CANADA POST | POSTES CANADA

CANADA POST CORPORATION

2018 **Second Quarter** Financial Report

For the period ended June 30, 2018

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the second quarter ended June 30, 2018, and for the first two quarters of 2018 for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Each of the Corporation's quarters contains 13 weeks, and this MD&A covers the 13 and 26 weeks ended June 30, 2018. This discussion should be read with the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2018, which were prepared in accordance with the Treasury Board of Canada "Standard on Quarterly Financial Reports for Crown Corporations" and International Accounting Standard 34, "Interim Financial Reporting" (IAS 34), and are presented in Canadian dollars. We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2017. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to August 21, 2018, unless otherwise noted.

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

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Materiality

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

Forward-looking statements

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

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

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

The forward-looking statements included in the unaudited interim condensed consolidated financial statements and MD&A are made only as of August 21, 2018, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

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

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. The Group of Companies is one of Canada's largest employers providing jobs to close to 64,000 people. During 2017, employees delivered almost 8.4 billion pieces of mail, parcels and messages to 16.2 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with almost 6,200 retail post offices in the country. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Public Services and Procurement and has a single shareholder, the Government of Canada.

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

The unaudited interim condensed consolidated financial statements of Canada Post Corporation include the accounts for the Group of Companies. Canada Post is the largest segment with revenue of $3.3 billion for the first two quarters of 2018 (77.1% after excluding intersegment revenue) and $6.4 billion for the full year ended December 31, 2017 (77.4% after excluding intersegment revenue). There are three reportable operating segments: Canada Post, Purolator and Logistics.

Significant changes and business developments

Canada Post is at a critical point in its history. As the trend toward online communication is increasing, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in Transaction Mail, our largest line of business. In 2017, we delivered three billion pieces of Domestic Lettermail, two billion (or 41%) less than we did in the peak year of 2006.

Digital technology has disrupted many industries, including Canada Post's. However, Canada Post has reinvented itself to continue to play a key role in the lives of Canadians in the digital era and has become the country's number one parcel delivery company. Canada Post has achieved its market-leading position in e-commerce by pivoting its operations, innovating to gain competitive advantage, partnering with retailers and focusing on providing a superior customer experience. Though parcels and direct marketing represent opportunities for Canada Post, their growth alone may not entirely offset the financial impact of the decline in the core Lettermail business.

The collective agreements for Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC) expired January 31, 2018, and December 31, 2017, respectively. Meetings between the parties and mediators began in December 2017 and the Minister of Employment, Workforce Development and Labour appointed two conciliators on July 6. Throughout the process of conciliation, the collective agreements continue to apply as per the *Canada Labour Code*.

On May 31, 2018, the arbitrator for the pay equity study pertaining to CUPW-RSMC issued her decision that members of CUPW-RSMC perform work of equal value to that of urban letter carriers of CUPW-UPO. Further, her decision stated that the parties are to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap. The parties have until August 31, 2018, to reach an agreement, after which date, outstanding matters will proceed to binding arbitration. The pay equity process is ongoing and represents a significant source of estimation uncertainty to the Corporation. Despite this fact, we have recorded a provision and plan amendment losses using information available as of August 21, which may differ significantly from the final outcome of the arbitration settlement. The recognition of estimated costs related to adjusting how delivery employees in suburban and rural Canada are paid is a major factor in the Canada Post results for the second quarter and first two quarters of 2018.

In 2016, the Government of Canada began a review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. On January 24, 2018, the government announced its vision for renewal at Canada Post focused on serving Canadians. The vision contains five concrete actions and emphasizes service to Canadians, while acknowledging that Canada Post must be efficient and financially sustainable for the long term. New leadership is key to implementing Canada Post's renewal. With recent appointments to the Canada Post Board of Directors, a full complement was in place at the end of the second quarter and Board members are overseeing the implementation of the government's vision.

Canada Post has begun to implement the actions contained in the vision and to work with stakeholders to determine the best path forward. In implementing the new vision, the Corporation is considering the applicability of global trends and innovations in the postal industry to Canada and examining parcel delivery options. It is also exploring partnerships with the federal government and other jurisdictions to leverage Canada Post's unique retail network to enhance government services, particularly in rural and remote areas.

The government's vision for the renewal of Canada Post provides a valuable blueprint as the Corporation looks to deliver the services Canadians expect today and in the future, while remaining financially self-sustainable.

Financial highlights

For the second quarter ended June 30, 2018, the Canada Post Group of Companies reported a loss before tax of $190 million, compared to a profit before tax of $67 million[1] in the same period in 2017. For the first two quarters of 2018, the Group of Companies recorded a loss before tax of $94 million, compared to a profit before tax of $135 million[1] in the first two quarters of 2017. The $257-million[1] decrease in the Group of Companies' 2018 second quarter results was driven primarily by results in the Canada Post segment, which reported a loss before tax of $242 million in the second quarter of 2018 largely due to the negative impact of the RSMC pay equity process, partly offset by parcel growth, compared to a profit before tax of $27 million[1] in the same period in 2017. For the first two quarters of 2018, Canada Post reported a loss before tax of $172 million, compared to a profit before tax of $77 million[1] for the same period in 2017. The Purolator segment's profit before tax was $45 million for the second quarter of 2018, compared to a profit before tax of $35 million[1] in the second quarter of 2017. For the first two quarters of 2018, profit before tax was $66 million, compared to a profit before tax of $49 million[1] for the same period in 2017.

The Canada Post segment generated revenue of $1,645 million in the second quarter of 2018, an increase of $69 million[1] or 2.7%[1,2] compared to the same period in 2017. For the first two quarters of 2018, revenue earned was $3,343 million, an increase of $121 million[1] or 3.7%[1] over the same period in 2017.

Parcels revenue and volumes increased in the second quarter of 2018 compared to the same period in 2017 – by $106 million[1] or 19.6%,[1,2] and 13 million pieces or 24.1%,[2] respectively. Domestic Parcels, the largest product category, continued its growth as revenue increased by $81 million[1] or 20.5%,[1,2] and volumes grew by six million pieces or 14.5%.[2] For the first two quarters of 2018, Parcels revenue and volumes increased by $216 million[1] or 22.1%[1] and 30 million pieces or 28.5%, respectively, compared to the same period in 2017. Strong results for Parcels were driven by continuous growth in e-commerce and efforts to deliver competitive offerings.

Transaction Mail revenue and volumes continued to decline in the second quarter of 2018, compared to the same period in 2017 – by $33 million[1] or 6.0%,[1,2] and 34 million pieces or 5.9%.[2] For the first two quarters of 2018, Transaction Mail revenue and volumes decreased by $79 million[1] or 5.1%[1] and 84 million pieces or 5.0%, respectively, compared to the same period in 2017. Volumes continue to be adversely affected by mail erosion driven by electronic substitution.

Direct Marketing revenue and volumes were relatively flat in the second quarter of 2018 compared to the same period in 2017. Revenue decreased slightly by $1 million[1] or 2.0%.[1,2] Volumes were up by 13 million pieces; however, when adjusted for trading days, volumes decreased by 0.6%. For the first two quarters of 2018, Direct Marketing revenue and volumes decreased by $4 million[1] or 0.8%[1] and 10 million pieces or 0.4%, respectively, compared to the same period in 2017. The decrease was mainly the result of commercial customers continuing to reduce their marketing expenditures and redirect some of them to other media channels.

The arbitrator's pay equity decision resulted in the Corporation recording plan amendment losses for pension benefit plans, as well as other benefit plans, in net profit. These plan amendments are a source of estimation uncertainty to the Corporation given that the pay equity process is ongoing. While the estimated costs recognized at June 30, 2018, were made using information available as of August 21, these estimates may differ significantly from the final outcome of the pay equity process, resulting in risk of causing a material adjustment to the consolidated financial statements in future periods. The Corporation does not know the final outcome of the mediated negotiations and will disclose the financial impact of the final settlement only when the matter is ascertainable and the process is completed.

Canada Post, as pension plan sponsor, is responsible for making current service contributions to its pension plans as well as special payments to cover any funding shortfalls. These pension commitments and other post-employment benefit obligations are substantial; they continue to significantly affect Canada Post's financial performance and, if it weren't for the solvency reduction regulations outlined in the *Pension Benefits Standards Regulations, 1985,* currently giving Canada Post relief from making special payments, they would put pressure on its cash resources. The Corporation did not make special payments to the Canada Post Corporation Registered Pension Plan from 2014 to 2017. Further, Canada Post will not have to make special payments in 2018 and projects that it will not have to make special payments in 2019, provided that market conditions remain constant.

Fluctuations in discount rates, investment returns and other actuarial assumptions create volatility from one period to the next, resulting in sizeable financial and long-term liquidity risks to the Corporation. During the second quarter of 2018, this volatility affected the Group of Companies' defined benefit plans, causing remeasurement gains of $774 million, net of tax, recorded in other comprehensive income, an improvement of $1,375 million compared to remeasurement losses of $601 million in the second quarter of 2017. These remeasurement gains in the second quarter of 2018 were mostly the result of an increase in discount rates in 2018 and better-than-expected pension asset returns.

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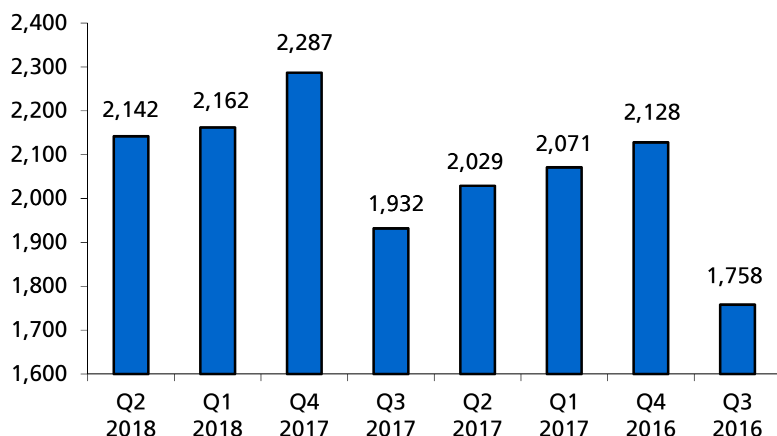
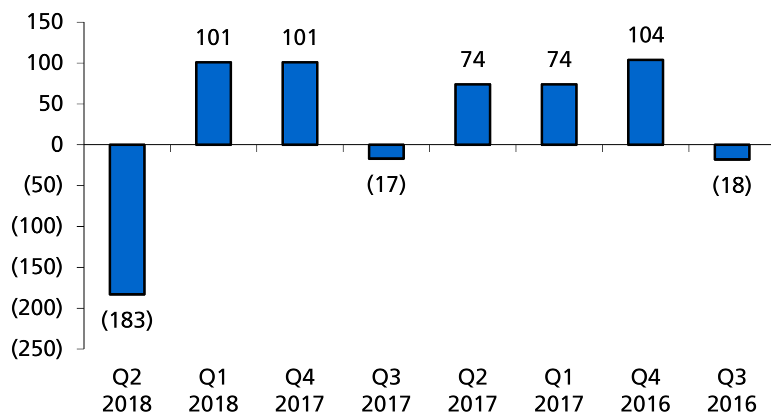
1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.
2. Adjusted for trading days.

