburban mail carriers. CUPW represents approximately 53,000 Canada Post employees. The employees of both bargaining units will now vote on their respective tentative agreements with ratification results expected in December. If these agreements are ratified, it means there will be collective agreements in place until January 31, 2016 for urban employees and until December 31, 2015 for rural and suburban mail carriers. This would allow Canada Post and its employees to focus on the urgent need to transform the business to successfully face the digital economy.

On September 27, 2012 Canada Post and the Public Service Alliance of Canada (PSAC) began the process of negotiating a new collective agreement as the previous agreement expired August 31, 2012. Canada Post has tabled proposals to PSAC but has not yet reached an agreement.

2 Core Business and Strategy

A discussion of the business and strategy of our core businesses

The global postal industry is facing unprecedented challenges in the form of diminishing mail volumes, increasing competition from a variety of alternative service providers and continued economic uncertainty. The accelerating decline in letter volumes is viewed as a structural change spurred by a technological shift, and future volumes are expected to drop by as much as 50% from their peak levels. In response, postal administrations have instituted aggressive cost cutting measures combined with growth strategies that have increasingly focused on direct marketing, data analytics and digital solutions as potential sources of additional revenue.

In Canada, these same challenges continue to hinder the ability to fund the structural changes necessary to build a sustainable business model for the future.

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 third quarter of 2012. We continue to focus our efforts in two principal areas in the pursuit of our vision of being a leader in providing innovative physical and digital delivery solutions, creating value for our customers, employees, and all Canadians:

1. Operational transformation to overcome structural cost issues and improve our competitiveness.
2. A pursuit of growth opportunities that build on or complement our core assets and capabilities.

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 the following:

- 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 and information technology, and leveraging the respective strengths of all businesses in the Group of Companies.

Performance results for 2012 will be updated at the end of the year and 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, in the 2012 First Quarter MD&A and in the 2012 Second Quarter MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

The third quarter of 2012 was a busy period for collective bargaining at Canada Post. Two tentative agreements were reached with the Canadian Union of Postal Workers (CUPW). The first agreement applies to the urban bargaining unit, which represents both the plant and retail workers, and letter carriers and mail service couriers in urban Canada. The second tentative agreement involves the Rural and Suburban Mail Carriers (RSMC) bargaining unit. In addition, bargaining began with the Public Service Alliance of Canada/Union of Postal Communications Employees (PSAC/UPCE).

There were also developments relating to the implementation process for the payment of amounts due as a result of the decision by the Supreme Court of Canada (the Court) regarding the PSAC pay equity complaint. In November 2011, the Court 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, and the Court ordered payment to compensate for the wage gap at a discount of 50%. After several meetings with PSAC, the parties were in agreement in principle on all but a few aspects of the implementation process. In July 2012, PSAC requested that the Canadian Human Rights Tribunal issue a ruling on the remaining issues. However, on October 11, 2012 PSAC withdrew their request before the Tribunal and indicated that they would pursue enforcement through the Federal Court.

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. The terms of the previous collective agreement apply until the arbitration is concluded and a new collective agreement comes into force.

Since the legislation was passed in June 2011, CUPW judicially challenged both of the Minister of Labour's arbitrator appointments. In both cases, the Federal Court agreed with CUPW.

While the arbitration process was on hold, Canada Post, in an effort to move towards a negotiated collective agreement, tabled a new offer to CUPW on July 19, 2012 to reflect the new economic realities of the Corporation. In late August 2012, the parties resumed collective bargaining and, on October 5, 2012, the parties reached a tentative agreement. This agreement includes new lower entry wages and a new pension calculation for employees hired in the future. It also brings CUPW-represented employees into the same short-term disability program that has been implemented for other Canada Post bargaining units. The tentative agreement includes a second one-year collective agreement from February 1, 2015 to January 31, 2016. Ratification results are expected in December. If the agreement is not ratified, the final offer selection process will continue.

CUPW-RSMC

The eight-year collective agreement between Canada Post and CUPW-RSMC expired on December 31, 2011. Bargaining for the new collective agreement began in November 2011 and the parties came to a tentative agreement on October 5, 2012. This four-year collective agreement includes wage and benefit improvements. Ratification results are expected in December. In the event the agreement is not ratified, the negotiation process will resume.

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

The collective agreement with PSAC/UPCE expired on August 31, 2012. Negotiations began on September 27, 2012. The Corporation remains committed to reaching a negotiated agreement. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees from areas such as finance and engineering.

There were no new significant developments in labour relations activities in the third quarter of 2012 for the Canadian Postmasters and Assistants Association (CPAA) and the Association of Postal Officials of Canada (APOC).

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. Initial bargaining sessions with a number of unions will commence in the fourth quarter of 2012. There were no other new developments in labour relations activities in the third quarter of 2012.

Logistics segment – SCI Group

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

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the third 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 the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2011 Annual MD&A and updated in the 2012 First and Second Quarter MD&As. Updates to these risks for the third quarter of 2012 are provided below.

5.1 Strategic risks

Labour negotiations

On October 5, 2012 Canada Post reached tentative agreements with both its CUPW urban and rural bargaining units, representing approximately 53,000 employees. A ratification vote on the agreements will be completed by December 19, 2012. Successful ratification will provide the Corporation with a stable starting point from which to begin implementing the changes necessary to adapt to a changing business environment.

Economic uncertainty

Key trends remain unfavourable to recovery in the global economy. Lower business confidence resulting from the recessionary conditions in much of Europe has begun to affect the larger economies of France and Germany, as well as the United States. Slower growth in the large emerging economies (Brazil, India, and China) has reduced demand for goods and commodities, resulting in production slowdowns in Europe and North America. Reduced global demand is even having an impact on the fundamentally stronger economies.

Canada's economy has grown at just under 2% for three consecutive quarters, and 2012 annual growth is now expected to be around 2%, with some recovery forecasted later in 2013. Canada's strong dollar is having a dampening effect on demand for Canadian exports that contributes to the poor growth figures. Inflation and core inflation continue to track under the target rate of 2% and a low interest rate environment appears likely for the foreseeable future. Domestic and government fiscal restraint continues to reduce domestic demand for goods and services and impact Canada Post's ability to generate sustained revenue growth. The uncertain nature of the economic recovery is a primary contributing factor to the pace of mail volume erosion, particularly for the Direct Marketing product group. While parcel volumes have grown in 2012 on the strength of the growing e-commerce market, maintaining growth in the current economic climate will necessitate controlling costs to remain price competitive.

5.2 Operational risks

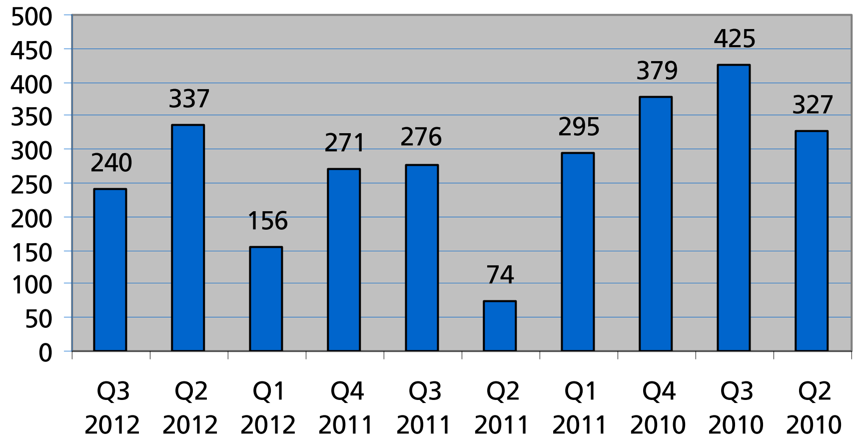
There are no material changes to the operational risks disclosed in Section 5.3 – Operational risks of the 2011 Annual MD&A. These risks include service quality, health and safety, security and privacy, business continuity, attrition, environmental sustainability and legal risks.

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 $240 million as at September 29, 2012 – a decrease of $31 million compared to December 31, 2011. The decrease is mainly due to net capital asset and business acquisitions of $395 million and $13 million in capital lease payments, partially offset by $57 million in cash generated from operations and $321 million in net sales of short-term and segregated securities.

6.2 Operating activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2012	Oct. 1, 2011	Change	Sept. 29, 2012	Oct. 1, 2011	Change
Cash provided by (used in) operating activities	25	332	(307)	57	(46)	103

Cash generated from operations in the third quarter of 2012 decreased by $307 million, compared to the same period in the prior year. This cash flow variance was primarily driven by a $340-million change in non-cash operating working capital and a $75-million decrease in taxes received. These items were partially offset by an improvement in the net loss in the third quarter of 2012. The positive cash flow increase of $103 million for the first three quarters of 2012, compared to the same period in the prior year, was primarily driven by a $159-million reduction in pension, other post-employment and other long-term benefit payments. The decrease in payments was mainly due to the use of government regulations supporting the reduction of special solvency contributions for the Canada Post Corporation Registered Pension Plan that was implemented in the third quarter of 2011. This was partially offset by a $79-million decrease in taxes received in the first three quarters of 2012.

