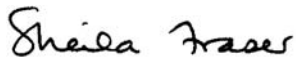


AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Minister of Transport, Infrastructure and Communities,

We have audited the consolidated balance sheet of Canada Post Corporation as at December 31, 2009 and the consolidated equity of Canada statement, the consolidated income and comprehensive income statement and the consolidated cash flow statement for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

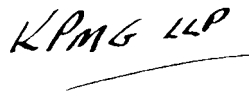


Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
March 5, 2010

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of the Corporation and its wholly-owned subsidiaries and the directives issued pursuant to section 89 of the *Financial Administration Act*.



Chartered Accountants, Licensed Public Accountants

CONSOLIDATED BALANCE SHEET

As at December 31 (in millions of dollars)	2009	2008
Assets		
Current assets		
Cash and cash equivalents (note 7)	\$ 473	\$ 605
Marketable securities (note 7)	270	103
Accounts receivable (note 6)	586	575
Income tax recoverable	69	7
Prepaid expenses	74	71
Current portion of future income tax assets (note 8)	25	23
Total current assets	1,497	1,384
Capital assets (note 9)		
Property, plant and equipment	2,047	1,881
Intangible assets	169	153
	2,216	2,034
Other assets		
Segregated securities (note 7)	654	862
Accrued pension benefit asset (note 10)	1,335	898
Future income tax assets (note 8)	179	270
Goodwill (note 11)	125	124
Other long-term assets (note 12)	23	19
Total assets	\$ 6,029	\$ 5,591
Liabilities and equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	\$ 413	\$ 469
Salaries and benefits payable	575	509
Income tax payable	2	16
Deferred revenue	142	145
Outstanding money orders	37	42
Current portion of long-term debt (note 13)	10	-
Total current liabilities	1,179	1,181
Long-term debt (note 13)	120	74
Accrued pension, other retirement and post-employment benefit liability (note 10)	2,835	2,722
Future income tax liabilities (note 8)	36	30
Other long-term liabilities	43	51
Total liabilities	4,213	4,058
Non-controlling interest	29	26
Equity of Canada	1,787	1,507
Total liabilities and equity of Canada	\$ 6,029	\$ 5,591

Commitments and contingencies (notes 1 and 16)
Conditional asset retirement obligations (note 14)

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

Approved on behalf of the Board:



Chairman of the Board of Directors



Chairperson of the Audit Committee

CONSOLIDATED EQUITY OF CANADA STATEMENT

Year ended December 31 (in millions of dollars)	2009	2008
Contributed capital	\$ 1,155	\$ 1,155
Retained earnings		
Balance, beginning of year	352	284
Net income	281	90
Dividend (note 15)	–	(22)
Balance, end of year	633	352
Accumulated other comprehensive loss		
Balance, beginning of year	–	–
Other comprehensive loss	(1)	–
Balance, end of year	(1)	–
Total retained earnings and accumulated other comprehensive loss	632	352
Equity of Canada	\$ 1,787	\$ 1,507

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

CONSOLIDATED INCOME AND COMPREHENSIVE INCOME STATEMENT

Year ended December 31 (in millions of dollars)	2009	2008
Revenue from operations	\$ 7,312	\$ 7,733
Cost of operations		
Salaries	3,893	3,932
Benefits, net of transitional support of \$56 million (2008 – \$81 million) (note 10e)	579	907
Non-labour collection, processing and delivery	1,319	1,465
Facilities	306	303
Amortization	246	237
Other	612	750
Total cost of operations	<u>6,955</u>	<u>7,594</u>
Income from operations	357	139
Non-operating income (expense)		
Investment and other income	29	34
Interest and other expense	(7)	(12)
Non-operating income, net	<u>22</u>	<u>22</u>
Income before income taxes	379	161
Income tax expense (note 8)	95	67
Net income before non-controlling interest	284	94
Non-controlling interest in net income of subsidiaries	3	4
Net income	\$ 281	\$ 90
Other comprehensive income (loss), net of tax		
Unrealized losses on available-for-sale financial assets arising during the year	(1)	–
Change in unrealized losses on available-for-sale financial assets	(1)	–
Other comprehensive loss	(1)	–
Comprehensive income	\$ 280	\$ 90