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

Quarterly consolidated revenue from operations[1]
(in millions of dollars)

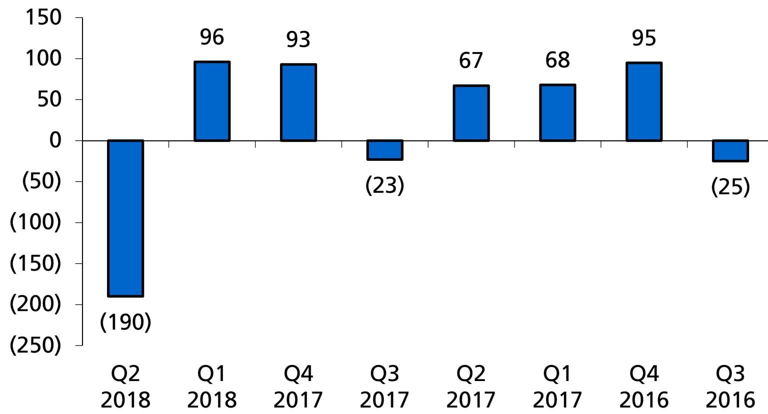


Quarterly consolidated profit (loss) from operations[1]
(in millions of dollars)

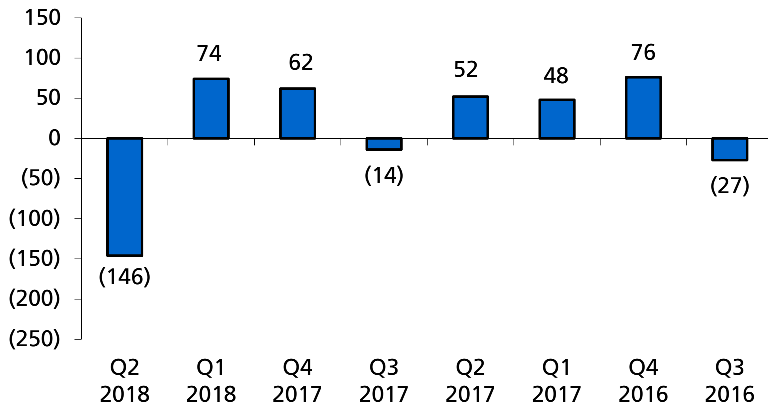


1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Quarterly consolidated profit (loss) before tax[1]
(in millions of dollars)



Quarterly consolidated net profit (loss)[1]
(in millions of dollars)



1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

The following table presents the Corporation's consolidated performance for the second quarter and the first two quarters of 2018, compared to the same periods in the prior year.

(in millions of dollars)	13 weeks ended				26 weeks ended				
	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 8 – Discussion of Operations page 16.
Revenue from operations	2,142	2,029	113	4.0[2]	4,304	4,100	204	5.0	Mainly due to continued Parcels growth in the Canada Post and Purolator segments.
Cost of operations	2,325	1,955	370	18.9	4,386	3,952	434	11.0	Mainly a result of increased expenses in the Canada Post segment compared to the same period in 2017, due to the arbitrator's pay equity decision regarding RSMC, volume growth, inflationary pressures and fuel price increases.
Profit (loss) from operations	(183)	74	(257)	–	(82)	148	(230)	–	Mainly due to results in the Canada Post segment.
Profit (loss) before tax	(190)	67	(257)	–	(94)	135	(229)	–	
Net profit (loss)	(146)	52	(198)	–	(72)	100	(172)	–	
Comprehensive income (loss)	628	(537)	1,165	–	693	(805)	1,498	–	Mainly due to remeasurement gains on pension and other post-employment plans resulting from an increase in discount rates and higher than targeted pension asset returns in the second quarter of 2018 compared to the same period in 2017.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 10.
Cash provided by operating activities	118	66	52	80.5	388	231	157	68.2	Primarily driven by increases in non-cash working capital and non-cash timing of employee future benefits (mainly in the Canada Post segment), partially offset by payment of higher income taxes.
Cash provided by (used in) investing activities	(122)	(60)	(62)	(102.9)	(507)	58	(565)	–	Mainly due to lower proceeds from the sales of securities, as well as higher acquisitions of securities and capital assets.
Cash used in financing activities	(4)	(5)	1	24.1	(6)	(11)	5	44.0	Mainly due to lower payments on finance lease obligations in the Purolator segment.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.
2. Adjusted for trading days.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

The Canadian postal system connects rural, remote and urban communities, supports the success of Canadian businesses of all sizes and helps charities raise funds. However, Canada Post is facing an ongoing and irreversible drop in mail volumes, as Canadians are changing the way they use postal services. Digital platforms are replacing paper as the medium of choice to communicate, invoice, pay bills and advertise. In 2017, we delivered three billion pieces of Domestic Lettermail, two billion (or 41%) less than we did in the peak year of 2006. Transaction Mail is not expected to rebound.

While their use of Lettermail™ has declined significantly, Canadians continue to value their postal system and expect it to evolve to meet their changing needs. For example, Canada Post is now the country's number one parcel delivery company. Though Parcels and Direct Marketing represent opportunities for Canada Post, their growth may not entirely offset the financial impact of the decline in the core Lettermail business.

On January 24, 2018, the federal government announced its new vision for Canada Post focused on serving Canadians, which includes concrete actions in five areas to support the implementation of a service-focused vision:

1. The Corporation's program to convert door-to-door delivery to community mailboxes is terminated. All households receiving door-to-door delivery will continue to receive it. New subdivisions will continue to have community mailboxes installed.
2. Canada Post will establish a national advisory panel to develop, implement and promote an enhanced accessible delivery program for Canadians experiencing difficulty with community mailboxes, especially seniors and others with reduced mobility.
3. Canada Post will be reclassified under the *Financial Administration Act* to remove the current requirement to pay a dividend to its shareholder, the Government of Canada, permitting the Corporation to reinvest all its profits in service and innovation.
4. The Corporation will promote affordable remittance services to Canadians who send money overseas to support family members in an effort to increase market share.
5. The government is renewing leadership at Canada Post, including the Chair, the Board of Directors and the President and Chief Executive Officer. The new Chair and Board of Directors will help build more collaborative relationships with communities, employees, labour and other stakeholders.

Since this announcement, Canada Post has begun work in these five areas, as well as work on developing a comprehensive program for renewal. Progress on the renewal program will be reported through future corporate plans and quarterly reports.

At the same time, we continue to execute our current strategy of adapting our network so that we continue to be a leader in e-commerce, developing winning marketing solutions, enhancing our brand through service performance and superior customer service, and creating a more engaged workforce.

Our core businesses and strategy are described in more detail in Section 2 – Core Businesses and Strategy of the 2017 Annual MD&A. There were no material changes to the strategy during the second quarter of 2018 as we continued to adjust to fully meet the expectations of our single shareholder, as articulated in the new vision.

3 Key Performance Drivers

A discussion of our key achievements in 2018

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

As discussed in Section 2.3 – Our strategy and strategic priorities of the 2017 Annual MD&A, our main strategic priorities are focused on growing our Parcels and Direct Marketing lines of businesses.

Performance results for 2018 will be updated at the end of the year and included as part of the 2018 Annual MD&A.

4 Capabilities

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

A discussion of these topics appears in Section 4 – Capabilities of the 2017 Annual MD&A. Updates are provided below.

4.1 Labour relations

The number of employees covered by collective agreements as at December 31, 2017, and various bargaining activities are summarized in Section 4.1 – Our employees – Labour relations of the 2017 Annual MD&A. An update of collective bargaining activity by segment is provided below.

Canada Post segment

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

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. CUPW provided notice to bargain on November 14, 2017, for both bargaining units and, the same day, advised that they had submitted a written request for mediation assistance to the Minister of Employment, Workforce Development and Labour. The Corporation agreed with the request for both bargaining processes. On November 28, 2017, the Minister appointed three mediators to the negotiation processes. The first meetings between the parties began in December 2017 and meetings occurred throughout the first six months of 2018. CUPW filed for conciliation on June 29, 2018, and on July 6 the Minister of Labour appointed two conciliators. The earliest possible date that either party can be in a position of a strike or lockout is September 26, 2018. Throughout the process of conciliation, the collective agreements continue to apply as per the *Canada Labour Code*.

As a part of the previous collective agreement, the Corporation and CUPW-UPO established the Labour-Management Relationship Committee with the objective of promoting more effective open and continuous involvement between the parties and enhancing communication – all to improve labour relations. The Committee, which is composed of representatives from each party and the Federal Mediation and Conciliation Service, meets regularly and considers initiatives on which the parties might work collaboratively.

The parties signed a memorandum of understanding on September 1, 2016, in which they agreed to enter into a joint pay equity study to assess whether a gender-based wage gap exists under *the Canadian Human Rights Act* for RSMC occupational groups. The study was coordinated by a committee made up of representatives from both Canada Post and CUPW and their respective pay equity consultants. The parties began discussions on October 17, 2017, and, as the arbitrator appointed by the Minister of Labour in February 2017 was unable to mediate a settlement, arbitration commenced on February 18, 2018. The last date for arbitration was May 2, 2018. On May 31, the arbitrator rendered her decision and sent issues back to the parties to be resolved by August 31, 2018. In an attempt to help the parties resolve these issues, the arbitrator offered to mediate throughout June to August. The parties agreed, and the first date for mediation was June 26, 2018. If the parties are unable to resolve issues by August 31, outstanding matters will proceed to binding arbitration. Under the agreed terms of the process, adjustments are retroactive to January 1, 2016.

Canadian Postmasters and Assistants Association (CPAA)

The current collective agreement with the CPAA expires December 31, 2018, and notice to bargain can be provided as early as September 2018. This collective agreement provides for final offer selection. The CPAA represents rural post office postmasters and assistants.

Association of Postal Officials of Canada (APOC)

The current collective agreement with APOC expires March 31, 2021. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

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

The collective agreement between Canada Post and PSAC/UPCE expires August 31, 2020. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees in areas such as finance and engineering.

Purolator segment

All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have collective agreements that expired December 31, 2017. Six of these agreements have been renewed. Bargaining continues with the three other units.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the second quarter of 2018, there were no changes in internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Risks and Risk Management

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

Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). A description of the Canada Post segment's risks is provided in Section 5.2 – Strategic risks and Section 5.3 – Operational risks of the 2017 Annual MD&A. Updates to these risks for the second quarter of 2018 are provided below.

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

Labour agreements

Canada Post is engaged in negotiations with employees represented by CUPW in two separate collective agreements (Urban Postal Operations and Rural and Suburban Mail Carriers). CUPW is Canada Post's largest union, representing more than 40,000 employees. The Corporation is committed to negotiating agreements that are fair to employees, while providing competitive pricing and service to Canadians. The risk of a labour disruption remains until such agreements are reached.

CPAA pay equity complaint

The Canadian Postmasters and Assistants Association (CPAA) initially filed complaints with the Canadian Human Rights Commission (Commission) in 1982 and 1992, alleging discrimination by the Corporation concerning work of equal value. Both complaints were settled by the parties. However, in 2012, the CPAA requested reactivation of the 1992 complaint and in 2014, the Commission investigator concluded that the period 1992-97 remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal). In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. On September 1, 2016, the Tribunal directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016 in order for the matter to proceed to its merits. Statements of particulars have been exchanged.

In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, and by decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability. No dates for a hearing on the merits have been established.

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

An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community mailbox delivery was filed by CUPW and others in November 2014, with a number of Montréal urban communities granted intervenor status. The matter was placed in abeyance pending the results of the government review of Canada Post. In January 2018, the Government of Canada announced that it was ending the program to convert door-to-door delivery to community mailboxes. As a result, on consent and on a without-cost basis, CUPW filed a notice of discontinuance with the Federal Court effectively ending this litigation as of April 12, 2018.

Health and safety obligation under the *Canada Labour Code* – Burlington points of call

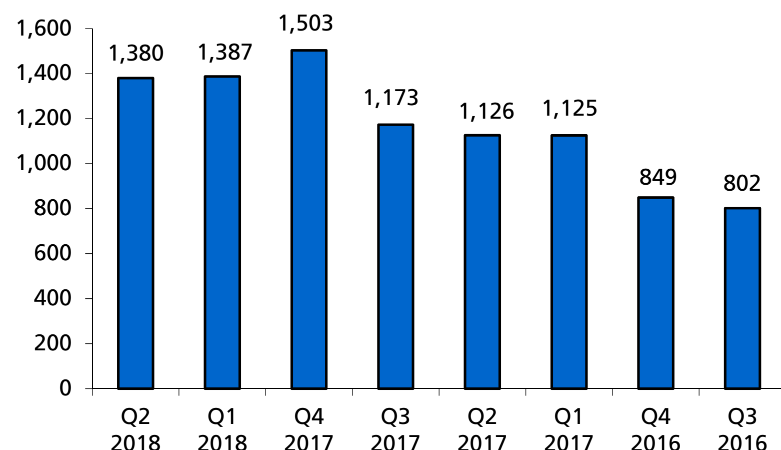
The Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada, which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No monetary award was granted. Leave to appeal was granted by the Supreme Court of Canada in April, and a hearing date has been tentatively scheduled for December 10, 2018.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $1,380 million as at June 30, 2018 – a decrease of $123 million compared to December 31, 2017, mainly due to net acquisitions of securities and capital assets, partially offset by an increase in cash provided by operating activities in the first two quarters of 2018.