6.3 Investing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2012	Oct. 1, 2011	Change	Sept. 29, 2012	Oct. 1, 2011	Change
Cash used in investing activities	(117)	(127)	10	(74)	(46)	(28)

Cash used in investing activities decreased by $10 million in the third quarter of 2012 mainly due to lower net capital asset acquisitions of $16 million partially offset by a $6-million reduction in the sale of short-term investments. For the first three quarters of 2012, cash used in investing activities increased by $28 million, compared to the same period in the prior year, mainly due to higher net capital asset and business acquisitions of $54 million, offset by an increase of $26 million in net proceeds from the sale of short-term investments.

Capital expenditures

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2012	Oct. 1, 2011	Change	Sept. 29, 2012	Oct. 1, 2011	Change
Canada Post	154	150	4	401	326	75
Purolator	10	18	(8)	26	24	2
Logistics	1	1	(0)	3	3	0
Intersegment and consolidation	(1)	0	(1)	(1)	(3)	2
Canada Post Group of Companies	**164**	**169**	**(5)**	**429**	**350**	**79**

Capital expenditures for the Group of Companies declined slightly in the third quarter and grew by $79 million in the first three quarters of 2012, when compared to the same period last year. Overall increase was mainly due to increased spending on Postal Transformation.

6.4 Financing activities

	13 weeks ended			39 weeks ended		
(in millions of dollars)	Sept. 29, 2012	Oct. 1, 2011	Change	Sept. 29, 2012	Oct. 1, 2011	Change
Cash used in financing activities	(5)	(3)	(2)	(14)	(11)	(3)

There were no significant changes in financing activities in the third quarter and first three quarters of 2012, when compared to the same periods in 2011.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) is one of the largest single-employer pension plans in Canada, and has assets with a market value of over $16 billion. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Pension Plan of the 2011 Annual MD&A and in the 2012 First and Second Quarter MD&As. An update is provided below.

On June 29, 2012, Canada Post filed the actuarial valuation of the RPP as at December 31, 2011, with the federal pension regulator, the Office of the Superintendent of Financial Institutions. The actuarial valuation as of December 31, 2011, disclosed a going-concern deficit to be funded of $404 million and a solvency deficit to be funded (three-year average solvency ratio basis), before any relief, of $4.7 billion[1].

As the Plan sponsor, Canada Post is responsible for funding shortfalls in the RPP and is required to make special contributions to cover going-concern and/or solvency deficits over specific periods of time. Employer special contributions for the first three quarters of 2012 were $48 million, compared to $216 million for the first three

[1] The solvency deficit on a market value basis is $6.6 billion as at December 31, 2011.

quarters 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 and in the 2012 Second Quarter MD&A, changes to pension legislation provide Crown corporations with funding relief on special solvency contributions if certain conditions are met. Canada Post had previously received funding relief from January 1, 2011 to June 30, 2012. In August 2012, the Minister of Finance and the Minister of Transport, Infrastructure and Communities agreed to extend the funding relief until June 30, 2013. The aggregate amount of all solvency payment reductions up to December 31, 2012, will total approximately $1.3 billion.

Current service contributions amounted to $63 million and $224 million respectively for the third quarter and first three quarters of 2012, compared to $74 million and $224 million for the same periods in 2011. The estimated amount of current service contributions for 2012 is approximately $323 million. The federal government recently tabled Bill C-45, which introduced changes to the Public Service Pension Plans, including raising the cap on the employees' share of current service costs from 40% to 50%. Once the legislation is enacted, Canada Post also intends to share current service costs with employees on a 50:50 basis.

In the third quarter of 2012, Canada Post, the Plan sponsor, recorded actuarial losses of $746 million, net of tax, in other comprehensive loss. This further eroded the Corporation's negative equity.

6.6 Liquidity and capital resources

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

Liquidity

During the third quarter of 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 $628 million of unrestricted liquid investments on hand as at September 29, 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 on 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 $116 million of unrestricted cash on hand and undrawn credit facilities of $138 million as at September 29, 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 September 29, 2012, amounted to $1,057 million and $61 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and Capital Resources in the 2011 Annual MD&A as well as updates included in the 2012 First Quarter MD&A and 2012 Second Quarter 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 three quarters of 2012, 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 special drawing rights. These forward contracts are not designated as hedges for hedge accounting purposes. For more information on foreign exchange risk, please refer to Note 11 – Foreign Exchange Risk of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2012. There were no other material changes to market risk during the first three quarters 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 three quarters 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 three quarters 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 three quarters 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 12 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2012.

6.10 Contingent liabilities

Contingent liabilities are described in Note 8 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 39 weeks ended September 29, 2012.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between September 29, 2012 and December 31, 2011

(in millions of dollars)

ASSETS	Sept. 29, 2012	Dec. 31, 2011	Change	%	Explanation of change
Cash and cash equivalents	240	271	(31)	(11.3)%	Refer to Section 6 – Liquidity and Capital Resources on page 13.
Marketable securities	504	842	(338)	(40.1)%	Primarily due to the drawdown of short-term investments to pay for capital acquisitions in the Canada Post segment.
Trade and other receivables	622	662	(40)	(6.1)%	Mainly due to decreased receivables in the Canada Post and Purolator segments that resulted from seasonality, with highest sales occurring in December.
Income tax receivable	11	56	(45)	(80.3)%	Primarily due to the receipt of expected refunds in the Canada Post segment.
Other assets	101	115	(14)	(12.4)%	Mainly due to the disposal of properties held for sale.
Total current assets	**1,478**	**1,946**	**(468)**	**(24.0)%**	
Property, plant and equipment	2,602	2,379	223	9.3%	Primarily due to the Canada Post segment's net capital acquisitions.
Intangible assets	149	165	(16)	(9.3)%	Primarily due to amortization of software assets exceeding acquisitions.
Segregated securities	581	553	28	5.2%	Mainly due to interest income and unrealized gains.
Pension benefit assets	75	93	(18)	(19.6)%	Primarily resulting from actuarial losses in the Canada Post segment.
Deferred tax assets	2,069	1,472	597	40.5%	Primarily due to the increase of temporary differences resulting from actuarial losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and post-employment benefits.
Goodwill	130	125	5	4.3%	Increase due to acquisitions in the Logistics segment.
Other assets	13	11	2	14.7%	No material change.
Total non-current assets	**5,619**	**4,798**	**821**	**17.1%**	
Total assets	**7,097**	**6,744**	**353**	**5.2%**	

(in millions of dollars)

LIABILITIES & EQUITY	Sept. 29, 2012	Dec. 31, 2011	Change	%	Explanation of change
Trade and other payables	433	482	(49)	(10.1)%	Primarily due to bond interest payments and decreased sales taxes and trade payables in the Canada Post segment.
Salaries and benefits payable and related provisions	639	732	(93)	(12.6)%	Primarily due to decreased payroll remittances and accrued salaries and benefits in the Canada Post segment due to timing.
Provisions	85	75	10	13.4%	Mainly attributable to a change in labour-related provisions.
Income tax payable	1	2	(1)	(62.3)%	No material change.
Deferred revenue	107	129	(22)	(16.8)%	Attributable to a reduction in stamp and meter deferrals due to seasonality.
Loans and borrowings	16	16	0	1.4%	No material change.
Other long-term benefit liabilities	86	86	–	–%	No material change.
Total current liabilities	**1,367**	**1,522**	**(155)**	**(10.1)%**	
Loans and borrowings	1,102	1,111	(9)	(0.8)%	No material change.
Pension, other post-employment and other long-term benefit liabilities	7,985	5,719	2,266	39.6%	Primarily resulting from actuarial losses in the Canada Post segment.
Deferred tax liabilities	2	–	2	586.6%	No material change.
Provisions	5	4	1	13.0%	No material change.
Other liabilities	23	19	4	27.7%	Primarily due to deferred gain on sale of assets.
Total non-current liabilities	**9,117**	**6,853**	**2,264**	**33.0%**	
Total liabilities	**10,484**	**8,375**	**2,109**	**25.2%**	
Equity					
Contributed capital	1,155	1,155	–	–%	No material change.
Accumulated other comprehensive income	55	45	10	20.4%	Mainly due to net unrealized gains on available for sale financial assets in the Canada Post segment.
Accumulated deficit	(4,619)	(2,855)	(1,764)	(61.8)%	Primarily due to net actuarial losses resulting from pension and other post-employment plans re-measurements.
Equity of Canada	**(3,409)**	**(1,655)**	**(1,754)**	**(106.0)%**	
Non-controlling interests	22	24	(2)	(8.9)%	
Total equity	**(3,387)**	**(1,631)**	**(1,756)**	**(107.7)%**	
Total liabilities and equity	**7,097**	**6,744**	**353**	**5.2%**	

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)	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Revenue from operations	1,745	1,853	1,940	1,984	1,806	1,761	1,933	1,972	1,752	1,833
Cost of operations	1,819	1,870	1,934	2,071	1,963	1,773	1,903	1,902	1,763	1,788
Profit (loss) from operations	**(74)**	**(17)**	**6**	**(87)**	**(157)**	**(12)**	**30**	**70**	**(11)**	**45**
Investing and financing income (expense)	(1)	7	(9)	(7)	(6)	(6)	(8)	2	(8)	(0)
Profit (loss) before tax	**(75)**	**(10)**	**(3)**	**(94)**	**(163)**	**(18)**	**22**	**72**	**(19)**	**45**
Tax expense (income)	(25)	(6)	4	(16)	(50)	(1)	2	15	(205)	(2)
Net profit (loss)	**(50)**	**(4)**	**(7)**	**(78)**	**(113)**	**(17)**	**20**	**57**	**186**	**47**