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

CONSOLIDATED CASH FLOW STATEMENT

Year ended December 31 (in millions of dollars)	2009	2008
Operating activities		
Net income	\$ 281	\$ 90
Adjustments to reconcile net income to cash provided by operating activities:		
Accrued pension, other retirement and post-employment benefits	122	476
Pension, other retirement and post-employment benefit payments	(446)	(221)
Transitional support offsetting pension reform incremental costs	(56)	(81)
Amortization	246	237
Future income tax benefit	90	(64)
Gain on sale of capital assets	(19)	(2)
Proceeds from long-term inducements	3	8
Other income not affecting cash, net	(8)	12
Change in non-cash operating working capital (note 17)	(79)	143
Cash provided by operating activities	134	598
Investing activities		
Business acquisitions or dispositions	(1)	(13)
Acquisition of securities	(3,173)	(3,392)
Proceeds from sale of securities	3,221	3,356
Acquisition of capital assets	(412)	(391)
Proceeds from sale of capital assets	32	7
Other investing activities, net	(10)	(2)
Cash used in investing activities	(343)	(435)
Financing activities		
Transitional support received from the Government of Canada	56	81
Repayment of long-term debt	(23)	(3)
Proceeds from long-term borrowing	45	-
Dividend paid	-	(22)
Other financing activities, net	(1)	-
Cash provided by financing activities	77	56
Net increase (decrease) in cash and cash equivalents	(132)	219
Cash and cash equivalents, beginning of year	605	386
Cash and cash equivalents, end of year	\$ 473	\$ 605

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2009)

1. Incorporation, Business Activities and Directives

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

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

Under the Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business, not covered by the exclusive privilege, include parcels and direct marketing products and services. The Corporation's subsidiaries offer courier, transportation and logistics services. Innovapost, a joint venture, provides information technology services to The Canada Post Group.

In December 2006, the Corporation was issued two directives pursuant to section 89 of the *Financial Administration Act*.

The Corporation was directed to continue its financial contribution to the Publications Assistance Program until March 31, 2009. This financial contribution was capped at \$15 million per year (note 20). As directed by the Government of Canada, the Corporation continued its financial contribution to the Program until March 31, 2009; no further financial contribution was, or will be, made to the Program.

The Corporation was also directed to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation on September 1, 2005, while respecting all applicable laws. In 2008 and 2009, the Corporation continued assessing the safety risks related to all the rural roadside mailboxes, initially focusing on those mailboxes affected by the directive.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Canadian GAAP require management to make complex or subjective judgments related to estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. The significant areas requiring the use of management estimates and assumptions include: useful lives of capital assets; fair value measurement; pension, other retirement and post-employment benefits; income taxes; conditional asset retirement obligations; measuring the impairment of long-lived assets and goodwill; and assessing the resolution of contingent liabilities. Actual results may differ from those estimates. In light of the variability in the extent and rate of recovery of the global and Canadian economies, and the general inability to forecast the effect on the Corporation's operations, 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.

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2009.

2. Significant Accounting Policies (continued)

A summary of the significant accounting policies used in these consolidated financial statements follows:

- (a) **Consolidation** • These consolidated financial statements include the accounts of the Corporation and its subsidiaries, as well as its proportionate share of the accounts of its joint ventures (collectively referred to as “The Canada Post Group”). The results of any subsidiary or joint venture acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Effective January 1, 2009 the name of SCI Logistics Inc. was changed to SCI Group Inc. As at and subsequent to December 31, 2008, Purolator Courier Ltd (“Purolator”) and SCI Group Inc. (“SCI”) are the principal subsidiaries of the Corporation, and Innovapost Inc. (“Innovapost”) is the only joint venture. On April 3, 2008, a subsidiary of the Corporation, Canada Post International Limited (“CPIL”), transferred all of the shares of its subsidiary Nieuwe Post Nederlandse Antillen N.V. (“NPNA”) to the Government of the Netherlands Antilles, thereby terminating early the concession agreement to provide postal and postbanking services in the Netherlands Antilles. Subsequently, on November 19, 2008 the Corporation wound up CPIL. The operations of CPIL and NPNA were not significant to the Corporation.
- (b) **Financial instruments** • Upon initial recognition, all financial assets are classified based on the nature and purpose of the financial instruments, or designated by the Corporation as (i) held for trading, (ii) held to maturity investments, (iii) loans and receivables or (iv) available-for-sale. All financial liabilities are classified or designated as (i) held for trading or (ii) other financial liabilities.

Financial instruments are initially recognized at fair value; subsequent measurement depends on the classification of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Corporation has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or has expired.

The Canada Post Group’s financial instruments consist of the following:

- (b.1) All **investments** are financial assets designated as held for trading or available-for-sale and, therefore, are measured at fair value. With the exception of illiquid securities (note 7), fair value is determined directly by reference to quoted market prices, and may not be realized on sale. Investment transactions are recognized at the settlement date and changes in fair value are recognized as they occur.

Interest income, changes in fair value and realized gains and losses on sale of investments classified as held for trading are recorded in investment and other income.

Investments designated as available-for-sale consist of investments segregated to manage certain defined benefit plans (Note 7(f)). Interest income and realized gains and losses on sale of available-for-sale investments are included in benefit costs. Changes in fair value are included in other comprehensive income until the investment is sold or otherwise derecognized.

Investments are divided into four categories for separate presentation on the consolidated balance sheet. Each category is defined as follows:

- **Cash equivalents** are highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Therefore, cash equivalents consist of investments with maturities of three months or less from the date of acquisition.
- **Marketable securities** are investments with initial maturities greater than three months. Marketable securities are classified as current assets since reasonably prompt liquidation is possible.
- **Illiquid securities** are investments that are not traded actively and would be difficult to sell.
- **Segregated securities** are segregated funds invested by the Corporation. Although the liquidity of segregated securities varies, only the portion offsetting related current liabilities is presented as a current asset.

2. Significant Accounting Policies (continued)

(b.2) Accounts receivable are financial assets classified as loans and receivables. These financial assets are subsequently measured at amortized cost using the effective interest method, less any impairment. Where the time value of money is not significant due to their short-term settlement, accounts receivable are recorded at the original invoice amount less allowances for doubtful accounts.

Trade receivables that are known to be uncollectible are written off when identified. An allowance for doubtful accounts is established when there is objective evidence that the Corporation will not be able to collect all amounts due according to the original terms of trade receivables. The amount of the allowance is the difference between the receivable's recorded amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in the consolidated income and comprehensive income statement within other cost of operations.

(b.3) Accounts payable and accrued liabilities, salaries and benefits payable and outstanding money orders include other financial liabilities as well as obligations created by statutory requirements imposed by governments and other non-financial liabilities. After initial recognition at fair value, other financial liabilities are measured at amortized cost using the effective interest method. Where the time value of money is not significant due to their short-term settlement, the other financial liabilities are carried at payment or settlement amounts.

(b.4) Long-term debt instruments are classified as other financial liabilities and initially recognized at fair value, net of any transaction costs. After initial recognition, long-term debt instruments are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement. Interest expense on long-term debt is recognized in interest and other expense.

(c) Capital assets • Property, plant and equipment and intangible assets other than goodwill are referred to collectively as capital assets. The carrying value of capital assets is calculated as follows:

(c.1) Cost • Capital assets acquired or developed internally are initially recorded at cost, with the exception of property, plant and equipment transferred from the Government of Canada on incorporation in 1981 that were recorded at their estimated fair value at that date. Assets acquired under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease.