6.2 Operating activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Cash provided by operating activities	118	66	52	388	231	157

Cash provided by operations in the second quarter and first two quarters of 2018 increased by $52 million and $157 million, respectively, compared to the same periods in 2017. The positive change in 2018 cash flow was primarily driven by increases in non-cash working capital and non-cash timing of employee future benefits (mainly in the Canada Post segment), partially offset by higher income taxes paid.

6.3 Investing activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Cash provided by (used in) investing activities	(122)	(60)	(62)	(507)	58	(565)

Cash used in investing activities increased by $62 million in the second quarter of 2018 compared to the same period in 2017, mainly due to higher acquisitions of securities net of proceeds of sales of securities, and higher acquisitions of capital assets. For the first two quarters of 2018, cash used in investing activities was $507 million, compared to cash provided by investing activities of $58 million in the same period in 2017. The negative change in cash flow of $565 million was mainly due to lower proceeds from the sale of investments and higher acquisitions of capital assets.

Capital expenditures

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Canada Post	57	46	11	89	62	27
Purolator	8	5	3	11	8	3
Logistics	11	2	9	13	3	10
Intersegment and consolidation	–	(2)	2	–	(3)	3
Canada Post Group of Companies	**76**	**51**	**25**	**113**	**70**	**43**

Capital expenditures for the Group of Companies increased by $25 million and $43 million in the second quarter and first two quarters of 2018, respectively, when compared to the same periods in 2017. The increase in 2018 was mainly due to increased spending on infrastructure capacity in the Canada Post segment.

6.4 Financing activities

	13 weeks ended			26 weeks ended		
(in millions of dollars)	June 30, 2018	July 1, 2017	Change	June 30, 2018	July 1, 2017	Change
Cash used in financing activities	(4)	(5)	1	(6)	(11)	5

Cash used in financing activities decreased by $1 million and $5 million, respectively, in the second quarter and first two quarters of 2018 compared to the same periods in 2017, mainly due to lower payments on finance lease obligations in the Purolator segment.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $25 billion as at December 31, 2017, making it one of the largest single-employer sponsored pension plans in Canada. A description of the effects of the RPP on liquidity is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan of the 2017 Annual MD&A. An update follows.

On May 31, 2018, the arbitrator for a pay equity study issued her decision that rural and suburban mail carriers (Canadian Union of Postal Workers – Rural and Suburban Mail Carriers) perform work of equal value to the work of urban letter carriers (Canadian Union of Postal Workers – Urban Postal Operations) and that the parties are to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap. The parties have until August 31, 2018, to reach an agreement, after which date, outstanding matters will proceed to binding arbitration. This decision resulted in the Corporation recording plan amendment losses for the RPP in net profit for the 13 weeks ended June 30, 2018. The estimated impact on the pension liability was assessed using information available as of August 21, 2018. However, there remains a significant source of estimation uncertainty, given the ongoing pay equity process. The estimates recognized at June 30, 2018, may differ significantly from the final outcome of the pay equity settlement, resulting in a risk of material adjustment to the consolidated financial statements in future periods. The Corporation does not know the final outcome of the mediated negotiations and will disclose the financial impact of the final settlement only when the matter is ascertainable and the process is completed.

Under the *Canada Post Corporation Pension Plan Funding Regulations*, the Corporation was exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. In 2018, the Corporation reverted back to the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, solvency reductions are limited to 15% of a plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. Canada Post has notified and received no objection from the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce special solvency contributions for 2018. Canada Post will not have to make special payments in 2018 and projects that it will not have to make special payments in 2019, provided that market conditions remain constant.

On June 20, 2018, Canada Post filed the actuarial valuation of the RPP as at December 31, 2017, with the federal pension regulator, the Office of the Superintendent of Financial Institutions. The actuarial valuation as at December 31, 2017, disclosed a going-concern surplus of $3 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.4 billion (using the three-year average solvency ratio), or $5.9 billion (using market value of plan assets). At the end of the second quarter of 2018, there was no material change to the solvency deficit (using market value of plan assets).

Current service contributions amounted to $57 million and $124 million, respectively, for the second quarter and first two quarters of 2018, compared to $60 million and $127 million, respectively, for the same periods in 2017. The employer's current service contributions for 2018 are estimated at $259 million.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. For the second quarter of 2018, remeasurement gains, net of tax, amounted to $678 million for the RPP. For the first two quarters of 2018, remeasurement gains, net of tax, amounted to $630 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

6.6 Liquidity and capital resources

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

Liquidity

During the second quarter of 2018, 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 $2,243 million of unrestricted liquid investments on hand as at June 30, 2018, and $100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provided Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. Beginning in 2018, Canada Post is availing itself of the solvency payment reduction mechanism provided by the regulations in the *Pension Benefits Standards Act, 1985,* and will not be making special payments in 2018. Further, it projects that it will not have to make special payments in 2019, provided that market conditions remain constant. Therefore, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $301 million of unrestricted cash on hand and undrawn credit facilities of $86 million as at June 30, 2018, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

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

Borrowings for the Canada Post segment and the Corporation's subsidiaries as at June 30, 2018, amounted to $997 million and $34 million respectively. For more information on liquidity and access to capital markets, refer to Section 6.6 – Liquidity and capital resources of the 2017 Annual MD&A.

Dividends

For information on our dividend policy, refer to Section 6.6 – Liquidity and capital resources of the 2017 Annual MD&A.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out business activities that are summarized in Section 6.7 – Risks associated with financial instruments of the 2017 Annual MD&A.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices. The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in special drawing rights. These forward contracts are not designated as hedges for accounting purposes. There were no material changes to market risk during the second quarter of 2018. For more information on foreign exchange risk, refer to Note 12 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2018 and Note 19 – Financial Instruments and Risk Management of the 2017 consolidated financial statements.

Credit risk

Credit risk is the risk of financial loss due to the counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled by paying cash or using major credit cards. There were no material changes to credit risk during the second quarter of 2018. For more information on credit risk, refer to Note 19 – Financial Instruments and Risk Management of the 2017 consolidated financial statements.

Liquidity risk

Liquidity risk is the risk that the Group of Companies will not be able to meet its financial obligations as they fall due. Liquidity risk is managed by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. There were no material changes to liquidity risk during the second quarter of 2018. For more information on liquidity risk, refer to Note 12 – Fair Values and Risks Arising from Financial Instruments of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2018, and Note 19 – Financial Instruments and Risk Management of the 2017 consolidated financial statements.

6.8 Contractual obligations and commitments

Contractual obligations and commitments are explained in Section 6.8 – Contractual obligations and commitments of the 2017 Annual MD&A. There were no material changes to contractual obligations and commitments during the second quarter of 2018.

6.9 Related party transactions

The Corporation has a variety of transactions with related parties in the normal course of business and in the support of the Government of Canada's public policies. These transactions are not materially different from what is reported in Section 6.9 – Related party transactions of the 2017 Annual MD&A. For more information on related party transactions, refer to Note 15 – Related Party Transactions of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2018, and Note 24 – Related Party Transactions of the 2017 consolidated financial statements.

6.10 Contingent liabilities

Contingent liabilities are described in Note 11 – Contingent Liabilities of the unaudited interim condensed consolidated financial statements for the 13 and 26 weeks ended June 30, 2018, and Note 16 – Contingent Liabilities of the 2017 consolidated financial statements.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between June 30, 2018, and December 31, 2017

(in millions of dollars)

ASSETS	June 30, 2018	Dec. 31, 2017[1]	Change[1]	%[1]	Explanation of change
Cash and cash equivalents	1,380	1,503	(123)	(8.1)	Refer to Section 6 – Liquidity and Capital Resources page 10.
Marketable securities	1,164	821	343	41.8	Mainly due to timing as a result of the purchase of short-term investments.
Trade and other receivables	939	946	(7)	(0.7)	No material change.
Other assets	157	126	31	25.1	Mainly due to higher income tax instalments for 2018 made in the Canada Post segment.
Total current assets	**3,640**	**3,396**	**244**	**7.2**	
Property, plant and equipment	2,600	2,627	(27)	(1.1)	Mainly due to depreciation exceeding acquisitions in the Canada Post and Purolator segments.
Intangible assets	113	119	(6)	(5.1)	No material change.
Segregated securities	529	526	3	0.6	No material change.
Pension benefit assets	122	116	6	5.0	No material change.
Deferred tax assets	1,379	1,568	(189)	(12.0)	Mainly due to the decrease of temporary differences related to Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	55	7	48	–	Mainly due to a long-term receivable related to a change in the timing of when CUPW employees are paid.
Total non-current assets	**4,928**	**5,093**	**(165)**	**(3.3)**	
Total assets	**8,568**	**8,489**	**79**	**0.9**	

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

(in millions of dollars)

LIABILITIES	June 30, 2018	Dec. 31, 2017[1]	Change[1]	%[1]	Explanation of change
Trade and other payables	518	583	(65)	(11.0)	Mainly due to higher expenses during the peak period in the last quarter of 2017.
Salaries and benefits payable and related provisions	695	600	95	15.7	Mainly due to timing of payments for statutory deductions and increased accrued salaries in the Canada Post segment.
Provisions	101	77	24	30.9	Mainly due to an increase in the grievance and other provisions in the Canada Post segment.
Income tax payable	3	38	(35)	(93.0)	Primarily due to the payment of a tax liability for the Canada Post segment.
Deferred revenue	134	138	(4)	(2.4)	No material change.
Loans and borrowings	13	13	–	4.7	No material change.
Other long-term benefit liabilities	64	63	1	1.7	No material change.
Total current liabilities	**1,528**	**1,512**	**16**	**1.1**	
Loans and borrowings	1,018	1,025	(7)	(0.7)	No material change.
Pension, other post-employment and other long-term benefit liabilities	5,673	6,297	(624)	(9.9)	Mainly due to remeasurement gains resulting from an increase in discount rates and positive investment returns.
Other liabilities	26	25	1	0.1	No material change.
Total non-current liabilities	**6,717**	**7,347**	**(630)**	**(8.6)**	
Total liabilities	**8,245**	**8,859**	**(614)**	**(6.9)**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	51	54	(3)	(5.4)	No material change.
Accumulated deficit	(921)	(1,611)	690	42.8	Mainly driven by remeasurement gains in the Canada Post segment.
Equity of Canada	**285**	**(402)**	**687**	**171.0**	
Non-controlling interests	38	32	6	18.5	
Total equity	**323**	**(370)**	**693**	**187.6**	
Total liabilities and equity	**8,568**	**8,489**	**79**	**0.9**	

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

8 Discussion of Operations

A detailed discussion of our financial performance

8.1 Summary of quarterly results

Consolidated results by quarter

The following table shows the Group of Companies' consolidated results for the last eight quarters. Volumes have historically varied throughout the year, with the highest demand for services occurring during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level during the summer months, in the third quarter. The Group of Companies' significant fixed costs do not vary, in the short term, as a result of these changes in demand for its services. The quarterly results can also be affected by the number of business (trading) and paid days, which can vary by quarter. Additional business days result in increased revenue, while additional paid days result in increased cost of operations. In the second quarter of 2018, there was one additional business day and the same number of paid days compared to the same period in 2017. For the first two quarters, there was the same number of business and paid days compared to the same period in 2017.