8.2 Consolidated results from operations

Consolidated results for the third quarter and first three quarters of 2012

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	**Sept. 29, 2012**	**Oct. 1, 2011**	**Change**	**%**	**Sept. 29, 2012**	**Oct. 1, 2011**	**Change**	**%**
Revenue from operations	1,745	1,806	(61)	(1.9)%*	5,538	5,500	38	0.7%*
Cost of operations	1,819	1,963	(144)	(7.4)%	5,623	5,639	(16)	(0.3)%
Loss from operations	**(74)**	**(157)**	**83**	**53.3%**	**(85)**	**(139)**	**54**	**39.5%**
Investing and financing income (expense)	(1)	(6)	5	74.6%	(3)	(20)	17	84.1%
Loss before tax	**(75)**	**(163)**	**88**	**54.0%**	**(88)**	**(159)**	**71**	**44.9%**
Tax expense (income)	(25)	(50)	25	48.0%	(27)	(49)	22	44.6%
Net loss	**(50)**	**(113)**	**63**	**56.6%**	**(61)**	**(110)**	**49**	**45.1%**
Other comprehensive loss	(938)	(1,635)	697	42.6%	(1,695)	(1,636)	(59)	(3.7)%
Comprehensive loss	**(988)**	**(1,748)**	**760**	**43.5%**	**(1,756)**	**(1,746)**	**(10)**	**(0.6)%**

* Adjusted for trading days, where applicable.

The Canada Post Group of Companies reported a net loss of $50 million for the third quarter of 2012 – an improvement of $63 million when compared to the same quarter in the previous year. For the first three quarters of 2012, the net loss was $61 million, an improvement of $49 million when compared to the same period last year.

Consolidated revenue from operations

For the third quarter of 2012, revenue from operations decreased by $61 million or 1.9% when compared to the same quarter in the previous year. For the first three quarters of 2012, revenue from operations increased by $38 million or 0.7% when compared to the same period last year. While year-to-date revenue in 2012 marginally exceeded revenue for the same period in 2011, when factoring in lost revenue in 2011 caused by the June 2011 labour disruption in the Canada Post segment, 2012 revenue would have declined by approximately $135 million. Significant volume erosion in both Canada Post's Transaction Mail and Direct Marketing lines of business resulting from electronic substitution, competitive pressures and the uncertain economy have negatively impacted revenue in the Canada Post segment. A detailed discussion of revenue by segment follows in sections 8.4 to 8.7.

Consolidated cost of operations

Cost of operations decreased by $144 million or 7.4% in the third quarter of 2012 when compared to the same quarter last year. For the first three quarters of 2012, costs of operations decreased by $16 million or 0.3% when compared to the same period last year. A detailed discussion by segment is provided in sections 8.4 to 8.7.

Consolidated investing and financing income (expense)

Net investing and financing expense improved by $5 million in the third quarter of 2012, compared to the same period in the prior year. In the first three quarters of 2012, net investing and financing expense improved by $17 million when compared to the same period in the prior year. Improvements in both the third quarter and first three quarters were primarily due to higher gains on disposal of assets in the Canada Post segment.

Consolidated tax expense (income)

Consolidated tax income decreased for the third quarter and the first three quarters of 2012 when compared to the same periods in the prior year. The decrease was driven by the reduction of the Group of Companies' loss before tax, the impact of the declining statutory rate on the 2011 loss carry back and temporary differences as well as the 2012 permanent differences.

Consolidated other comprehensive loss

Actuarial losses were recorded as a result of the re-measurement of pension and other post-employment plans. Fluctuations in pension plan investment returns and a decline in the discount rate negatively impacted the Group of Companies' pension plans.

8.3 Operating results by segment

Segmented results – profit (loss) before tax

(in millions of dollars)	13 weeks ended Sept. 29, 2012	Oct. 1, 2011	Change	%	39 weeks ended Sept. 29, 2012	Oct. 1, 2011	Change	%
Canada Post	(91)	(190)	99	52.3%	(114)	(211)	97	45.9%
Purolator	15	20	(5)	(30.9)%	24	38	(14)	(37.7)%
Logistics	1	1	0	120.5%	6	5	1	28.1%
Other	0	6	(6)	(97.6)%	4	15	(11)	(67.9)%
Intersegment and consolidation	0	0	(0)	(100.7)%	(8)	(6)	(2)	(52.7)%
Canada Post Group of Companies	**(75)**	**(163)**	**88**	**54.0%**	**(88)**	**(159)**	**71**	**44.9%**

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 experienced a loss before tax of $91 million in the third quarter and $114 million after three quarters in 2012, an improvement of $99 million and $97 million respectively when compared to the same periods in 2011. A detailed discussion of revenue and cost of operations is provided below.

Canada Post results for the third quarter and first three quarters of 2012

(in millions of dollars)	13 weeks ended Sept. 29, 2012	Oct. 1, 2011	Change	%	39 weeks ended Sept. 29, 2012	Oct. 1, 2011	Change	%
Revenue from operations	1,340	1,401	(61)	(2.8)%*	4,308	4,304	4	0.1%*
Cost of operations	1,430	1,586	(156)	(9.9)%	4,430	4,503	(73)	(1.6)%
Loss from operations	**(90)**	**(185)**	**95**	**51.4%**	**(122)**	**(199)**	**77**	**38.9%**
Investing and financing income (expense)	(1)	(5)	4	86.8%	8	(12)	20	167.9%
Loss before tax	**(91)**	**(190)**	**99**	**52.3%**	**(114)**	**(211)**	**97**	**45.9%**
Tax expense (income)	(29)	(58)	29	50.9%	(37)	(66)	29	44.2%
Net loss	**(62)**	**(132)**	**70**	**52.9%**	**(77)**	**(145)**	**68**	**46.8%**

* Adjusted for trading days, where applicable.

Revenue from operations

Canada Post earned revenue from operations of $1,340 million in the third quarter of 2012 – a decrease of $61 million or 2.8%, when compared with the same quarter in 2011. For the first three quarters of 2012, Canada Post generated revenue of $4,308 million, a slight increase of $4 million or 0.1% compared to the same period in the prior year. While 2012 revenue on a year-to-date basis was slightly positive compared to 2011, when factoring in the large negative impact of the June 2011 labour disruption on 2011 revenue, Canada Post would have experienced a decline in revenue of approximately $170 million in the first three quarters of 2012 compared to the prior year. This decline and the drop in the third quarter of 2012 were due to electronic substitution, competitive pressures, and economic uncertainty.

Quarterly revenue by line of business

(in millions of dollars)	13 weeks ended Sept. 29, 2012	Oct. 1, 2011	Change	%*	39 weeks ended Sept. 29, 2012	Oct. 1, 2011	Change	%*
Transaction Mail	686	735	(49)	(5.1)%	2,249	2,329	(80)	(3.4)%
Direct Marketing	301	326	(25)	(6.4)%	930	938	(8)	(0.9)%
Parcels	280	275	5	3.4%	901	842	59	7.0%
Other revenue	73	65	8	14.8%	228	195	33	16.9%
Total	**1,340**	**1,401**	**(61)**	**(2.8)%**	**4,308**	**4,304**	**4**	**0.1%**

* Adjusted for trading days, where applicable.

Revenue in 2011 by line of business was reclassified to ensure comparability with the new 2012 product categorization. Furthermore, minor reclassifications took place in the second quarter of 2012. Total revenue remains unchanged.

Transaction Mail

Transaction Mail revenue of $686 million for the third quarter of 2012 was composed of the following three product categories: domestic Lettermail™ ($624 million), outbound Letter-post ($35 million), and inbound Letter-post ($27 million).

In the third quarter of 2012, Transaction Mail revenue decreased by $49 million or 5.1%, and volumes decreased by 119 million pieces or 9.0% compared to the same period last year (and by over 105 million pieces compared to 2010). For domestic Lettermail, the largest product category, volumes decreased by 116 million pieces or 9.5%, and revenues decreased by $51 million or 6.1% in the third quarter of 2012 compared to the same period last year. Decreases in the volume and revenue in the third quarter of 2012 were primarily driven by erosion due to electronic substitution. This decline in paper-based communication has been accelerated by the implementation of pay-for-paper initiatives by some of our largest customers, especially in the Banking and Telecommunications segments, and an uncertain economic environment.

In the first three quarters of 2012, Transaction Mail revenue decreased by $80 million or 3.4%, and volumes declined by 207 million pieces or 5.9% compared to the same period last year (and by over 300 million pieces compared to 2010). For domestic Lettermail, volumes decreased by 205 million pieces or 6.3%, and revenue decreased by $91 million or 4.3% in the first three quarters of 2012 compared to the same period last year. The volume and revenue declines were largely driven by the continued shift away from paper-based communications.

Direct Marketing

Direct Marketing revenue of $301 million for the third quarter of 2012 was composed of the following four categories: Addressed Admail™ ($145 million), Unaddressed Admail™ ($94 million), Publications Mail™ ($55 million), and Business Reply Mail™ and Other Mail ($7 million).