2. Significant Accounting Policies (continued)

(c.2) **Amortization** • Amortization commences when the assets are placed into service and is recognized over the estimated useful lives of the assets, using the following methods:

Type of asset	Amortization method	Amortization period or rate
Buildings	Straight-line	15, 30 and 40 years
Leasehold improvements	Straight-line	Lease term or the asset's economic useful life
Plant equipment	Straight-line	5 to 20 years
Vehicles:		
Passenger	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 20 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 5 years
Customer contracts	Straight-line	Term of contract plus period of renewal options, maximum of 5 years in 2009
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business, maximum of 20 years in 2009

Assets held under capital leases are amortized over the period of the lease.

Estimated useful lives for several classes of vehicles have been extended on a prospective basis in 2009. The extensions were made in order to better align the amortization method to the usage pattern of the vehicles. These changes in estimates resulted in an \$11 million decrease in amortization expense in 2009, with a \$6 million decrease for 2010.

- (c.3) **Asset retirement obligations** • Asset retirement obligations associated with the retirement of property, plant and equipment are recorded when those obligations result from the acquisition, construction, development or normal operation of the assets. Conditional asset retirement obligations are legal obligations to perform an asset retirement activity for which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Corporation. The Corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is initially measured at fair value, and is subsequently adjusted each period to reflect the passage of time through accretion expense and any changes in the estimated future cash flows underlying the initial fair value measurement. The associated costs are capitalized as part of the carrying value of the related asset and amortized over its remaining life.
- (c.4) **Impairment** • Capital assets that are held for use are reviewed for impairment whenever events or changes in circumstances indicate that their net carrying value may not be recoverable from estimated undiscounted future cash flows generated by their use and eventual disposition. For the purpose of assessing recoverability, capital assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities which the Corporation has identified as the corporate entities included in the consolidated financial statements. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized during the year and presented with amortization expense. The impairment loss is equal to the amount by which the net carrying value of the asset exceeds its fair value, determined using the present value of expected future cash flows.
- (c.5) **Capital assets to be disposed of by sale** • Capital assets classified as held for sale are included in other assets and recognized at the lower of carrying amount or fair value less disposal costs. A write-down to fair value less disposal costs is recorded as a charge to net income and no further amortization is recorded.

2. Significant Accounting Policies (continued)

- (d) **Goodwill** • Goodwill, arising on the acquisition of a business, represents the excess of the cost of acquisition over The Canada Post Group's interest in the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated amortization and impairment losses. Goodwill is not amortized but is instead tested for impairment annually, or more frequently if events and circumstances indicate that there may be impairment.

For the purpose of impairment testing, goodwill is allocated to reporting units. Reporting units comprise business operations with similar economic characteristics and may represent either an operating segment or a business unit within an operating segment. Potential impairment is identified when the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value. Fair value of the reporting unit is determined using the expected present value of future cash flows. Goodwill impairment is measured as the excess of the net carrying value of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit. An impairment loss is recognized in the year in which it is determined.

- (e) **Revenue recognition** • The Canada Post Group's revenue is mostly derived from providing the products and services that comprise the three lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes the physical and electronic delivery of bills, invoices, notices and statements. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Addressed Admail™, Unaddressed Admail™ and Publications Mail™, such as newspapers and periodicals. Other mail products and services include money orders and postal box rentals, as well as retail and philatelic products.

Revenue is recognized when the service has been rendered, goods have been delivered or work has been completed. Revenue from meter customers, for which services have not been rendered prior to year end, is deferred based on a sampling methodology that closely reflects the meter resetting practices of customers. Similarly, payments received in advance are deferred until services are rendered or products are delivered. Deferred revenue is also recorded when resellers are billed for postal products shipments prior to the Corporation rendering the related services to customers.

The Canada Post Group may enter into arrangements with subcontractors to provide services to customers. If The Canada Post Group acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained (i.e. the amount billed to the customer less the amount paid to the subcontractor) is recognized as revenue.