(in millions of dollars)	Q2 2018	Q1 2018	Q4 2017[1]	Q3 2017[1]	Q2 2017[1]	Q1 2017[1]	Q4 2016	Q3 2016
Revenue from operations	2,142	2,162	2,287	1,932	2,029	2,071	2,128	1,758
Cost of operations	2,325	2,061	2,186	1,949	1,955	1,997	2,024	1,776
Profit (loss) from operations	**(183)**	**101**	**101**	**(17)**	**74**	**74**	**104**	**(18)**
Investing and financing expense, net	(7)	(5)	(8)	(6)	(7)	(6)	(9)	(7)
Profit (loss) before tax	**(190)**	**96**	**93**	**(23)**	**67**	**68**	**95**	**(25)**
Tax expense (income)	(44)	22	31	(9)	15	20	19	2
Net profit (loss)	**(146)**	**74**	**62**	**(14)**	**52**	**48**	**76**	**(27)**

8.2 Consolidated results from operations

Consolidated results for the second quarter and first two quarters of 2018

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]
Revenue from operations	2,142	2,029	113	4.0[2]	4,304	4,100	204	5.0
Cost of operations	2,325	1,955	370	18.9	4,386	3,952	434	11.0
Profit (loss) from operations	**(183)**	**74**	**(257)**	**–**	**(82)**	**148**	**(230)**	**–**
Investing and financing expense, net	(7)	(7)	–	(6.3)	(12)	(13)	1	12.7
Profit (loss) before tax	**(190)**	**67**	**(257)**	**–**	**(94)**	**135**	**(229)**	**–**
Tax expense (income)	(44)	15	(59)	–	(22)	35	(57)	–
Net profit (loss)	**(146)**	**52**	**(198)**	**–**	**(72)**	**100**	**(172)**	**–**
Other comprehensive income (loss)	774	(589)	1,363	–	765	(905)	1,670	–
Comprehensive income (loss)	**628**	**(537)**	**1,165**	**–**	**693**	**(805)**	**1,498**	**–**

The Canada Post Group of Companies reported a loss before tax of $190 million for the second quarter of 2018, compared to a profit before tax of $67 million[1] in the second quarter of 2017. For the first two quarters of 2018, the loss before tax was $94 million, compared to a profit before tax of $135 million[1] compared to the same period in 2017. The decrease in profit before tax in 2018 was driven primarily by the Canada Post segment. A detailed discussion by segment follows in sections 8.4 to 8.6.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.
2. Adjusted for trading days.

Consolidated revenue from operations

For the second quarter and the first two quarters of 2018, revenue from operations increased by $113 million[1] and $204 million,[1] respectively, when compared to the same periods in 2017, due to growth in the Canada Post and Purolator segments. In the Canada Post segment, Parcels growth was partially offset by Lettermail™ erosion. A detailed discussion of revenue by segment follows in sections 8.4 to 8.6.

Consolidated cost of operations

The cost of operations grew by $370 million[1] in the second quarter of 2018, when compared to the same quarter in the prior year, and by $434 million[1] in the first two quarters of 2018, when compared to the same periods in 2017. The increases were mainly the result of increased costs related to volume growth, inflationary pressures and fuel price increases in the Canada Post and Purolator segments and, in addition, of the costs related to the arbitrator's pay equity decision regarding members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) in the Canada Post segment. A detailed discussion by segment follows in sections 8.4 to 8.6.

Consolidated tax expense

The consolidated tax expense for the second quarter and the first two quarters of 2018 decreased by $59 million[1] and $57 million,[1] respectively, compared to the same periods in the prior year, primarily driven by a decrease in the Canada Post segment's profit before tax.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive income for the second quarter and the first two quarters of 2018 amounted to $774 million and $765 million, respectively. The income was mainly due to remeasurement gains on pension and other post-employment plans resulting from an increase in discount rates and higher than targeted pension asset returns. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have an impact on the Group of Companies' other comprehensive income (loss).

8.3 Operating results by segment

Segmented results – Profit (loss) before tax

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]
Canada Post	(242)	27	(269)	–	(172)	77	(249)	–
Purolator	45	35	10	29.8	66	49	17	33.8
Logistics	5	5	–	6.0	10	9	1	8.9
Other	2	–	2	185.6	2	–	2	227.7
Canada Post Group of Companies	**(190)**	**67**	**(257)**	**–**	**(94)**	**135**	**(229)**	**–**

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

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

8.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $242 million in the second quarter of 2018, compared to a profit before tax of $27 million[1] in the second quarter of 2017. For the first two quarters of 2018 the loss before tax was $172 million, compared to a profit before tax of $77 million[1] for the same period in 2017.

Canada Post results for the second quarter and first two quarters of 2018

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]
Revenue from operations	1,645	1,576	69	2.7[2]	3,343	3,222	121	3.7
Cost of operations	1,880	1,543	337	21.9	3,503	3,133	370	11.8
Profit (loss) from operations	**(235)**	**33**	**(268)**	**–**	**(160)**	**89**	**(249)**	**–**
Investing and financing expense, net	(7)	(6)	(1)	(17.2)	(12)	(12)	–	2.3
Profit (loss) before tax	**(242)**	**27**	**(269)**	**–**	**(172)**	**77**	**(249)**	**–**
Tax expense (income)	(57)	4	(61)	–	(42)	18	(60)	–
Net profit (loss)	**(185)**	**23**	**(208)**	**–**	**(130)**	**59**	**(189)**	**–**

Revenue from operations

Canada Post earned revenue from operations of $1,645 million in the second quarter of 2018 – an increase of $69 million[1] or 2.7%[1,2] when compared to the same quarter in 2017. For the first two quarters of 2018, Canada Post generated revenue from operations of $3,343 million, an increase of $121 million[1] or 3.7%[1] compared to the same period in 2017. The increases were due primarily to continued growth in Parcels in 2018 compared to the same periods in 2017, partially offset by Lettermail erosion.

Quarterly revenue by line of business

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2018	July 1, 2017[1]	Change[1]	%[1,2]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]
Transaction Mail	693	726	(33)	(6.0)	1,469	1,548	(79)	(5.1)
Parcels	607	501	106	19.6	1,200	984	216	22.1
Direct Marketing	283	284	(1)	(2.0)	556	560	(4)	(0.8)
Other revenue	62	65	(3)	(9.1)	118	130	(12)	(10.2)
Total	**1,645**	**1,576**	**69**	**2.7**	**3,343**	**3,222**	**121**	**3.7**

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2. Adjusted for trading days.

Transaction Mail

Transaction Mail revenue of $693 million for the second quarter of 2018 was made up of the following three product categories: Domestic Lettermail ($650 million), Outbound Letter-post ($23 million) and Inbound Letter-post ($20 million).

In the second quarter of 2018, Transaction Mail revenue decreased by $33 million[1] or 6.0%,[1,2] while volumes decreased by 34 million pieces or 5.9%[2] compared to the same period in 2017. For Domestic Lettermail, the largest product category, revenue decreased by $10 million[1] or 3.1%[1,2] and volumes decreased by 22 million pieces or 4.6%.[2]

In the first two quarters of 2018, Transaction Mail revenue decreased by $79 million[1] or 5.1%[1] while volumes decreased by 84 million pieces or 5.0% compared to the same period in 2017. For Domestic Lettermail, revenue decreased by $34 million[1] or 2.4%[1] and volumes decreased by 56 million pieces or 3.6%.

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

Parcels

Parcels revenue of $607 million for the second quarter of 2018 was made up of the following four product categories: Domestic Parcels ($446 million), Outbound Parcels ($59 million), Inbound Parcels ($95 million) and Other ($7 million).

Parcels revenue in the second quarter increased by $106 million[1] or 19.6%,[1,2] and volumes increased by 13 million pieces or 24.1%[2] when compared to the same period in the prior year. Domestic Parcels, the largest product category, continued its growth as revenue increased by $81 million[1] or 20.5%,[1,2] and volumes grew by six million pieces or 14.5%.[2]

In the first two quarters of 2018, Parcels revenue increased by $216 million[1] or 22.1%,[1] and volumes increased by 30 million pieces or 28.5% when compared to the same period in the prior year. For Domestic Parcels, revenue increased by $157 million[1] or 22.0%,[1] and volumes grew by 12 million pieces or 15.9%.

The increase in revenue and volumes was driven by a strong performance from major commercial customers and a solid delivery performance. It reflects the growth in the business-to-consumer e-commerce delivery market as customers continue to order more products online. Also, for Inbound Parcels there has been some migration from Transaction Mail Inbound Letter-post due to changes in international induction procedures.

Direct Marketing

Direct Marketing revenue of $283 million for the second quarter of 2018 was made up of the following four categories: Canada Post Personalized Mail™ ($117 million), Canada Post Neighbourhood Mail™ ($116 million), Publications Mail™ ($41 million), and Business Reply Mail™ and Other mail ($9 million).

In the second quarter of 2018, Direct Marketing revenue decreased slightly by $1 million[1] or 2.0%,[1,2] while volumes increased by 13 million pieces (decrease of 0.6%[1] when trading day adjusted) compared to the same period in 2017. Revenue for Neighbourhood Mail, the largest volume product category, increased slightly by $4 million[1] or 1.3%,[1,2] while volumes increased by 27 million pieces or 1.3%[2] compared to the same period in 2017. Personalized Mail revenue and volumes decreased by $3 million[1] or 3.4%[1,2] and 9 million pieces or 5.3%,[2] respectively, when compared to the second quarter in 2017.

In the first two quarters of 2018, Direct Marketing revenue decreased by $4 million[1] or 0.8%,[1] and volumes dropped by 10 million pieces or 0.4% when compared to the same period in 2017. Revenue and volumes for Neighbourhood Mail increased by $4 million[1] or 1.8%,[1,2] and 20 million pieces or 1.1%,[2] respectively, compared to the same period in 2017. Personalized Mail revenue and volumes decreased by $4 million[1] or 1.4%[1] and 20 million pieces or 4.2%, respectively, when compared to the first two quarters in 2017.

The declines in Personalized Mail were caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels.

Publications Mail revenue for the second quarter and the first two quarters of 2018 were lower by $3 million[1] and $4 million,[1] respectively, when compared to the same periods in 2017. Volumes for the second quarter and the first two quarters of 2018 were lower by six million pieces or 10.3%, and 10 million pieces or 7.8%, respectively, when compared to the same periods in 2017 due to declines in mail publication subscriptions.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2. Adjusted for trading days.

Other revenue

Other revenue totalled $62 million in the second quarter of 2018 – a decrease of $3 million[1] or 9.1%,[1,2] when compared to the same period in the prior year, mainly due to a loss in foreign exchange and a decrease in consumer products and services. At the end of the first two quarters in 2018, revenue was $118 million – a decrease of $12 million[1] or 10.2%[1] compared to the same period in 2017. The decrease was due to a reduction in sales of consumer and digital products, and fluctuations in foreign currency.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,880 million in the second quarter of 2018 – an increase of $337 million[1] or 21.9%[1] when compared to the same quarter last year. After the first two quarters of 2018, the cost of operations was $3,503 million – an increase of $370 million[1] or 11.8%[1] compared to the same period in 2017. The increases were mainly due to higher labour costs and an increase in the employee benefit expense when compared to the same periods in 2017.

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]
Labour	869	777	92	11.8	1,664	1,566	98	6.3
Employee benefits	511	314	197	63.2	835	627	208	33.1
Total labour and employee benefits	**1,380**	**1,091**	**289**	**26.6**	**2,499**	**2,193**	**306**	**14.0**
Non-labour collection, processing and delivery	236	216	20	9.3	492	468	24	5.1
Property, facilities and maintenance	61	61	–	(0.4)	133	128	5	3.5
Selling, administrative and other	141	113	28	25.0	256	221	35	15.7
Total other operating costs	**438**	**390**	**48**	**12.3**	**881**	**817**	**64**	**7.7**
Depreciation and amortization	62	62	–	(0.9)	123	123	–	0.2
Total	**1,880**	**1,543**	**337**	**21.9**	**3,503**	**3,133**	**370**	**11.8**

Labour

Labour costs increased by $92 million or 11.8% in the second quarter of 2018 and by $98 million or 6.3% in the first two quarters of 2018, when compared to the same periods in the previous year. The change was primarily due to continued Parcels growth and inflation, as well as the CUPW-RSMC pay equity decision by the arbitrator.

Employee benefits

Employee benefits increased by $197 million or 63.2% for the second quarter of 2018 and by $208 million or 33.1% in the first two quarters of 2018 when compared to the same periods in 2017. The increase in costs was mainly due to plan amendments resulting from the pay equity decision as well as to a decrease in the 2017 discount rate, partially offset by favorable asset returns in 2017, which are both used to calculate benefit plan costs in 2018.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $20 million[1] or 9.3%[1] for the second quarter of 2018 and by $24 million[1] or 5.1%[1] for the first two quarters of 2018, when compared to the same periods in 2017, mainly due to higher transportation, fuel costs and automotive expenses, partially offset by lower equipment maintenance costs.

Property, facilities and maintenance

The cost of facilities remained constant for the second quarter of 2018 and increased by $5 million[1] or 3.5%[1] for the first two quarters of 2018, respectively, when compared to the same periods in 2017, mainly due to an increase in building repair and maintenance costs in the first quarter of 2018.

Selling, administrative and other

Selling, administrative and other expenses increased by $28 million or 25.0% for the second quarter of 2018 and by $35 million or 15.7% for the first two quarters of 2018, when compared to the same periods last year, mainly due to costs associated with community mailbox site restorations and to commodity taxes related to continuous inbound freight.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.
2. Adjusted for trading days.