Direct Marketing revenue declined in the third quarter by $25 million or 6.4%, while volumes decreased by 113 million pieces or 7.3% when compared to the same period in the prior year (and by close to 140 million pieces compared to 2010). These significant declines were caused by commercial customers in the Telecommunications and Retail segments reducing their marketing spend as well as redirecting some of their overall marketing expenditures to other media channels.

On a year-to-date basis, revenue decreased by $8 million or 0.9%, while 2012 volumes dropped by 102 million pieces or 2.7% compared to the same period in 2011. The decline would have been significantly worse had it not been for the June 2011 labour disruption, which lowered the 2011 revenue and volumes. 2012 year-to-date revenue and volumes remain well below management expectations, and compared to the same period in 2010, Direct Marketing volumes have declined by approximately 285 million pieces due to the continued volume declines in the Telecommunications and Retail segments.

Parcels

Parcel revenue of $280 million for the third quarter of 2012 was composed of four product categories: domestic parcels ($195 million), outbound parcels ($45 million), inbound parcels ($36 million), and other ($4 million).

Parcel revenue for the third quarter experienced an increase of $5 million or 3.4%, while volumes remained flat compared to the same period last year. On a year-to-date basis, parcel revenue increased by $59 million or 7.0%, while volumes increased by 7 million pieces or 6.8%. The revenue and volume increases reflect the strong growth in e-commerce orders as well as the negative impact of the June 2011 labour disruption on 2011 results, offset by the loss of volume and revenue from Canada Post exiting the Food Mail Program at the end of the first quarter in 2011.

Other revenue

Other revenue of $73 million increased by $8 million or 14.8% in the third quarter of 2012, when compared to the same period in the prior year. At the end of three quarters, revenue increased by $33 million or 16.9% compared to the same period in 2011. The revenue increases were the result of continued strong growth of the new stamp programs and strong performance in Mail Redirection and other data products, partially offset by the impact of the 2011 census on the SmartFlow™ products.

Cost of operations

Cost of operations for the Canada Post segment totaled $1,430 million in the third quarter of 2012 – a decrease of $156 million or 9.9% when compared to the same quarter last year. The cost of operations for the first three quarters of 2012 totaled $4,430 million – a decrease of $73 million or 1.6% when compared to the same period in 2011.

	13 weeks ended				**39 weeks ended**			
(in millions of dollars)	**Sept. 29, 2012**	**Oct. 1, 2011**	**Change**	**%**	**Sept. 29, 2012**	**Oct. 1, 2011**	**Change**	**%**
Labour	773	939	(166)	(17.6)%	2,369	2,441	(72)	(3.0)%
Employee benefits	245	217	28	13.0%	757	745	12	1.6 %
Total labour and employee benefits	**1,018**	**1,156**	**(138)**	**(11.9)%**	**3,126**	**3,186**	**(60)**	**(1.9)%**
Non-labour collection, processing and delivery	185	191	(6)	(3.4)%	594	598	(4)	(0.6)%
Property, facilities and maintenance	55	55	(0)	(1.3)%	172	173	(1)	(1.0)%
Selling, administrative and other	107	126	(19)	(15.1)%	353	374	(21)	(5.7)%
Total other operating costs	**347**	**372**	**(25)**	**(7.0)%**	**1,119**	**1,145**	**(26)**	**(2.3)%**
Depreciation and amortization	65	58	7	12.4%	185	172	13	7.8%
Total	**1,430**	**1,586**	**(156)**	**(9.9)%**	**4,430**	**4,503**	**(73)**	**(1.6)%**

Labour

The cost of labour decreased by $166 million or 17.6% for the third quarter of 2012 and by $72 million or 3.0% in the first three quarters of 2012, when compared to the same periods in the previous year. The third quarter decrease was largely the result of the pay equity provision booked in the third quarter of 2011 as a result of the Supreme Court of Canada's ruling in favour of PSAC and increased overtime incurred in the third quarter of 2011 to help clear the backlog of mail caused by the labour disruption in June 2011. The year-to-date decrease was also a result of these same factors, partially offset by regular annual wage increases, cost reductions in June 2011 associated with the wages not paid to CUPW members during the labour disruption, as well as increased usage of temporary employees and increased labour costs for rural and suburban mail carriers.

Employee benefits

Employee benefits for the third quarter of 2012 increased by $28 million, or 13%, when compared to the same period in 2011. For the first three quarters, employee benefits increased by $12 million or 1.6% when compared to the same period in 2011. The increase was due to the negative impacts of changes in discount rates, returns on plan assets, and the June 2011 labour disruption, partially offset by the one-time accounting charge in June 2011 for a change in the *Pension Benefits Standards Act*, *1985*.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $6 million or 3.4% for the third quarter of 2012, when compared to the same period in the prior year mainly due to lower expenditures on transportation and dealer, customs and other fees. For the first three quarters of 2012, costs were substantially unchanged, decreasing by $4 million or 0.6% when compared to the same period in 2011. This decrease was primarily due to our exiting the Government of Canada's Food Mail Program (as at March 31, 2011), partially offset by the cost reductions in June 2011 associated with the labour disruption.

Property, facilities and maintenance

Cost of facilities remained stable for the third quarter and first three quarters, when compared to the same periods last year.

Selling, administrative and other

Selling, administrative and other expenses dropped by $19 million or 15.1% for the third quarter of 2012 and $21 million or 5.7% for the first three quarters, when compared to the same periods in the prior year mainly due to achieved savings in the areas of information technology services and program expenses, partially offset by higher advertising expenses.

Depreciation and amortization

Depreciation and amortization expenses increased by $7 million or 12.4% for the third quarter of 2012 and $13 million or 7.8% for the first three quarters, when compared to the same periods in the prior year substantially due to increased capital asset acquisitions relating to Postal Transformation and replenishment of the existing asset base.

8.5 Purolator segment

The Purolator segment contributed a net profit of $11 million for the third quarter of 2012, a decrease of $2 million when compared with the same period in the prior year. For the first three quarters of 2012, the Purolator segment net profit amounted to $17 million, a decrease of $9 million or 34.4% when compared to the prior year.

Purolator results for the third quarter and first three quarters of 2012

	13 weeks ended				39 weeks ended			
(in millions of dollars)	**Sept. 29, 2012**	**Oct. 1, 2011**	**Change**	**%**	**Sept. 29, 2012**	**Oct. 1, 2011**	**Change**	**%**
Revenue from operations	394	401	(7)	(0.3)%*	1,208	1,188	20	1.6%*
Cost of operations	379	380	(1)	(0.5)%	1,182	1,148	34	2.9%
Profit from operations	**15**	**21**	**(6)**	**(28.4)%**	**26**	**40**	**(14)**	**(36.3)%**
Investing and financing income (expense)	(0)	(1)	1	71.6%	(2)	(2)	0	12.6%
Profit before tax	**15**	**20**	**(5)**	**(30.9)%**	**24**	**38**	**(14)**	**(37.7)%**
Tax expense (income)	4	7	(3)	(66.5)%	7	12	(5)	(45.0)%
Net profit	**11**	**13**	**(2)**	**(11.2)%**	**17**	**26**	**(9)**	**(34.4)%**

* Adjusted for trading days, where applicable.

Revenue from operations

Purolator generated revenue from operations of $394 million in the third quarter of 2012 – a decrease of $7 million when compared with the same period last year. After the first three quarters, 2012 revenue totalled $1,208 million – an increase of $20 million or 1.6% compared with the same period in 2011. Overall increase was mainly driven by improved yield and increased volumes.

Cost of operations

Labour

Cost of labour increased by $1 million or 0.8% for the third quarter of 2012 when compared to the same period in the prior year. In the first three quarters of 2012, labour increased by $18 million or 4.3% when compared to the same period in 2011. These increases were mainly due to increased spending in previously understaffed areas, annual wage increases and filling of vacant positions.

Operational costs

Operational costs decreased by $1 million or 0.8% for the third quarter of 2012 and increased by $12 million or 2.6% for the first three quarters of 2012, when compared to the same periods in the previous year. Overall increase was 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 third quarter of 2012, an increase of 117.8% compared to the same period in the prior year. For the first three quarters of 2012, the Logistics segment's net profit amounted to $4 million, an improvement of 20% compared to the same period in the prior year.

Logistics results for the third quarter and first three quarters of 2012

	13 weeks ended				39 weeks ended			
(in millions of dollars)	Sept. 29, 2012	Oct. 1, 2011	Change	%	Sept. 29, 2012	Oct. 1, 2011	Change	%
Revenue from operations	40	33	7	25.1%*	115	101	14	14.7%*
Cost of operations	39	32	7	20.3%	109	96	13	13.8%
Profit from operations	**1**	**1**	**0**	**114.5%**	**6**	**5**	**1**	**31.2%**
Investing and financing income (expense)	0	(0)	0	175.0%	0	0	(0)	(51.5)%
Profit before tax	**1**	**1**	**0**	**120.5%**	**6**	**5**	**1**	**28.1%**
Tax expense (income)	0	0	0	127.6%	2	1	1	46.8%
Net profit	**1**	**1**	**0**	**117.8%**	**4**	**4**	**0**	**20.0%**

* Adjusted for trading days, where applicable.