When no identifiable and separable benefit is received by The Canada Post Group in return for consideration given to a customer, such as a benefit that might arise in a customer loyalty program, the consideration is recorded as a reduction of revenue.

- (f) **Incentive and lease inducement** • The incentive received upon signing of a 10 year outsourcing contract in 2002 was deferred, and is being amortized on a straight-line basis over the term of the contract. Lease inducements are also deferred, and are amortized on a straight-line basis over the initial fixed lease term. Amortization of the incentive is presented as reduction of other cost of operations while amortization of the lease inducements is presented as reduction of facilities expense. The current portion of the deferred incentive and lease inducement is presented in deferred revenue, and any remaining unamortized balance is presented in other long-term liabilities.

2. Significant Accounting Policies (continued)

(g) **Defined pension, other retirement and post-employment benefit plans** • The obligation for providing defined pension, other retirement and employee termination benefit plans is recognized over the period of employee service. However, the obligation for providing workers' compensation benefits and the continuation of certain benefits for employees on long-term disability is recognized when the event triggering the obligation occurs. Therefore, defined benefit plans can be divided into two types as follows:

(g.1) **Service-related defined benefit plans** • The estimated costs and accrued benefit obligations are determined annually, on an actuarial basis, using the projected benefit method prorated on service. For accounting purposes, accrued benefit obligations and fair value of plan assets are measured annually as at December 31.

The actuarial calculations include management's best estimate of the rates of return on plan assets, inflation, rates of compensation increase, retirement age, rates of employee disability, mortality, growth rates of health care costs and dental costs, as applicable. The expected long-term rates of return on plan assets are based on historical long-term returns provided by various asset categories weighted according to each pension plan's targeted asset allocations. The discount rates used to value the accrued benefit obligations are determined by reference to market conditions at year end, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the respective accrued benefit obligations.

Defined benefit costs include, as applicable, the estimated cost of employee benefits for current year's service, interest on accrued benefit obligations, expected return on plan assets, gain or loss on curtailment or settlement, expense recognized for special termination benefits and adjustments to allocate actuarial gains (losses), plan amendments, transitional obligation and funding excess to different years consistent with the long-term nature of employee future benefits.

To calculate the expected return on plan assets, these assets are valued at market-related values, whereby actuarial gains (losses) on plan assets for a year are recognized on a straight-line basis over five years.

Actuarial gains (losses) on plan assets for a year arise from the difference between the actual return on plan assets and the expected return. Actuarial gains (losses) on the accrued benefit obligations arise from the differences between actual and expected experience and changes in the assumptions used to determine the accrued benefit obligations. For each plan, the unrecognized net actuarial gain or loss exceeding 10% of the greater of the accrued benefit obligation or the market-related value of plan assets at the beginning of the year is recognized over the average remaining service period of active employees. Actuarial estimates indicate that the average remaining service periods of active employees covered by service-related defined benefit plans are as follows:

As at December 31	2009		2008	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Canada Post Corporation	11 years	5 to 11 years	11 years	5 to 11 years
Purolator	12 to 14 years	N/A	12 to 14 years	N/A
SCI	5 to 11 years	14 years	5 to 11 years	14 years
Innovapost	9 years	N/A	9 years	N/A

Past service costs arising from plan amendments are recognized on a straight-line basis over the expected average remaining service period of employees active on the date of amendment, up to the date of full eligibility.

On October 1, 2000, the Corporation assumed responsibility for a defined benefit provincial health insurance premium retirement plan and applied the accounting standards on employee future benefits to this obligation on a prospective basis. The transitional obligation, representing the unrecognized deficit in the plan at that date, was recognized on a straight-line basis over 8 years, being the expected average remaining service period, up to the date of full eligibility, of employees expected to receive benefits as of that date. The transitional obligation was fully recognized as at December 31, 2008.

2. Significant Accounting Policies (continued)

The funding excess, resulting from the *Federal Public Sector Pension Reform* effective October 1, 2000, represents the excess amount of the assets, transferred from the Government of Canada to the Corporation's pension plan, over the obligations assumed for the defined benefit pension plan. The funding excess is recognized on a straight-line basis over 11 years, being the expected average remaining service period of active employees covered by the pension plan as of that date.