Depreciation and amortization

Depreciation and amortization expenses were $62 million for the second quarter of 2018 and $123 million for the first two quarters of 2018. These amounts are consistent when compared to the same periods in 2017.

8.5 Purolator segment

The Purolator segment recorded a net profit of $34 million for the second quarter of 2018, an increase of $9 million[1] or 28.2%[1] when compared to the same period in 2017. For the first two quarters of 2018, Purolator earned a net profit of $49 million, an increase of $15 million[1] when compared to the prior year.

Purolator results for the second quarter and first two quarters of 2018

			13 weeks ended				26 weeks ended	
(in millions of dollars)	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]
Revenue from operations	452	407	45	9.1[2]	870	790	80	10.0
Cost of operations	407	371	36	9.1	804	740	64	8.6
Profit (loss) from operations	**45**	**36**	**9**	**28.8**	**66**	**50**	**16**	**31.2**
Investing and financing expense, net	–	(1)	1	–	–	(1)	1	–
Profit (loss) before tax	**45**	**35**	**10**	**29.8**	**66**	**49**	**17**	**33.8**
Tax expense (income)	11	10	1	34.2	17	15	2	26.5
Net profit (loss)	**34**	**25**	**9**	**28.2**	**49**	**34**	**15**	**36.6**

Revenue from operations

Purolator generated revenue from operations of $452 million in the second quarter of 2018 – an increase of $45 million[1] or 9.1%[1,2] when compared to the same period in 2017. After the first two quarters of 2018, revenue totalled $870 million – an increase of $80 million[1] or 10.0%[1] compared to the same period in 2017. Increases were mainly due to increased volumes from both new and existing business.

Cost of operations

Total labour costs

Total labour costs were $204 million in the second quarter of 2018, an increase of $12 million or 5.5% compared to the same period in 2017. After the first two quarters of 2018, labour costs amounted to $404 million, an increase of $19 million or 4.7% when compared to the same period in 2017. Increases were driven by business growth.

Total non-labour costs

Total non-labour costs were $203 million in the second quarter of 2018 – an increase of $24 million[1] or 12.9%[1] compared to the same period in 2017. After the first two quarters of 2018, non-labour costs were $400 million[1], an increase of $45 million[1] or 12.8%[1] compared to the same period in 2017. The increases were driven primarily by business growth and higher fuel costs.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.
2. Adjusted for trading days.

8.6 Logistics segment

The Logistics segment includes the financial results of SCI Group. The Logistics segment contributed $3 million of net profit to the consolidated results for the second quarter of 2018. For the first two quarters of 2018, the Logistics segment earned a net profit of $7 million, an increase of 8.9%[1] when compared to the prior year.

Logistics results for the second quarter and first two quarters of 2018

	13 weeks ended				26 weeks ended			
(in millions of dollars)	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]	June 30, 2018	July 1, 2017[1]	Change[1]	%[1]
Revenue from operations	75	66	9	11.8[2]	146	130	16	12.1
Cost of operations	70	61	9	14.3	136	121	15	12.4
Profit (loss) from operations	**5**	**5**	**–**	**5.2**	**10**	**9**	**1**	**7.7**
Investing and financing expense, net	–	–	–	–	–	–	–	–
Profit (loss) before tax	**5**	**5**	**–**	**6.0**	**10**	**9**	**1**	**8.9**
Tax expense (income)	2	1	1	6.8	3	2	1	9.1
Net profit (loss)	**3**	**4**	**(1)**	**–**	**7**	**7**	**–**	**8.9**

Revenue from operations

SCI generated revenue from operations of $75 million in the second quarter of 2018 – an increase of $9 million[1] or 11.8%[1,2] when compared to the same period in 2017. After the first two quarters of 2018, revenue was $146 million – an increase of $16 million[1] or 12.1%[1] when compared to the same period in 2017. The increases were primarily the result of growth in volumes and new business.

Cost of operations

Total labour costs

Total labour costs were $38 million in the second quarter of 2018 – an increase of $6 million or 14.6% when compared to the same period in 2017. After the first two quarters of 2018, total labour costs were $74 million – an increase of $10 million or 14.2% compared to the same period in 2017. Increases were primarily the result of growth in volumes and new business.

Total non-labour costs

Total non-labour costs were $32 million in the second quarter of 2018 – an increase of $3 million[1] or 13.9%[1] when compared to the same period in 2017. After the first two quarters of 2018, total non-labour costs were $62 million – an increase of $5 million[1] or 10.5%[1] when compared to the same period in 2017. Increases were primarily the result of growth from existing clients and new business.

8.7 Consolidated results to plan

While the interim 2018-22 Corporate Plan was filed with the Minister responsible for Canada Post, it was not advanced for Governor-in-Council consideration in light of the Government of Canada's review of Canada Post that was then under way. The 2019-23 Corporate Plan will be developed over the coming months and submitted in the fall, according to the usual process and in compliance with the *Financial Administration Act.*

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 3 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.
2. Adjusted for trading days.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2018 and future years

9.1 Critical accounting estimates and estimation uncertainties

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

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

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2017 Annual MD&A and Note 4 – Critical Accounting Estimates and Judgments of the 2017 consolidated financial statements, which are contained in the *Canada Post Corporation 2017 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations adopted

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2018.

The following standards were adopted by the Group of Companies January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which affect the amount or timing of revenue recognized. IFRS 15 was applied retrospectively to these interim condensed consolidated financial statements in accordance with the transitional provisions. As required by the transitional provisions, the amount of the restatement for each financial statement line item affected in the comparative period is described below.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period is less than one year and, therefore, qualifies under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs previously netted against revenue were reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, revenue and cost from operations each increased by $21 million and $41 million from amounts previously reported for the 13 weeks and 26 weeks ended July 1, 2017, which had no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue is appropriate. As a result, deferred tax assets, deferred revenue and accumulated deficit increased by $7 million, $28 million and $21 million, respectively, from amounts previously reported as at January 1, 2017, and increased by $8 million, $30 million and $22 million, respectively, from amounts previously reported as at December 31, 2017. Revenue decreased by $4 million and $1 million from amounts previously reported for the 13 weeks and 26 weeks ended July 1, 2017, respectively. In addition, the tax expense decreased by $1 million and nil from amounts previously reported for the 13 weeks and 26 weeks ended July 1, 2017.

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, the deferred tax assets, deferred revenue and accumulated deficit decreased by $1 million, $2 million and $1 million, respectively, from amounts previously reported as at January 1, 2017, and decreased by $2 million, $6 million and $6 million, respectively, while trade and other receivables increased by $2 million from amounts previously reported as at December 31, 2017.

The overall impact of these changes on the comparative figures was as follows:

Consolidated statement of financial position

(in millions of dollars)

As at January 1, 2017	As previously reported	IFRS 15 adjustments	Restated
Deferred tax asset	1,384	6	1,390
Deferred revenue	115	26	141
Accumulated deficit	(1,530)	(20)	(1,550)

Consolidated statement of financial position

(in millions of dollars)

As at December 31, 2017	As previously reported	IFRS 15 adjustments	Restated
Trade and other receivables	944	2	946
Deferred tax asset	1,562	6	1,568
Deferred revenue	114	24	138
Accumulated deficit	(1,595)	(16)	(1,611)

Consolidated statement of comprehensive income

(in millions of dollars)

	As previously reported		IFRS 15 adjustments		Restated	
	13 weeks ended July 1, 2017	26 weeks ended July 1, 2017	13 weeks ended July 1, 2017	26 weeks ended July 1, 2017	13 weeks ended July 1, 2017	26 weeks ended July 1, 2017
Revenue from operations	2,012	4,060	17	40	2,029	4,100
Total cost of operations	1,934	3,911	21	41	1,955	3,952
Tax expense	16	35	(1)	–	15	35
Net profit	55	101	(3)	(1)	52	100

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The Group of Companies has applied IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities previously classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets are classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation uses the probability-of-default method, adjusted by using forward looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The overall impact of adopting IFRS 9 did not result in significant adjustments to current or previously reported amounts.

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

During the 26 weeks ended June 30, 2018, there were no new standards, amendments and interpretations issued by the IASB or the Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017. The Group of Companies has the following update regarding its progress in implementing such future standards:

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019, and intends to apply the full retrospective approach.

The Group of Companies continues to make progress in the review of IFRS 16 and its impact, including the implementation of a new lease accounting software. The impact on the consolidated statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of leases. The impact on the consolidated statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. Lessees will also be required to remeasure the lease liability when certain events occur (e.g. a change in the lease term or a change in future lease payments resulting from a lease renewal or extension). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosures. The Group of Companies will report more detailed information, including estimated quantitative financial effects once available.

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.

Chair of the Board of Directors and
Interim President and CEO

Chief Financial Officer

August 21, 2018

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**June 30, 2018**	December 31, 2017 (Restated – Note 3)	January 1, 2017 (Restated – Note 3)
Assets				
Current assets				
Cash and cash equivalents		**$ 1,380**	$ 1,503	$ 849
Marketable securities		**1,164**	821	1,038
Trade and other receivables		**939**	946	829
Other assets	**4**	**157**	126	110
Total current assets		**3,640**	3,396	2,826
Non-current assets				
Property, plant and equipment	**5**	**2,600**	2,627	2,672
Intangible assets	**5**	**113**	119	117
Segregated securities		**529**	526	523
Pension benefit assets	**6**	**122**	116	135
Deferred tax assets		**1,379**	1,568	1,390
Goodwill		**130**	130	130
Other assets		**55**	7	5
Total non-current assets		**4,928**	5,093	4,972
Total assets		**$ 8,568**	$ 8,489	$ 7,798
Liabilities and equity				
Current liabilities				
Trade and other payables		**$ 518**	$ 583	$ 548
Salaries and benefits payable and related provisions		**695**	600	487
Provisions	**9**	**101**	77	70
Income tax payable		**3**	38	3
Deferred revenue		**134**	138	141
Loans and borrowings		**13**	13	22
Other long-term benefit liabilities	**6**	**64**	63	62
Total current liabilities		**1,528**	1,512	1,333
Non-current liabilities				
Loans and borrowings		**1,018**	1,025	1,037
Pension, other post-employment and other long-term benefit liabilities	**6**	**5,673**	6,297	5,726
Other liabilities		**26**	25	26
Total non-current liabilities		**6,717**	7,347	6,789
Total liabilities		**8,245**	8,859	8,122
Equity				
Contributed capital		**1,155**	1,155	1,155
Accumulated other comprehensive income	**8**	**51**	54	44
Accumulated deficit		**(921)**	(1,611)	(1,550)
Equity of Canada		**285**	(402)	(351)
Non-controlling interests		**38**	32	27
Total equity		**323**	(370)	(324)
Total liabilities and equity		**$ 8,568**	$ 8,489	$ 7,798
Contingent liabilities	**11**			

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the		13 weeks ended		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	**June 30, 2018**	July 1, 2017 (Restated – Note 3)	**June 30, 2018**	July 1, 2017 (Restated – Note 3)
Revenue from operations	**16**	**$ 2,142**	$ 2,029	**$ 4,304**	$ 4,100
Cost of operations					
Labour		**1,087**	979	**2,093**	1,964
Employee benefits	**6**	**562**	362	**941**	732
		1,649	1,341	**3,034**	2,696
Other operating costs	**13**	**599**	538	**1,194**	1,105
Depreciation and amortization	**5**	**77**	76	**158**	151
Total cost of operations		**2,325**	1,955	**4,386**	3,952
Profit (loss) from operations		**(183)**	74	**(82)**	148
Investing and financing income (expense)					
Investment and other income	**14**	**11**	4	**19**	9
Finance costs and other expense	**14**	**(18)**	(11)	**(31)**	(22)
Investing and financing expense, net		**(7)**	(7)	**(12)**	(13)
Profit (loss) before tax		**(190)**	67	**(94)**	135
Tax expense (income)	**7**	**(44)**	15	**(22)**	35
Net profit (loss)		**$ (146)**	$ 52	**$ (72)**	$ 100
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net profit (loss)					
Change in unrealized fair value of financial assets	**8**	**$ (1)**	$ 12	**$ (4)**	$ 15
Foreign currency translation adjustment	**8**	**1**	–	**1**	–
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	**8**	**774**	(601)	**768**	(920)
Other comprehensive income (loss)		**774**	(589)	**765**	(905)
Comprehensive income (loss)		**$ 628**	$ (537)	**$ 693**	$ (805)
Net profit (loss) attributable to					
Government of Canada		**$ (148)**	$ 50	**$ (75)**	$ 97
Non-controlling interests		**2**	2	**3**	3
		$ (146)	$ 52	**$ (72)**	$ 100
Comprehensive income (loss) attributable to					
Government of Canada		**$ 624**	$ (537)	**$ 687**	$ (804)
Non-controlling interests		**4**	–	**6**	(1)
		$ 628	$ (537)	**$ 693**	$ (805)