Revenue from operations

SCI generated revenue from operations of $40 million in the third quarter of 2012 – an increase of $7 million or 25.1%, when compared with the same period last year. After the first three quarters, 2012 revenue totalled $115 million – an increase of $14 million or 14.7%, when compared with the same period in 2011. The increases were mainly driven by higher volumes in logistics and transportation and the White Glove acquisition in May 2012.

Cost of operations

Labour

Cost of labour increased by $3 million or 26.5% in the third quarter of 2012 when compared to the same period in 2011. In the first three quarters of 2012, labour increased by $5 million or 13.5% when compared to the same period in the prior year. These increases were primarily the result of increased volumes from new business growth and the White Glove acquisition.

Operational costs

Operational costs increased by $2 million or 23.6% for the third quarter of 2012 and $5 million or 21.8% for the first three quarters of 2012, when compared to the same periods in the previous year, due to new business growth, the impact of the White Glove acquisition and higher volume in transportation clients.

8.7 Other segment

The Other segment includes the financial results of Innovapost. Innovapost provides virtually all its services to the Canada Post Group of Companies. Results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation, and its revenue is eliminated against the other segments' cost of operations upon consolidation. Innovapost was previously a joint venture accounted for using proportionate consolidation. There was no material effect on the Corporation's consolidated revenue or net loss for the 39-week period ending September 29, 2012, as a result of the acquisition.

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 the 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 the *2011 Canada Post Annual Report*, for additional information.

9.2 Accounting standards developments

The following table presents the not-yet-effective standards and amendments issued by the International Accounting Standards Board (IASB), which were assessed as having a possible impact on the Group of Companies upon adoption. A more detailed description of these pronouncements can be found under the accounting policy developments section contained in the *2011 Canada Post Annual Report*, and under the accounting standards developments section contained in the Corporation's *2012 Second Quarter Financial Report*.

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 Other Entities	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
Annual improvements 2009-2011 Cycle	January 1, 2013
Amendments to IFRS 10, IFRS 11, IFRS 12 – Transitional Guidance	January 1, 2013

The Corporation has previously early adopted the Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income in the second quarter of 2012, for which further information can be found in the Corporation's *2012 Second Quarter Financial Report*.

Recently issued standards and amendments

There have been no new accounting pronouncements issued in the 13-week period ended September 29, 2012 that are expected to have an impact on the Corporation. The Corporation is determining the impact of all of the new standards and amendments on its consolidated financial statements, and currently anticipates the most significant of these changes to be as follows:

(a) Amendments to IAS 19 "Employee Benefits" (IAS 19) • Considering the Corporation's current accounting policies, the amendment of IAS 19 that is expected to have the most significant impact on the consolidated results is the use of the discount rate, as opposed to an expected long-term rate of return on assets assumption, to calculate the income on the plan assets component of the funded benefit plans expense. The expected long-term rate of return on plan assets assumption will consequently no longer be used for defined benefit plan measurement purposes.

The Group of Companies' expected long-term rate of return on assets has historically been higher than the discount rate, especially in the current environment. As a result, for the 13- and 39-week periods ended September 29, 2012, this amendment is expected to increase employee benefit costs by approximately $65 million and $194 million, respectively. The difference between the actual return on plan assets and the discount rate will be recognized in other comprehensive income.

A second amendment that is expected to have a significant impact is the immediate recognition of all past service costs (credits). This is expected to result in the recognition of the unvested past service credits, which are currently recognized over the average period until such benefit becomes vested. This change is expected to reduce the pension, other post-employment and other long-term benefit liabilities, as well as the accumulated deficit by approximately $28 million and $21 million on January 1, 2012, and September 29, 2012, respectively. For the 13- and 39-week periods ended September 29, 2012, this change is estimated to result in an increase of the benefit costs by $2 million and $7 million, respectively.

The Group of Companies continues to review the other amendments of IAS 19 and has not yet determined the potential impacts of these other amendments. The amendments to IAS 19 also require enhanced disclosure about risks arising from defined benefit plans.

Amendments to IAS 19 are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(b) Amendments to IAS 32 "Financial Instruments: Presentation" (IAS 32) – Offsetting Financial Assets and Financial Liabilities • In December 2011, the IASB issued amendments to IAS 32, which clarify existing guidance concerning legally enforceable rights to offset the recognized amounts of assets and liabilities, as well as intentions to settle assets and liabilities on a net basis or simultaneously. These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Early adoption is permitted if disclosure under Amendments to IFRS 7 is also made.

The current trade and other receivables balance on the statement of financial position includes offsetting assets and liabilities from the Corporation's international mail settlement activities with foreign postal administrations, which will no longer meet the offsetting requirements of the amended IAS 32. The Group of Companies expects to early adopt the amendments to IAS 32 for the period beginning on January 1, 2013. Consequently, the adoption of the amended standard is expected to affect the comparative consolidated statement of financial position at the beginning of the immediately preceding period, January 1, 2012, by increasing both trade and other receivables and trade and other payables by $81 million. Similarly, the impact on the interim condensed consolidated statement of financial position as at September 29, 2012, is expected to be an increase of $83 million in both trade and other receivables and trade and other payables.

MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

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

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

President and Chief Executive Officer

Chief Financial Officer

November 22, 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**September 29, 2012**	December 31, 2011
Assets			
Current assets			
Cash and cash equivalents		**$ 240**	$ 271
Marketable securities		**504**	842
Trade and other receivables		**622**	662
Income tax receivable		**11**	56
Other assets		**101**	115
Total current assets		**1,478**	1,946
Non-current assets			
Property, plant and equipment	**4**	**2,602**	2,379
Intangible assets	**4**	**149**	165
Segregated securities		**581**	553
Pension benefit assets	**5**	**75**	93
Deferred tax assets		**2,069**	1,472
Goodwill	**7**	**130**	125
Other assets		**13**	11
Total non-current assets		**5,619**	4,798
Total assets		**$ 7,097**	$ 6,744
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 433**	$ 482
Salaries and benefits payable and related provisions		**639**	732
Provisions		**85**	75
Income tax payable		**1**	2
Deferred revenue		**107**	129
Loans and borrowings		**16**	16
Other long-term benefit liabilities	**5**	**86**	86
Total current liabilities		**1,367**	1,522
Non-current liabilities			
Loans and borrowings		**1,102**	1,111
Pension, other post-employment and other long-term benefit liabilities	**5**	**7,985**	5,719
Deferred tax liabilities		**2**	–
Provisions		**5**	4
Other liabilities		**23**	19
Total non-current liabilities		**9,117**	6,853
Total liabilities		**10,484**	8,375
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**55**	45
Accumulated deficit		**(4,619)**	(2,855)
Equity of Canada		**(3,409)**	(1,655)
Non-controlling interests		**22**	24
Total equity		**(3,387)**	(1,631)
Total liabilities and equity		**$ 7,097**	$ 6,744
Contingent liabilities	**8**		

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the (Unaudited – in millions of Canadian dollars)	Notes	13 weeks ended **September 29, 2012**	13 weeks ended October 1, 2011	39 weeks ended **September 29, 2012**	39 weeks ended October 1, 2011
Revenue from operations		**$ 1,745**	$ 1,806	**$ 5,538**	$ 5,500
Cost of operations					
Labour		**946**	1,098	**2,894**	2,922
Employee benefits	**5**	**283**	247	**876**	852
		1,229	1,345	**3,770**	3,774
Other operating costs	**9**	**509**	545	**1,620**	1,650
Depreciation and amortization		**81**	73	**233**	215
Total cost of operations		**1,819**	1,963	**5,623**	5,639
Loss from operations		**(74)**	(157)	**(85)**	(139)
Investing and financing income (expense)					
Investment and other income	**10**	**12**	6	**38**	18
Finance costs and other expense	**10**	**(13)**	(12)	**(41)**	(38)
Investing and financing income (expense), net		**(1)**	(6)	**(3)**	(20)
Loss before tax		**(75)**	(163)	**(88)**	(159)
Tax expense (income)	**6**	**(25)**	(50)	**(27)**	(49)
Net loss		**$ (50)**	$ (113)	**$ (61)**	$ (110)
Other comprehensive income (loss)					
Items that will not be reclassified to Net profit (loss)					
Actuarial losses on defined benefit plans	**5**	**$ (1,261)**	$ (2,214)	**$ (2,273)**	$ (2,214)
Income tax relating to items that will not be reclassified	**6**	**317**	553	**568**	553
Items that may be reclassified subsequently to Net profit (loss)					
Unrealized gains on available-for-sale financial assets		**8**	35	**13**	39
Realized gains reclassified to Net loss		**–**	(1)	**–**	(6)
Income tax relating to items that may be reclassified	**6**	**(2)**	(8)	**(3)**	(8)
Other comprehensive loss		**(938)**	(1,635)	**(1,695)**	(1,636)
Comprehensive loss		**$ (988)**	$ (1,748)	**$ (1,756)**	$ (1,746)
Net profit (loss) attributable to:					
Government of Canada		**$ (51)**	$ (114)	**$ (62)**	$ (111)
Non-controlling interests		**1**	1	**1**	1
		$ (50)	$ (113)	**$ (61)**	$ (110)
Comprehensive loss attributable to:					
Government of Canada		**$ (985)**	$ (1,745)	**$ (1,753)**	$ (1,743)
Non-controlling interests		**(3)**	(3)	**(3)**	(3)
		$ (988)	$ (1,748)	**$ (1,756)**	$ (1,746)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the 13 weeks ended September 29, 2012 and October 1, 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 beginning of period, 2012	**$ 1,155**	**$ 49**	**$ (3,628)**	**$ (2,424)**	**$ 25**	**$ (2,399)**
Net profit (loss)	**–**	**–**	**(51)**	**(51)**	**1**	**(50)**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	**–**	**–**	**(1,256)**	**(1,256)**	**(5)**	**(1,261)**
Income tax relating to items that will not be reclassified	**–**	**–**	**316**	**316**	**1**	**317**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	**–**	**8**	**–**	**8**	**–**	**8**
Income tax relating to items that may be reclassified	**–**	**(2)**	**–**	**(2)**	**–**	**(2)**
Other comprehensive income (loss)	**–**	**6**	**(940)**	**(934)**	**(4)**	**(938)**
Comprehensive income (loss)	**–**	**6**	**(991)**	**(985)**	**(3)**	**(988)**
Balance at September 29, 2012	**$ 1,155**	**$ 55**	**$ (4,619)**	**$ (3,409)**	**$ 22**	**$ (3,387)**
Balance at beginning of period, 2011	$ 1,155	$ 8	$ (1,482)	$ (319)	$ 27	$ (292)
Net profit (loss)	–	–	(114)	(114)	1	(113)
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(2,209)	(2,209)	(5)	(2,214)
Income tax relating to items that will not be reclassified	–	–	552	552	1	553
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	35	–	35	–	35
Realized gains reclassified to Net profit (loss)	–	(1)	–	(1)	–	(1)
Income tax relating to items that may be reclassified	–	(8)	–	(8)	–	(8)
Other comprehensive income (loss)	–	26	(1,657)	(1,631)	(4)	(1,635)
Comprehensive income (loss)	–	26	(1,771)	(1,745)	(3)	(1,748)
Balance at October 1, 2011	$ 1,155	$ 34	$ (3,253)	$ (2,064)	$ 24	$ (2,040)