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 June 30, 2018 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at March 31, 2018	**$ 1,155**	**$ 51**	**$ (1,545)**	**$ (339)**	**$ 34**	**$ (305)**
Net profit (loss)	**–**	**–**	**(148)**	**(148)**	**2**	**(146)**
Other comprehensive income	**–**	**–**	**772**	**772**	**2**	**774**
Comprehensive income	**–**	**–**	**624**	**624**	**4**	**628**
Balance at June 30, 2018	**$ 1,155**	**$ 51**	**$ (921)**	**$ 285**	**$ 38**	**$ 323**

For the 13 weeks ended July 1, 2017 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at April 1, 2017	$ 1,155	$ 47	$ (1,802)	$ (600)	$ 26	$ (574)
Effects of adopting new standards (Note 3)	–	–	(18)	(18)	–	(18)
Restated balance at April 1, 2017	1,155	47	(1,820)	(618)	26	(592)
Net profit	–	–	50	50	2	52
Other comprehensive income (loss)	–	12	(599)	(587)	(2)	(589)
Comprehensive income (loss)	–	12	(549)	(537)	–	(537)
Balance at July 1, 2017	$ 1,155	$ 59	$ (2,369)	$ (1,155)	$ 26	$ (1,129)

For the 26 weeks ended June 30, 2018 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2017	**$ 1,155**	**$ 54**	**$ (1,595)**	**$ (386)**	**$ 32**	**$ (354)**
Effects of adopting new standards (Note 3)	**–**	**–**	**(16)**	**(16)**	**–**	**(16)**
Restated balance as at December 31, 2017	**1,155**	**54**	**(1,611)**	**(402)**	**32**	**(370)**
Net profit (loss)	**–**	**–**	**(75)**	**(75)**	**3**	**(72)**
Other comprehensive income (loss)	**–**	**(3)**	**765**	**762**	**3**	**765**
Comprehensive income (loss)	**–**	**(3)**	**690**	**687**	**6**	**693**
Balance at June 30, 2018	**$ 1,155**	**$ 51**	**$ (921)**	**$ 285**	**$ 38**	**$ 323**

For the 26 weeks ended July 1, 2017 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2016	$ 1,155	$ 44	$ (1,530)	$ (331)	$ 27	$ (304)
Effects of adopting new standards (Note 3)	–	–	(20)	(20)	–	(20)
Restated balance as at January 1, 2017	1,155	44	(1,550)	(351)	27	(324)
Net profit	–	–	97	97	3	100
Other comprehensive income (loss)	–	15	(916)	(901)	(4)	(905)
Comprehensive income (loss)	–	15	(819)	(804)	(1)	(805)
Balance at July 1, 2017	$ 1,155	$ 59	$ (2,369)	$ (1,155)	$ 26	$ (1,129)

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

Interim Condensed Consolidated Statement of Cash Flows

For the		13 weeks ended		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	June 30, 2018	July 1, 2017 (Restated – Note 3)	June 30, 2018	July 1, 2017 (Restated – Note 3)
Cash flows from operating activities					
Net profit (loss)		**$ (146)**	$ 52	**$ (72)**	$ 100
Adjustments to reconcile net profit to cash provided by operating activities:					
Depreciation and amortization	**5**	**77**	76	**158**	151
Pension, other post-employment and other long-term benefit expense	**6**	**435**	215	**661**	431
Pension, other post-employment and other long-term benefit payments	**6**	**(128)**	(129)	**(266)**	(265)
Loss on sale of capital assets and assets held for sale	**14**	**1**	–	**2**	–
Tax expense (income)	**7**	**(44)**	15	**(22)**	35
Net interest expense	**14**	**–**	8	**1**	14
Change in non-cash operating working capital:					
(Increase) decrease in trade and other receivables		**(27)**	(45)	**8**	1
Increase (decrease) in trade and other payables		**12**	2	**(64)**	(92)
(Decrease) increase in salaries and benefits payable and related provisions		**(45)**	(92)	**95**	(42)
Increase in provisions		**20**	–	**23**	8
Net change in other non-cash operating working capital		**(3)**	(14)	**(6)**	(34)
Other income not affecting cash, net		**(5)**	(5)	**(11)**	(12)
Cash provided by operations before interest and tax		**147**	83	**507**	295
Interest received		**17**	13	**26**	20
Interest paid		**(1)**	–	**(22)**	(22)
Tax paid		**(45)**	(30)	**(123)**	(62)
Cash provided by operating activities		**118**	66	**388**	231
Cash flows from investing activities					
Acquisition of securities		**(470)**	(561)	**(1,023)**	(976)
Proceeds from sale of securities		**423**	550	**673**	1,102
Acquisition of capital assets		**(76)**	(51)	**(113)**	(70)
Proceeds from sale of capital assets		**1**	2	**1**	2
Increase in long-term receivables		**–**	–	**(45)**	–
Cash (used in) provided by investing activities		**(122)**	(60)	**(507)**	58
Cash flows from financing activities					
Payments on finance lease obligations		**(3)**	(5)	**(6)**	(11)
Other financing activities, net		**(1)**	–	**–**	–
Cash used in financing activities		**(4)**	(5)	**(6)**	(11)
Net (decrease) increase in cash and cash equivalents		**(8)**	1	**(125)**	278
Cash and cash equivalents, beginning of period		**1,387**	1,125	**1,503**	849
Effect of exchange rate changes on cash and cash equivalents		**1**	–	**2**	(1)
Cash and cash equivalents, end of period		**$ 1,380**	$ 1,126	**$ 1,380**	$ 1,126

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

Notes to Interim Condensed Consolidated Financial Statements

For the 13 and 26 weeks ended June 30, 2018
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

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

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

The Corporation is subject to a directive that was issued in December 2013, and a related subsequent directive that was issued in June 2016, pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board approval before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council.

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

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2017.

These interim condensed consolidated financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors August 21, 2018.

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

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

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

Significant accounting policies • Significant accounting policies used in these interim condensed consolidated financial statements are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2017, except for the application of new standards, amendments and interpretations effective January 1, 2018, disclosed in Note 3 of these interim condensed consolidated financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 4 of the Corporation's annual consolidated financial statements for the year ended December 31, 2017.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2018.

The following standards were adopted by the Group of Companies January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which affect the amount or timing of revenue recognized. IFRS 15 was applied retrospectively to these interim condensed consolidated financial statements in accordance with the transitional provisions. As required by the transitional provisions, the amount of the restatement for each financial statement line item affected in the comparative period is described below.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period is less than one year and, therefore, qualifies under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs previously netted against revenue were reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, revenue and cost from operations each increased by $21 million and $41 million from amounts previously reported for the13 weeks and 26 weeks ended July 1, 2017, which had no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue is appropriate. As a result, deferred tax assets, deferred revenue and accumulated deficit increased by $7 million, $28 million and $21 million, respectively, from amounts previously reported as at January 1, 2017, and increased by $8 million, $30 million and $22 million, respectively, from amounts previously reported as at December 31, 2017. Revenue decreased by $4 million and $1 million from amounts previously reported for the 13 weeks and 26 weeks ended July 1, 2017, respectively. In addition, the tax expense decreased by $1 million and nil from amounts previously reported for the 13 weeks and 26 weeks ended July 1, 2017, respectively.

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, the deferred tax assets, deferred revenue and accumulated deficit decreased by $1 million, $2 million and $1 million, respectively, from amounts previously reported as at January 1, 2017, and decreased by $2 million, $6 million and $6 million, respectively, while trade and other receivables increased by $2 million from amounts previously reported as at December 31, 2017.

The overall impact of these changes on the comparative figures was as follows:

Consolidated statement of financial position

As at January 1, 2017	As previously reported	IFRS 15 adjustments	Restated
Deferred tax asset	$ 1,384	$ 6	$ 1,390
Deferred revenue	$ 115	$ 26	$ 141
Accumulated deficit	$ (1,530)	$ (20)	$ (1,550)

Consolidated statement of financial position

As at December 31, 2017	As previously reported	IFRS 15 adjustments	Restated
Trade and other receivables	$ 944	$ 2	$ 946
Deferred tax asset	$ 1,562	$ 6	$ 1,568
Deferred revenue	$ 114	$ 24	$ 138
Accumulated deficit	$ (1,595)	$ (16)	$ (1,611)

Consolidated statement of comprehensive income

For the 13 weeks ended July 1, 2017	As previously reported	IFRS 15 adjustments	Restated
Revenue from operations	$ 2,012	$ 17	$ 2,029
Total cost of operations	$ 1,934	$ 21	$ 1,955
Tax expense	$ 16	$ (1)	$ 15
Net profit	$ 55	$ (3)	$ 52

Consolidated statement of comprehensive income

For the 26 weeks ended July 1, 2017	As previously reported	IFRS 15 adjustments	Restated
Revenue from operations	$ 4,060	$ 40	$ 4,100
Total cost of operations	$ 3,911	$ 41	$ 3,952
Net profit	$ 101	$ (1)	$ 100

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The Group of Companies has applied IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities previously classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets are classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation uses the probability-of-default method, adjusted by using forward looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, as well as marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The overall impact of adopting IFRS 9 did not result in significant adjustments to current or previously reported amounts.

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

During the 26 weeks ended June 30, 2018, there were no new standards, amendments and interpretations issued by the IASB or the Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017. The Group of Companies has the following update regarding its progress in implementing such future standards:

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019, and intends to apply the full retrospective approach.

The Group of Companies continues to make progress in the review of IFRS 16 and its impact, including the implementation of a new lease accounting software. The impact on the consolidated statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of leases. The impact on the consolidated statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. Lessees will also be required to remeasure the lease liability when certain events occur (e.g. a change in the lease term or a change in future lease payments resulting from a lease renewal or extension). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosures. The Group of Companies will report more detailed information, including estimated quantitative financial effects once available.

4. Other Current Assets

As at	**June 30, 2018**	December 31, 2017
Income tax receivable	$ 44	$ –
Prepaid expenses	112	94
Assets held for sale	1	32
Total other current assets	**$ 157**	$ 126

As at June 30, 2018, all of the properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds. During the quarter, a property held for sale was sold for its recoverable amount of $31 million in exchange for $17 million in cash and $14 million in land.

5. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2017	$ 331	$ 2,082	$ 305	$ 1,267	$ 581	$ 324	$ 993	$ 79	$ 5,962
Additions	14	13	6	2	13	14	1	48	111
Retirements	–	–	(2)	(4)	(3)	–	(8)	–	(17)
Transfers	–	12	–	3	4	1	21	(41)	–
June 30, 2018	**$ 345**	**$ 2,107**	**$ 309**	**$ 1,268**	**$ 595**	**$ 339**	**$ 1,007**	**$ 86**	**$ 6,056**
Accumulated depreciation									
December 31, 2017	$ –	$ 1,113	$ 231	$ 786	$ 395	$ 263	$ 547	$ –	$ 3,335
Depreciation	–	36	6	36	26	10	22	–	136
Retirements	–	–	(1)	(4)	(3)	–	(7)	–	(15)
June 30, 2018	**$ –**	**$ 1,149**	**$ 236**	**$ 818**	**$ 418**	**$ 273**	**$ 562**	**$ –**	**$ 3,456**
Carrying amounts									
December 31, 2017	$ 331	$ 969	$ 74	$ 481	$ 186	$ 61	$ 446	$ 79	$ 2,627
June 30, 2018	**$ 345**	**$ 958**	**$ 73**	**$ 450**	**$ 177**	**$ 66**	**$ 445**	**$ 86**	**$ 2,600**

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2017	$ 767	$ 31	$ 23	$ 821
Additions	2	14	–	16
Transfers	6	(6)	–	–
June 30, 2018	**$ 775**	**$ 39**	**$ 23**	**$ 837**
Accumulated amortization				
December 31, 2017	$ 680	$ –	$ 22	$ 702
Amortization	22	–	–	22
June 30, 2018	**$ 702**	**$ –**	**$ 22**	**$ 724**
Carrying amounts				
December 31, 2017	$ 87	$ 31	$ 1	$ 119
June 30, 2018	**$ 73**	**$ 39**	**$ 1**	**$ 113**

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

(a) Net defined benefit liability

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

As at	**June 30, 2018**	December 31, 2017
Pension benefit assets	**$ 122**	$ 116
Pension benefit liabilities	$ 1,875	$ 2,441
Other post-employment and other long-term benefit liabilities	3,862	3,919
Total pension, other post-employment and other long-term benefit liabilities	$ 5,737	$ 6,360
Current other long-term benefit liabilities	**$ 64**	$ 63
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 5,673**	$ 6,297

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended		**June 30, 2018**			July 1, 2017	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 137	$ 29	$ 166	$ 127	$ 26	$ 153
Interest cost	256	35	291	263	36	299
Interest income on plan assets	(235)	–	(235)	(243)	–	(243)
Plan amendments	177	28	205	–	–	–
Other administration costs	3	–	3	3	–	3
Defined benefit expense	338	92	430	150	62	212
Defined contribution expense	5	–	5	3	–	3
Total expense	343	92	435	153	62	215
Return on segregated securities	–	(4)	(4)	–	(5)	(5)
Component included in employee benefits expense	**$ 343**	**$ 88**	**$ 431**	$ 153	$ 57	$ 210
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (429)	$ –	$ (429)	$ (162)	$ –	$ (162)
Actuarial losses (gains)	(535)	(68)	(603)	794	170	964
Component included in other comprehensive income (loss)	**$ (964)**	**$ (68)**	**$ (1,032)**	$ 632	$ 170	$ 802

For the 26 weeks ended		**June 30, 2018**			July 1, 2017	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 275	$ 57	$ 332	$ 252	$ 52	$ 304
Interest cost	512	70	582	526	72	598
Interest income on plan assets	(470)	–	(470)	(485)	–	(485)
Plan amendments	177	23	200	–	–	–
Other administration costs	7	–	7	7	–	7
Defined benefit expense	501	150	651	300	124	424
Defined contribution expense	10	–	10	7	–	7
Total expense	511	150	661	307	124	431
Return on segregated securities	–	(9)	(9)	–	(10)	(10)
Component included in employee benefits expense	**$ 511**	**$ 141**	**$ 652**	$ 307	$ 114	$ 421
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (355)	$ –	$ (355)	$ (662)	$ –	$ (662)
Actuarial losses (gains)	(539)	(130)	(669)	1,619	271	1,890
Component included in other comprehensive income (loss)	**$ (894)**	**$ (130)**	**$ (1,024)**	$ 957	$ 271	$ 1,228

(c) Total cash payments

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

For the	**13 weeks ended**		**26 weeks ended**	
	June 30, 2018	July 1, 2017	**June 30, 2018**	July 1, 2017
Benefits paid directly to beneficiaries for other benefit plans	$ 39	$ 39	$ 77	$ 78
Employer regular contributions to pension benefit plans	66	74	152	156
Employer special contributions to pension benefit plans	18	13	27	24
Cash payments for defined benefit plans	123	126	256	258
Contributions to defined contribution plans	5	3	10	7
Total cash payments	**$ 128**	$ 129	**$ 266**	$ 265

On May 31, 2018, the arbitrator for a pay equity study pertaining to rural and suburban mail carriers (Canadian Union of Postal Workers – Rural and Suburban Mail Carriers) issued her decision that rural and suburban mail carriers perform work of equal value to the work of urban letter carriers (Canadian Union of Postal Workers – Urban Postal Operations), however, the exact value of the wage gap was not specified. Instead, the parties are to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap. The parties have until August 31, 2018, to reach an agreement. This decision resulted in the Corporation recording plan amendment losses for pension benefit plans as well as other benefit plans in net profit for the 13 weeks ended June 30, 2018.

These plan amendment losses have been estimated using information available as of the date of approval of these interim condensed consolidated financial statements, and they represent a significant source of estimation uncertainty to the Corporation, given that the arbitration process is ongoing. The estimates recognized at June 30, 2018, may differ significantly from the final outcome of the pay equity process, resulting in a risk of material adjustment to the consolidated financial statements in future periods. To preserve the integrity of the mediated negotiations and given that the final outcome is unknown, the Corporation will only disclose the financial impact of the final settlement when the matter is ascertainable and the process is completed.

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2018 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2017. These estimated total contributions take into consideration the Corporation's reduction of special solvency contributions as permitted by the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, solvency reductions are limited to 15% of a plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. A going-concern deficit must be funded over 15 years.

7. Income Taxes

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

For the	**13 weeks ended**		**26 weeks ended**	
	June 30, 2018	July 1, 2017 (Restated – Note 3)	**June 30, 2018**	July 1, 2017 (Restated – Note 3)
Current tax expense	$ 12	$ 56	$ 44	$ 79
Deferred tax income relating to origination and reversal of temporary differences	(56)	(41)	(66)	(44)
Tax expense	**$ (44)**	$ 15	**$ (22)**	$ 35

8. Other Comprehensive Income (Loss)

For the 13 weeks ended June 30, 2018	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets – losses arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance March 31, 2018	$ 48	$ 3	$ 51		
Amount arising	$ (1)	$ 1	$ –	$ 1,032	$ 1,032
Income taxes	–	–	–	(258)	(258)
Net	**$ (1)**	**$ 1**	**$ –**	**$ 774**	**$ 774**
Accumulated balance as at June 30, 2018	**$ 47**	**$ 4**	**$ 51**		

For the 13 weeks ended July 1, 2017	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets – gains arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at April 1, 2017	$ 42	$ 5	$ 47		
Amount arising	$ 16	$ –	$ 16	$ (802)	$ (786)
Income taxes	(4)	–	(4)	201	197
Net	$ 12	$ –	$ 12	$ (601)	$ (589)
Accumulated balance as at July 1, 2017	$ 54	$ 5	$ 59		

For the 26 weeks ended June 30, 2018	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets – losses arising	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at December 31, 2017	$ 51	$ 3	$ 54		
Amount arising	$ (5)	$ 1	$ (4)	$ 1,024	$ 1,020
Income taxes	1	–	1	(256)	(255)
Net	**$ (4)**	**$ 1**	**$ (3)**	**$ 768**	**$ 765**
Accumulated balance as at June 30, 2018	**$ 47**	**$ 4**	**$ 51**		

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

9. Provisions

The following table presents the movement in provisions for the 26 week period ended June 30, 2018:

	Claims	Other	Total
Balance at December 31, 2017	$ 57	$ 22	$ 79
Additional provisions recognized	6	34	40
Provisions used during the year	(4)	(11)	(15)
Reduction from remeasurement of provisions	(1)	(1)	(2)
Balance at June 30, 2018	**$ 58**	**$ 44**	**$ 102**
Current provisions	**$ 58**	**$ 43**	**$ 101**
Non-current provisions, included in non-current other liabilities	**$ –**	**$ 1**	**$ 1**

Claims
The provision for claims is management's best estimate of the probable cash outflows related to legal claims, as well as non-litigated disputes. The timing of cash outflows related to these claims is uncertain, as it often depends on the outcome of specific events including, but not limited to, the length of legal proceedings.

Other
The June 30, 2018, and December 31, 2017, balances for the other provisions category consist of a number of items, such as lease retirement obligations, tax provisions and other corporate provisions. A provision for severance is also included in this category and represents management's best estimate of the probable cash outflows related to severance payments. With the exception of lease retirement obligations, the timing of cash outflows relating to these items is current. The cash outflows relating to lease retirement obligations are expected to occur over the next 10 years.

Disclosures regarding contingent liabilities, for which no provisions were recognized due to either insufficient information to reasonably estimate the amount of the obligation, or the outflow of resources associated with the obligation being possible rather than probable, can be found in Note 11.

10. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matters have evolved over the 26-week period ended June 30, 2018:

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

(b) The Canadian Postmasters and Assistants Association (CPAA) initially filed complaints with the Canadian Human Rights Commission (Commission) in 1982 and 1992, alleging discrimination by the Corporation concerning work of equal value. Both complaints were settled by the parties. However in 2012, the CPAA requested reactivation of the 1992 complaint and in 2014, the Commission investigator concluded that the period 1992-97 remained in issue and should be referred to the Canadian Human Rights Tribunal. In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. On September 1, 2016, the Tribunal directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016 in order for the matter to proceed to its merits. Statements of particulars have been exchanged.

In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, and by the decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability. No dates for a hearing on the merits have been established.

(c) In September 2016, Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender-based wage gap exists for the female-predominant occupational groups of rural and suburban mail carriers. The study was coordinated by a committee comprising representatives of Canada Post and CUPW. In October 2017, the committee received dual reports on the potential wage gap under the *Canadian Human Rights Act.* Discussions between the parties, in an attempt to resolve any inconsistencies between the reports and to agree on the amount of the wage gap and actions to rectify, did not result in agreement. Binding arbitration commenced in February 2018 and ended on May 2, 2018. On May 31, 2018, the arbitrator released her decision, remitting the determination of the extent of any wage gap back to the parties for resolution by August 31, 2018, failing which, outstanding matters would proceed to further binding arbitration. The parties are engaged in discussions, facilitated by a mediator. Under the agreed terms of the process, adjustments are retroactive to January 1, 2016.

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

11. Contingent Liabilities

There have been no significant changes to the contingent liabilities as disclosed in Note 16 of the Corporation's 2017 Annual Report, except as follows:

(a) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014, with a number of Montréal urban communities granted intervenor status. The matter was placed in abeyance pending the results of the government review of Canada Post. In January 2018, the government announced that it was ending the program to convert door-to-door delivery to community mailboxes. As a result, on consent and on a without-cost basis, CUPW filed a notice of discontinuance with the Federal Court, effectively ending this litigation as of April 12, 2018.

(b) In 2017, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No financial compensation was granted. Leave to appeal the decision of the Federal Court of Appeal was granted by the Supreme Court of Canada, and the notice of appeal was filed on May 14, 2018. A hearing date has been tentatively been scheduled for December 10, 2018.

12. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

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

As at June 30, 2018	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value				
Cash equivalents	$ –	$ 158	$ –	**$ 158**
Marketable securities	$ –	$ 1,164	$ –	**$ 1,164**
Segregated securities	$ –	$ 529	$ –	**$ 529**
Liabilities measured at fair value				
Risk management financial liabilities	$ –	$ 7	$ –	**$ 7**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,208	$ –	**$ 1,208**

As at December 31, 2017 (Restated – Note 3)	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets measured at fair value				
Cash and cash equivalents	$ –	$ 403	$ –	$ 403
Marketable securities	$ –	$ 821	$ –	$ 821
Segregated securities	$ –	$ 526	$ –	$ 526
Risk management financial assets	$ –	$ 1	$ –	$ 1
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,214	$ –	$ 1,214

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

There were no transfers between levels of the fair value hierarchy during the 26-week period ended June 30, 2018.

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

Financial risk factors

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

(a) Market risk

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

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

For the 13 weeks ended		**June 30, 2018**			July 1, 2017	
	Foreign exchange gains (losses)	**Derivative gains**	**Total**	Foreign exchange losses	Derivative gains (losses)	Total
Unrealized	$ (2)	$ 2	$ –	$ (1)	$ 3	$ 2
Realized	4	1	5	–	(3)	(3)
Total	**$ 2**	**$ 3**	**$ 5**	$ (1)	$ –	$ (1)

For the 26 weeks ended		**June 30, 2018**			July 1, 2017	
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange losses	Derivative gains (losses)	Total
Unrealized	$ 6	$ (8)	$ (2)	$ –	$ 1	$ 1
Realized	8	(3)	5	(1)	(3)	(4)
Total	**$ 14**	**$ (11)**	**$ 3**	$ (1)	$ (2)	$ (3)

(b) Liquidity risk

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

Refer to notes 18 and 19 (c) of the Corporation's annual consolidated financial statements for the year ended December 31, 2017, for the Corporation's current authorized borrowing facilities.