For the 39 weeks ended September 29, 2012 and October 1, 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 beginning of year, 2012	**$ 1,155**	**$ 45**	**$ (2,855)**	**$ (1,655)**	**$ 24**	**$ (1,631)**
Net profit (loss)	**–**	**–**	**(62)**	**(62)**	**1**	**(61)**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	**–**	**–**	**(2,268)**	**(2,268)**	**(5)**	**(2,273)**
Income tax relating to items that will not be reclassified	**–**	**–**	**567**	**567**	**1**	**568**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	**–**	**13**	**–**	**13**	**–**	**13**
Income tax relating to items that may be reclassified	**–**	**(3)**	**–**	**(3)**	**–**	**(3)**
Other comprehensive income (loss)	**–**	**10**	**(1,701)**	**(1,691)**	**(4)**	**(1,695)**
Comprehensive income (loss)	**–**	**10**	**(1,763)**	**(1,753)**	**(3)**	**(1,756)**
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 September 29, 2012	**$ 1,155**	**$ 55**	**$ (4,619)**	**$ (3,409)**	**$ 22**	**$ (3,387)**
Balance at beginning of year, 2011	$ 1,155	$ 9	$ (1,485)	$ (321)	$ 27	$ (294)
Net profit (loss)	–	–	(111)	(111)	1	(110)
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(2,209)	(2,209)	(5)	(2,214)
Income tax relating to items that will not be reclassified	–	–	552	552	1	553
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	39	–	39	–	39
Realized gains reclassified to Net profit (loss)	–	(6)	–	(6)	–	(6)
Income tax relating to items that may be reclassified	–	(8)	–	(8)	–	(8)
Other comprehensive income (loss)	–	25	(1,657)	(1,632)	(4)	(1,636)
Comprehensive income (loss)	–	25	(1,768)	(1,743)	(3)	(1,746)
Balance at October 1, 2011	$ 1,155	$ 34	$ (3,253)	$ (2,064)	$ 24	$ (2,040)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the (Unaudited – in millions of Canadian dollars)	Notes	13 weeks ended **September 29, 2012**	13 weeks ended October 1, 2011	39 weeks ended **September 29, 2012**	39 weeks ended October 1, 2011
Cash flows from operating activities					
Net loss		**$ (50)**	$ (113)	**$ (61)**	$ (110)
Adjustments to reconcile Net loss to cash provided by (used in) operating activities:					
Depreciation and amortization	**4**	**81**	73	**233**	215
Pension, other post-employment and other long-term benefit expense	**5**	**151**	134	**453**	469
Pension, other post-employment and other long-term benefit payments	**5**	**(142)**	(137)	**(442)**	(601)
Gain on sale of capital assets	**10**	**(9)**	(3)	**(26)**	(6)
Tax expense (income)	**6**	**(25)**	(50)	**(27)**	(49)
Net interest expense	**10**	**9**	9	**26**	25
Change in non-cash operating working capital:					
Decrease (increase) in trade and other receivables		**(26)**	60	**60**	5
Increase (decrease) in trade and other payables		**5**	70	**(46)**	(21)
Increase (decrease) in salaries and benefits payable and related provisions		**(1)**	181	**(99)**	(2)
Increase (decrease) in provisions		**(1)**	2	**9**	(3)
Net decrease (increase) in other non-cash operating working capital		**5**	9	**(22)**	(33)
Other income not affecting cash, net		**(4)**	(8)	**(14)**	(24)
Cash provided by (used in) operations before interest and taxes		**(7)**	227	**44**	(135)
Interest received		**6**	5	**25**	23
Interest paid		**(24)**	(25)	**(50)**	(51)
Tax received		**50**	125	**38**	117
Cash provided by (used in) operating activities		**25**	332	**57**	(46)
Cash flows from investing activities					
Business acquisitions, net of cash acquired	**3**	**–**	–	**(21)**	–
Acquisition of securities		**(259)**	(351)	**(778)**	(1,407)
Proceeds from sale of securities		**276**	383	**1,102**	1,688
Acquisition of capital assets		**(164)**	(169)	**(429)**	(350)
Proceeds from sale of capital assets		**16**	5	**55**	9
Other investing activities, net		**14**	5	**(3)**	14
Cash used in investing activities		**(117)**	(127)	**(74)**	(46)
Cash flows from financing activities					
Payments on finance lease obligations		**(5)**	(3)	**(13)**	(9)
Other financing activities, net		**–**	–	**(1)**	(2)
Cash used in financing activities		**(5)**	(3)	**(14)**	(11)
Net increase (decrease) in cash and cash equivalents		**(97)**	202	**(31)**	(103)
Cash and cash equivalents, beginning of period		**337**	74	**271**	379
Cash and cash equivalents, end of period		**$ 240**	$ 276	**$ 240**	$ 276

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

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the 13 and 39 weeks ended September 29, 2012
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

Under the Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business not covered by the exclusive privilege include parcels and direct marketing products and services. 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." As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2011.

The interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on November 22, 2012. They have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the time these statements were prepared, with the exception of the amendments to IAS 1 "Presentation of Financial Statements." The Corporation elected to early adopt these amendments in its second quarter ended June 30, 2012, as disclosed in the Corporation's *2012 Second Quarter Financial Report*.

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 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 13 and 39 weeks ended September 29, 2012, and October 1, 2011. The results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation. 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 in 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.

3. Business Combinations

Details of the business combinations that occurred during prior reporting periods are included in the Corporation's interim condensed consolidated financial statements for its first quarter ended March 31, 2012, and second quarter ended June 30, 2012.

Had the acquisitions taken place on January 1, 2012, the Corporation's consolidated revenue for the 39 weeks would have been $5,544 million. There would have been no material effect on the Corporation's consolidated net loss. The amount of revenue related to the business combinations included in the Corporation's consolidated revenue for the 39-week period was $5 million after the effect of intersegment eliminations. There was no material effect on the Corporation's consolidated net loss for the 39-week period.

(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	28	52	19	115	48	17	18	116	413
Acquisitions through business combinations	–	–	–	–	–	3	–	–	3
Reclassified as held for sale	(1)	(4)	–	–	–	–	–	–	(5)
Retirements	(1)	(3)	(4)	(36)	(11)	(10)	–	–	(65)
Transfers (nets to nil with Note 4 [b])	–	46	2	5	–	–	–	(58)	(5)
September 29, 2012	**$ 338**	**$ 1,735**	**$ 257**	**$ 1,248**	**$ 366**	**$ 441**	**$ 878**	**$ 153**	**$ 5,416**
Accumulated depreciation									
December 31, 2011	$ –	$ 830	$ 171	$ 696	$ 173	$ 301	$ 525	$ –	$ 2,696
Depreciation	–	47	12	46	22	28	28	–	183
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	(2)	(4)	(36)	(11)	(9)	–	–	(62)
September 29, 2012	**$ –**	**$ 872**	**$ 179**	**$ 706**	**$ 184**	**$ 320**	**$ 553**	**$ –**	**$ 2,814**
Carrying amounts									
December 31, 2011	$ 312	$ 814	$ 69	$ 468	$ 156	$ 130	$ 335	$ 95	$ 2,379
September 29, 2012	**$ 338**	**$ 863**	**$ 78**	**$ 542**	**$ 182**	**$ 121**	**$ 325**	**$ 153**	**$ 2,602**

During 2012, capitalized borrowing costs related to property, plant and equipment amounted to $3 million (October 1, 2011 – $1 million), 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 and relationships	Total
Cost				
December 31, 2011	$ 585	$ 44	$ 27	$ 656
Additions	6	18	–	24
Acquisitions through business combinations	3	–	3	6
Retirements	(39)	–	–	(39)
Transfers (nets to nil with Note 4 [a])	23	(18)	–	5
September 29, 2012	**$ 578**	**$ 44**	**$ 30**	**$ 652**
Accumulated amortization				
December 31, 2011	$ 467	$ –	$ 24	$ 491
Amortization	49	–	1	50
Retirements	(38)	–	–	(38)
September 29, 2012	**$ 478**	**$ –**	**$ 25**	**$ 503**
Carrying amounts				
December 31, 2011	$ 118	$ 44	$ 3	$ 165
September 29, 2012	**$ 100**	**$ 44**	**$ 5**	**$ 149**

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

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

The pension benefit plans of the Group of Companies are funded through contributions made to separately administered funds. The other benefit plans, which include the other post-employment and other long-term benefits plans, are unfunded.

(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	**September 29, 2012**			October 1, 2011		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 106	$ 35	$ 141	$ 98	$ 35	$ 133
Interest cost	243	44	287	242	47	289
Expected return on plan assets	(277)	–	(277)	(289)	–	(289)
Past service cost (credit)	–	(2)	(2)	(1)	(3)	(4)
Defined benefit costs	72	77	149	50	79	129
Defined contribution costs	2	–	2	5	–	5
Total costs	74	77	151	55	79	134
Return on segregated securities	–	(6)	(6)	–	(7)	(7)
Net costs recognized in Net loss	**$ 74**	**$ 71**	**$ 145**	$ 55	$ 72	$ 127
Actuarial losses on defined benefit plans recognized in Other comprehensive loss	1,084	177	1,261	2,091	123	2,214
Recognized in Comprehensive loss	**$ 1,158**	**$ 248**	**$ 1,406**	$ 2,146	$ 195	$ 2,341

For the 39 weeks ended	**September 29, 2012**			October 1, 2011		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 320	$ 103	$ 423	$ 299	$ 106	$ 405
Interest cost	730	132	862	725	141	866
Expected return on plan assets	(832)	–	(832)	(868)	–	(868)
Past service cost (credit)	–	(7)	(7)	69	(8)	61
Defined benefit costs	218	228	446	225	239	464
Defined contribution costs	7	–	7	5	–	5
Total costs	225	228	453	230	239	469
Return on segregated securities	–	(16)	(16)	–	(22)	(22)
Net costs recognized in Net loss	**$ 225**	**$ 212**	**$ 437**	$ 230	$ 217	$ 447
Actuarial losses on defined benefit plans recognized in Other comprehensive loss	1,931	342	2,273	2,091	123	2,214
Recognized in Comprehensive loss	**$ 2,156**	**$ 554**	**$ 2,710**	$ 2,321	$ 340	$ 2,661

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

During the 13 and 39 weeks ended September 29, 2012, the Canada Post Group of Companies updated the measurement of its employee benefit assets and liabilities, resulting in other comprehensive losses before tax of $1,261 million and $2,273 million, respectively (October 1, 2011 – $2,214 million and $2,214 million, respectively). These losses were a result of a decrease in the discount rates, which are sensitive to falling bond yields, and a volatile return on 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**		**39 weeks ended**	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
Benefits paid directly to beneficiaries for other benefit plans	$ 36	$ 37	$ 113	$ 116
Employer regular contributions to pension benefit plans	77	86	255	250
Employer special contributions to pension benefit plans	27	9	67	230
Total cash payments for defined benefit plans	140	132	435	596
Contributions to defined contribution plans	2	5	7	5
Total cash payments	**$ 142**	$ 137	**$ 442**	$ 601

In 2012, the Group of Companies' total contributions to pension benefit plans are estimated to be $462 million. This amount includes the Canada Post Corporation Registered Pension Plan regular contributions of $323 million and special contributions of $61 million. The latter takes into consideration the reduction of special solvency contributions as permitted by legislation. In August 2012, the Minister of Finance and the Minister of Transport, Infrastructure and Communities approved the Corporation's request for funding relief until June 30, 2013.

(c) Assets and liabilities

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

As at	**September 29, 2012**	December 31, 2011
Pension benefit assets	**$ 75**	$ 93
Pension benefit liabilities	$ 4,290	$ 2,481
Other post-employment and other long-term benefit liabilities	3,781	3,324
Total pension, other post-employment and other long-term benefit liabilities	$ 8,071	$ 5,805
Current other long-term benefit liabilities	**$ 86**	$ 86
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,985**	$ 5,719

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

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**		**39 weeks ended**	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
Current tax expense (income)	$ 2	$ (40)	$ 4	$ (39)
Deferred tax expense (income) relating to:				
Origination and reversal of temporary differences	(27)	(10)	(31)	(12)
Reduction in tax rate	–	–	–	2
Tax expense (income)	**$ (25)**	$ (50)	**$ (27)**	$ (49)

Income tax recognized in other comprehensive income was as follows:

For the 13 weeks ended	**September 29, 2012**			October 1, 2011		
	Before tax	**Tax impact**	**Net of tax**	Before tax	Tax impact	Net of tax
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (1,261)	$ 317	$ (944)	$ (2,214)	$ 553	$ (1,661)
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	8	(2)	6	35	(9)	26
Realized gains reclassified to Net loss	–	–	–	(1)	1	–
	$ (1,253)	**$ 315**	**$ (938)**	$ (2,180)	$ 545	$ (1,635)

For the 39 weeks ended	**September 29, 2012**			October 1, 2011		
	Before tax	**Tax impact**	**Net of tax**	Before tax	Tax impact	Net of tax
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (2,273)	$ 568	$ (1,705)	$ (2,214)	$ 553	$ (1,661)
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	13	(3)	10	39	(10)	29
Realized gains reclassified to Net loss	–	–	–	(6)	2	(4)
	$ (2,260)	**$ 565**	**$ (1,695)**	$ (2,181)	$ 545	$ (1,636)

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

7. Goodwill

The carrying amounts of goodwill for those segments that have a goodwill balance were as follows:

As at			**September 29, 2012**	December 31, 2011
	Purolator segment	**Logistics segment**	**Total**	Total
Balance, beginning of period	$ 121	$ 4	$ 125	$ 125
Goodwill acquired during the period	–	5	5	–
Balance, end of period	**$ 121**	**$ 9**	**$ 130**	$ 125

Goodwill impairment testing

Impairment testing for goodwill is carried out annually at September 30 for both the Purolator and Logistics segments. In the current period, Purolator changed its annual goodwill impairment test date from June 30 to September 30. As a result of this change, the impairment test for the Purolator segment was repeated as at September 30. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior comparative period.

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

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and how Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (June 30, 2012 – 3.5%), which considers both growth and inflation, and reflects an acceptable percentage given current information and industry standard.
- The recoverable amount was calculated using a pre-tax discount rate of 16% (June 30, 2012 – 16%), which is based on Purolator's weighted average cost of capital as at September 30, 2012 (June 30, 2012).

8. Contingent Liabilities

(a) A complaint was filed with the Canadian Human Rights Commission (Commission) alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*.

On October 10, 2012, the Corporation received notice from the Commission that CPAA has requested the reactivation of its pay equity complaint. The Corporation is preparing a full legal brief in response to the Commission's request for submission, which must be filed with the Commission by December 10, 2012.

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

(b) The collective agreement between the Corporation and the urban employees of the Canadian Union of Postal Workers (CUPW) expired January 31, 2011. The parties began negotiating a new contract in October 2010. In January 2011, CUPW applied for conciliation as provided for under the *Canada Labour Code*. 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 being 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 CUPW, effective March 19, 2012. CUPW asked Mr. Dufort to recuse himself from the arbitration, which he declined to do. On application by CUPW, the Federal Court stayed the arbitration proceedings pending the review of Mr. Dufort's decision not to recuse himself. On July 25, 2012, submissions by CUPW, the Corporation and the Federal Attorney General were heard by the Federal Court. After taking the case under deliberation, on August 8, 2012, the presiding judge agreed with CUPW, ordered Mr. Dufort to recuse himself, and the Minister of Labour to appoint another arbitrator. The appointment of the new arbitrator by the Minister has not yet been made. CUPW also filed an application contesting the constitutionality of the legislation itself.

After recent discussions, on October 5, 2012, a tentative agreement was reached between the Corporation and CUPW. The agreement will not be effective until ratified by CUPW members, with voting taking place during the period of November 13 to December 19, 2012.

Because it is not possible to determine the result of the ratification process, it is not known whether arbitration will still be necessary. If the arbitration process continues, the outcome 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.

(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 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 that 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.