13. Other Operating Costs

For the	**13 weeks ended**		**26 weeks ended**	
	June 30, 2018	July 1, 2017 (Restated – Note 3)	**June 30, 2018**	July 1, 2017 (Restated – Note 3)
Non-labour collection, processing and delivery	$ 362	$ 331	$ 738	$ 694
Property, facilities and maintenance	92	90	195	189
Selling, administrative and other	145	117	261	222
Other operating costs	**$ 599**	$ 538	**$ 1,194**	$ 1,105

14. Investing and Financing Income (Expense)

For the	**13 weeks ended**		**26 weeks ended**	
	June 30, 2018	July 1, 2017	**June 30, 2018**	July 1, 2017
Interest revenue	$ 12	$ 4	$ 21	$ 9
Loss on sale of capital assets and assets held for sale	(1)	–	(2)	–
Investment and other income	**$ 11**	$ 4	**$ 19**	$ 9
Interest expense	$ (12)	$ (12)	$ (22)	$ (23)
Other expense	(6)	1	(9)	1
Finance costs and other expense	**$ (18)**	$ (11)	**$ (31)**	$ (22)
Investing and financing expense, net	**$ (7)**	$ (7)	**$ (12)**	$ (13)

15. Related Party Transactions

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

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

For the	13 weeks ended		26 weeks ended	
	June 30, 2018	July 1, 2017	**June 30, 2018**	July 1, 2017
Related party revenue	**$ 62**	$ 65	**$ 130**	$ 137
Compensation payments for programs				
Government mail and mailing of materials for the blind	**$ 5**	$ 5	**$ 11**	$ 11
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2	**$ 4**	$ 4
Related party expenditures	**$ 6**	$ 7	**$ 16**	$ 13

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

As at	**June 30, 2018**	December 31, 2017
Due to/from related parties		
Included in trade and other receivables	**$ 14**	$ 15
Included in trade and other payables	**$ 15**	$ 10
Deferred revenue from related parties	**$ 2**	$ 1

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 26 weeks ended June 30, 2018, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amounts of $3 million and $6 million for the 13 and 26 weeks ended June 30, 2018, respectively (July 1, 2017 – $3 million and $5 million, respectively). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 and 26 weeks ended June 30, 2018, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amounts of $3 million and $6 million, respectively (July 1, 2017 – $3 million and $6 million, respectively). As at June 30, 2018, $6 million (December 31, 2017 – $14 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables.

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

16. Segmented and Disaggregation of Revenue Information

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

For the 13 and 26 weeks ended June 30, 2018, the IT business unit earned intercompany revenue of $55 million and $107 million, respectively (July 1, 2017 – $60 million and $114 million, respectively), incurred cost of operations of $55 million and $107 million, respectively (July 1, 2017 – $60 million and $114 million, respectively), and earned net profit of nil for the 13- and 26-week reporting periods in 2018 and 2017. Total assets and liabilities at June 30, 2018, were $279 million and $65 million, respectively (December 31, 2017 – $110 million and $60 million, respectively).

As at and for the 13 weeks ended June 30, 2018

	Canada Post	**Purolator**	**Logistics**	**Other**	**Total**
Revenue from external customers	$ 1,631	$ 446	$ 65	$ –	$ 2,142
Intersegment revenue	14	6	10	(30)	–
Revenue from operations	$ 1,645	$ 452	$ 75	$ (30)	$ 2,142
Labour and employee benefits	$ 1,380	$ 204	$ 38	$ 27	$ 1,649
Other operating costs	438	188	30	(57)	599
Depreciation and amortization	62	15	2	(2)	77
Cost of operations	$ 1,880	$ 407	$ 70	$ (32)	$ 2,325
Profit (loss) from operations	$ (235)	$ 45	$ 5	$ 2	$ (183)
Investment and other income	$ 10	$ 1	$ –	$ –	$ 11
Finance costs and other expense	(17)	(1)	–	–	(18)
Profit (loss) before tax	$ (242)	$ 45	$ 5	$ 2	$ (190)
Tax expense (income)	(57)	11	2	–	(44)
Net profit (loss)	$ (185)	$ 34	$ 3	$ 2	$ (146)
Total assets	$ 7,831	$ 922	$ 143	$ (328)	$ 8,568
Acquisition of capital assets	$ 72	$ 8	$ 10	$ –	$ 90
Total liabilities	$ 7,964	$ 262	$ 52	$ (33)	$ 8,245

As at and for the 13 weeks ended July 1, 2017
(Restated – Note 3)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,566	$ 405	$ 58	$ –	$ 2,029
Intersegment revenue	10	2	8	(20)	–
Revenue from operations	$ 1,576	$ 407	$ 66	$ (20)	$ 2,029
Labour and employee benefits	$ 1,091	$ 192	$ 32	$ 26	$ 1,341
Other operating costs	390	166	27	(45)	538
Depreciation and amortization	62	13	2	(1)	76
Cost of operations	$ 1,543	$ 371	$ 61	$ (20)	$ 1,955
Profit from operations	$ 33	$ 36	$ 5	$ –	$ 74
Investment and other income	$ 4	$ –	$ –	$ –	$ 4
Finance costs and other expense	(10)	(1)	–	–	(11)
Profit before tax	$ 27	$ 35	$ 5	$ –	$ 67
Tax expense	4	10	1	–	15
Net profit	$ 23	$ 25	$ 4	$ –	$ 52
Total assets	$ 7,543	$ 885	$ 124	$ (331)	$ 8,221
Acquisition of capital assets	$ 46	$ 6	$ 2	$ (2)	$ 52
Total liabilities	$ 8,939	$ 400	$ 47	$ (37)	$ 9,349

As at and for the 26 weeks ended June 30, 2018

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 3,316	$ 859	$ 129	$ –	$ 4,304
Intersegment revenue	27	11	17	(55)	–
Revenue from operations	$ 3,343	$ 870	$ 146	$ (55)	$ 4,304
Labour and employee benefits	$ 2,499	$ 404	$ 74	$ 57	$ 3,034
Other operating costs	881	367	58	(112)	1,194
Depreciation and amortization	123	33	4	(2)	158
Cost of operations	$ 3,503	$ 804	$ 136	$ (57)	$ 4,386
Profit (loss) from operations	$ (160)	$ 66	$ 10	$ 2	$ (82)
Investment and other income	$ 18	$ 1	$ –	$ –	$ 19
Finance costs and other expense	(30)	(1)	–	–	(31)
Profit (loss) before tax	$ (172)	$ 66	$ 10	$ 2	$ (94)
Tax expense (income)	(42)	17	3	–	(22)
Net profit (loss)	$ (130)	$ 49	$ 7	$ 2	$ (72)
Total assets	$ 7,831	$ 922	$ 143	$ (328)	$ 8,568
Acquisition of capital assets	$ 104	$ 11	$ 12	$ –	$ 127
Total liabilities	$ 7,964	$ 262	$ 52	$ (33)	$ 8,245

As at and for the 26 weeks ended July 1, 2017
(Restated – Note 3)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 3,203	$ 784	$ 113	$ –	$ 4,100
Intersegment revenue	19	6	17	(42)	–
Revenue from operations	$ 3,222	$ 790	$ 130	$ (42)	$ 4,100
Labour and employee benefits	$ 2,193	$ 385	$ 64	$ 54	$ 2,696
Other operating costs	817	329	53	(94)	1,105
Depreciation and amortization	123	26	4	(2)	151
Cost of operations	$ 3,133	$ 740	$ 121	$ (42)	$ 3,952
Profit from operations	$ 89	$ 50	$ 9	$ –	$ 148
Investment and other income	$ 9	$ –	$ –	$ –	$ 9
Finance costs and other expense	(21)	(1)	–	–	(22)
Profit before tax	$ 77	$ 49	$ 9	$ –	$ 135
Tax expense	18	15	2	–	35
Net profit	$ 59	$ 34	$ 7	$ –	$ 100
Total assets	$ 7,543	$ 885	$ 124	$ (331)	$ 8,221
Acquisition of capital assets	$ 62	$ 9	$ 3	$ (2)	$ 72
Total liabilities	$ 8,939	$ 400	$ 47	$ (37)	$ 9,349

(b) Geographic area revenue information

Revenue reported for geographical areas outside of Canada is, for the Corporation, based on the location of the foreign postal administration hiring the service, and based on the location of the customer hiring the service for the other segments and the business unit. Individual foreign countries that are sources of material revenue are reported separately. The Group of Companies has no significant assets located outside of Canada. All intersegment revenue is domestic; therefore, revenue for geographic areas is reported net of intersegment revenue.

For the 13 weeks ended	**June 30, 2018**	July 1, 2017
Canada	$ 2,015	$ 1,906
United States	66	68
Rest of the world	61	55
Total revenue	**$ 2,142**	$ 2,029

For the 26 weeks ended	**June 30, 2018**	July 1, 2017
Canada	$ 4,043	$ 3,854
United States	135	139
Rest of the world	126	107
Total revenue	**$ 4,304**	$ 4,100

(c) Products and services revenue information

Revenue reported for products and services is based on information available at the time of sale, such that stamps and meter revenue are reported separately, rather than being attributed to the lines of business.

For the 13 weeks ended June 30, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed to products and services			
Transaction Mail	$ 482	$ (1)	$ 481
Parcels	1,114	(21)	1,093
Direct Marketing	282	–	282
Other	115	(63)	52
	$ 1,993	**$ (85)**	**$ 1,908**
Unattributed revenue			
Stamp postage	$ 87	$ –	$ 87
Meter postage	147	–	147
	$ 234	**$ –**	**$ 234**
Total	**$ 2,227**	**$ (85)**	**$ 2,142**

For the 13 weeks ended July 1, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 487	$ (1)	$ 486
Parcels	968	(14)	954
Direct Marketing	285	–	285
Other	120	(65)	55
	$ 1,860	$ (80)	$ 1,780
Unattributed revenue			
Stamp postage	$ 95	$ –	$ 95
Meter postage	154	–	154
	$ 249	$ –	$ 249
Total	$ 2,109	$ (80)	$ 2,029

For the 26 weeks ended June 30, 2018

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 1,030	$ (1)	$ 1,029
Parcels	2,177	(43)	2,134
Direct Marketing	555	–	555
Other	220	(118)	102
	$ 3,982	**$ (162)**	**$ 3,820**
Unattributed revenue			
Stamp postage	$ 184	$ –	$ 184
Meter postage	300	–	300
	$ 484	**$ –**	**$ 484**
Total	**$ 4,466**	**$ (162)**	**$ 4,304**

For the 26 weeks ended July 1, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 1,050	$ (1)	$ 1,049
Parcels	1,889	(30)	1,859
Direct Marketing	560	–	560
Other	234	(125)	109
	$ 3,733	$ (156)	$ 3,577
Unattributed revenue			
Stamp postage	$ 199	$ –	$ 199
Meter postage	324	–	324
	$ 523	$ –	$ 523
Total	$ 4,256	$ (156)	$ 4,100

(d) Sales channel revenue information

Sales channel revenue is reported for domestic revenue from commercial customers and for domestic retail from sales to consumers. International revenue includes revenue from the United States and the rest of the world as defined in Note 15 (b).

For the 13 weeks ended June 30, 2018

	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 1,530	$ (22)	$ 1,508
Retail	509	–	509
	$ 2,039	$ (22)	$ 2,017
International	$ 127	$ –	$ 127
Other	$ 61	$ (63)	$ (2)
Total	**$ 2,227**	**$ (85)**	**$ 2,142**

For the 13 weeks ended July 1, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 1,434	$ (15)	$ 1,419
Retail	491	–	491
	$ 1,925	$ (15)	$ 1,910
International	$ 123	$ –	$ 123
Other	$ 61	$ (65)	$ (4)
Total	$ 2,109	$ (80)	$ 2,029

For the 26 weeks ended June 30, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Domestic			
Commercial	$ 3,061	$ (45)	$ 3,016
Retail	1,033	–	1,033
	$ 4,094	$ (45)	$ 4,049
International	$ 261	$ –	$ 261
Other	$ 111	$ (117)	$ (6)
Total	**$ 4,466**	**$ (162)**	**$ 4,304**

For the 26 weeks ended July 1, 2017

	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 2,902	$ (31)	$ 2,871
Retail	995	–	995
	$ 3,897	$ (31)	$ 3,866
International	$ 246	$ –	$ 246
Other	$ 113	$ (125)	$ (12)
Total	$ 4,256	$ (156)	$ 4,100

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