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

9. Other Operating Costs

Other operating costs consisted of the following:

For the	13 weeks ended		39 weeks ended	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
Non-labour collection, processing and delivery	$ 313	$ 319	$ 984	$ 970
Property, facilities and maintenance	78	77	242	240
Selling, administrative and other	118	149	394	440
Other operating costs	**$ 509**	$ 545	**$ 1,620**	$ 1,650

10. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of the following:

For the	13 weeks ended		39 weeks ended	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
Interest revenue	$ 3	$ 3	$ 9	$ 12
Gain on sale of capital assets	9	3	26	6
Other income	–	–	3	–
Investment and other income	**$ 12**	$ 6	**$ 38**	$ 18
Interest expense	$ (12)	$ (12)	$ (35)	$ (37)
Other expense	(1)	–	(6)	(1)
Finance costs and other expense	**$ (13)**	$ (12)	**$ (41)**	$ (38)
Investing and financing income (expense), net	**$ (1)**	$ (6)	**$ (3)**	$ (20)

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

11. Foreign Exchange Risk

The Group of Companies' exposure to foreign exchange risk arises mostly from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro (€), British pound (£) and yen (¥), whereas payment is usually denominated in US$.

In the first three quarters of the year, the Corporation continued its 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. Under the program, hedging is permitted 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 September 29, 2012

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity range**	**Type**	**Fair value**
U.S. dollar	US$48	$ 49	$1.02/US$	Oct. 11 – Dec. 21, 2012	Sell forward	$ 2
Euro	€25	32	$1.29/€	Oct. 12 – Dec. 21, 2012	Sell forward	1
British pound	£6	9	$1.57/£	Oct. 12 – Dec. 21, 2012	Sell forward	–
Yen	¥705	9	$0.013/¥	Oct. 12 – Dec. 21, 2012	Sell forward	–
Total		$ 99				**$ 3**

As at December 31, 2011

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$28	$ 29	$1.02/US$	January 17, 2012	Sell forward	$ –
Euro	€12	16	$1.36/€	January 18, 2012	Sell forward	1
British pound	£2	3	$1.60/£	January 18, 2012	Sell forward	–
Yen	¥260	3	$0.013/¥	January 18, 2012	Sell forward	–
Total		$ 51				$ 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.

The related unrealized gains (losses) and the realized gains (losses) on forward contracts were as follows:

For the	**13 weeks ended**		**39 weeks ended**	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
Unrealized gains (losses)	$ 2	$ (3)	$ 2	$ (2)
Realized gains (losses)	3	–	4	(2)
Total	**$ 5**	$ (3)	**$ 6**	$ (4)

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

12. 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 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

Transactions with the Government of Canada, its agencies and other Crown corporations consisted of the following:

For the	13 weeks ended		39 weeks ended	
	September 29, 2012	October 1, 2011	**September 29, 2012**	October 1, 2011
Related party revenue	**$ 64**	$ 64	**$ 214**	$ 250
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 6**	$ 6	**$ 17**	$ 17
Food Mail Program	**–**	–	**–**	14
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2	**$ 5**	$ 5
Related party expenditures	**$ 8**	$ 6	**$ 21**	$ 17

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage, and the Food Mail Program. The Government of Canada compensated the Corporation for the difference between the cost of shipping eligible goods under the federal Food Mail Program and the applicable postage paid by shippers, pursuant to an agreement with the Department of Indian Affairs and Northern Development (now Aboriginal Affairs and Northern Development Canada). The Food Mail Program was terminated March 31, 2011.

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

As at	September 29, 2012	December 31, 2011
Due to/from related parties		
Included in trade and other receivables	**$ 19**	$ 28
Included in trade and other payables	**11**	9
Deferred revenue from related parties	**$ 6**	$ 6

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

During the 13 and 39 weeks ended September 29, 2012, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $2 million and $6 million, respectively (October 1, 2011 – $2 million and $5 million, respectively). As at September 29, 2012, $1 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.

(c) Other

During the 39 weeks ended September 29, 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 amounts of $24 million and $79 million for the 13 and 39 weeks ended September 29, 2012, respectively (October 1, 2011 – $25 million and $83 million, respectively). As at September 29, 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.

13. 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 external customer's purchases account for more than 10% of total revenues.

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

As at and for the 13 weeks ended September 29, 2012

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 1,335	$ 372	$ 38	$ –	$ –	$ 1,745
Intersegment revenue	5	22	2	53	(82)	–
Revenue from operations	$ 1,340	$ 394	$ 40	$ 53	$ (82)	$ 1,745
Labour and employee benefits	$ 1,018	$ 174	$ 17	$ 20	$ –	$ 1,229
Other operating costs	347	190	21	33	(82)	509
Depreciation and amortization	65	15	1	–	–	81
Cost of operations	$ 1,430	$ 379	$ 39	$ 53	$ (82)	$ 1,819
Profit (loss) from operations	$ (90)	$ 15	$ 1	$ –	$ –	$ (74)
Investment and other income	$ 12	$ –	$ –	$ –	$ –	$ 12
Finance costs and other expense	(13)	–	–	–	–	(13)
Profit (loss) before tax	$ (91)	$ 15	$ 1	$ –	$ –	$ (75)
Tax expense (income)	(29)	4	–	–	–	(25)
Net profit (loss)	$ (62)	$ 11	$ 1	$ –	$ –	$ (50)
Total assets	$ 6,547	$ 766	$ 90	$ 91	$ (397)	$ 7,097

As at and for the 13 weeks ended October 1, 2011

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 1,396	$ 380	$ 30	$ –	$ –	$ 1,806
Intersegment revenue	5	21	3	38	(67)	–
Revenue from operations	$ 1,401	$ 401	$ 33	$ 38	$ (67)	$ 1,806
Labour and employee benefits	$ 1,156	$ 165	$ 14	$ 10	$ –	$ 1,345
Other operating costs	372	201	17	21	(66)	545
Depreciation and amortization	58	14	1	1	(1)	73
Cost of operations	$ 1,586	$ 380	$ 32	$ 32	$ (67)	$ 1,963
Profit (loss) from operations	$ (185)	$ 21	$ 1	$ 6	$ –	$ (157)
Investment and other income	$ 6	$ –	$ –	$ –	$ –	$ 6
Finance costs and other expense	(11)	(1)	–	–	–	(12)
Profit (loss) before tax	$ (190)	$ 20	$ 1	$ 6	$ –	$ (163)
Tax expense (income)	(58)	7	–	1	–	(50)
Net profit (loss)	$ (132)	$ 13	$ 1	$ 5	$ –	$ (113)
Total assets	$ 6,106	$ 730	$ 80	$ 55	$ (338)	$ 6,633

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

As at and for the 39 weeks ended September 29, 2012

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 4,292	$ 1,141	$ 105	$ –	$ –	$ 5,538
Intersegment revenue	16	67	10	152	(245)	–
Revenue from operations	$ 4,308	$ 1,208	$ 115	$ 152	$ (245)	$ 5,538
Labour and employee benefits	$ 3,126	$ 541	$ 47	$ 56	$ –	$ 3,770
Other operating costs	1,119	595	58	91	(243)	1,620
Depreciation and amortization	185	46	4	1	(3)	233
Cost of operations	$ 4,430	$ 1,182	$ 109	$ 148	$ (246)	$ 5,623
Profit (loss) from operations	$ (122)	$ 26	$ 6	$ 4	$ 1	$ (85)
Investment and other income	$ 44	$ –	$ –	$ –	$ (6)	$ 38
Finance costs and other expense	(36)	(2)	–	–	(3)	(41)
Profit (loss) before tax	$ (114)	$ 24	$ 6	$ 4	$ (8)	$ (88)
Tax expense (income)	(37)	7	2	1	–	(27)
Net profit (loss)	$ (77)	$ 17	$ 4	$ 3	$ (8)	$ (61)
Total assets	$ 6,547	$ 766	$ 90	$ 91	$ (397)	$ 7,097

As at and for the 39 weeks ended October 1, 2011

	Canada Post	Purolator	Logistics	Other	Intersegment and consolidation	Total
Revenue from external customers	$ 4,290	$ 1,118	$ 92	$ –	$ –	$ 5,500
Intersegment revenue	14	70	9	114	(207)	–
Revenue from operations	$ 4,304	$ 1,188	$ 101	$ 114	$ (207)	$ 5,500
Labour and employee benefits	$ 3,186	$ 513	$ 43	$ 32	$ –	$ 3,774
Other operating costs	1,145	594	49	66	(204)	1,650
Depreciation and amortization	172	41	4	1	(3)	215
Cost of operations	$ 4,503	$ 1,148	$ 96	$ 99	$ (207)	$ 5,639
Profit (loss) from operations	$ (199)	$ 40	$ 5	$ 15	$ –	$ (139)
Investment and other income	$ 24	$ –	$ –	$ –	$ (6)	$ 18
Finance costs and other expense	(36)	(2)	–	–	–	(38)
Profit (loss) before tax	$ (211)	$ 38	$ 5	$ 15	$ (6)	$ (159)
Tax expense (income)	(66)	12	1	4	–	(49)
Net profit (loss)	$ (145)	$ 26	$ 4	$ 11	$ (6)	$ (110)
Total assets	$ 6,106	$ 730	$ 80	$ 55	$ (338)	$ 6,633

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