The asset and liability recorded in the consolidated balance sheet represent the cumulative difference between the defined benefit costs and the total cash payments for the defined benefit plans.

(g.2) Event-driven defined benefit plans • The same methodology and assumptions as service-related defined benefit plans apply, except for the following:

- The projected benefit method is not prorated on service since the obligations are recognized when the event triggering the obligation occurs;
- Management's best estimate also takes into account the experience and assumptions of provincial workers' compensation boards;
- Actuarial gains (losses) are recognized over the average duration of the accrued benefit obligation; and
- Actuarial estimates indicate that the average duration of the accrued benefit obligations ranges from 3 to 8 years (2008 – from 3 to 9 years).

(h) Defined contribution pension plans • Employer contributions to the defined contribution pension plans are expensed as incurred.

(i) Transitional support from the Government of Canada • The Government of Canada, as part of the *Federal Public Sector Pension Reform*, committed to provide declining transitional support to assist the Corporation with the incremental costs incurred as a result of establishing the Canada Post Corporation Pension Plan and the associated ancillary benefits. Receipt of the transitional support is conditional on the Corporation maintaining other retirement enhancements similar to those offered to the *Public Service Superannuation Act* participants and, also, the Corporation showing visible commitment and progress towards achieving the financial and service performance objectives set out in the Policy Framework and reflecting them in future corporate plans. Therefore, transitional support is accounted for only when received. The entire amount of transitional support is deferred and drawn down on a first-in, first-out, basis to cover the incremental costs incurred. The draw down from deferred transitional support is recorded as a reduction of expense.

The Corporation is scheduled to receive the remaining \$13 million of transitional support in 2010.

(j) Income taxes • Future income tax assets and future income tax liabilities are recognized for the tax effect of the difference between the carrying values and tax basis of assets and liabilities. Future income tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that it is more likely than not that future income tax assets will be realized. Income tax assets and income tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each year in the event of changes in income tax rates. Each change resulting from a revaluation is recognized in the financial results of the year of change.

Scientific research and experimental development ("SR&ED") tax credits are recorded using the cost reduction method, whereby the credits are recorded as a reduction of current cost of operations or property, plant and equipment, when there is reasonable assurance that the SR&ED tax credit will be realized.

(k) Foreign currency translation • Transactions in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange in effect at the balance sheet date. All exchange gains and losses are included in revenue for the current year.

3. Adoption of New Accounting Standards

The Canada Post Group has prospectively adopted the following Canadian Institute of Chartered Accountants ("CICA") accounting standards effective January 1, 2009.

- (a) **Goodwill and Intangible Assets** • In February 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets" which replaced CICA Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The Accounting Standards Board ("AcSB") also amended CICA Section 1000 "Financial Statement Concepts" and Accounting Guideline AcG 11 "Enterprises in the Development Stage". The new and amended guidance clarifies that costs incurred on the acquisition or development of intangible resources may only be deferred when they relate to an item that meets the definition of an intangible asset. The practice of matching revenues and expenses remains appropriate only for allocating the cost of an intangible asset that is consumed in generating revenue over multiple reporting periods. Section 3064 provides extensive guidance on when expenditures qualify for recognition as intangible assets. These recommendations were adopted by The Canada Post Group on January 1, 2009 and did not have any effect on financial results.
- (b) **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities** • In January 2009, the CICA's Emerging Issues Committee ("EIC") issued Abstract No. 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" (EIC-173). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty(ies) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC had no impact on the financial position or results of operations.
- (c) **Fair Value and Liquidity Risk Disclosure – Amendments to Financial Instruments – Disclosures** • In June 2009, the CICA amended Section 3862 "Financial Instruments – Disclosures" to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair value of assets and liabilities:
- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets;
 - Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
 - Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.
- Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments only impact the Corporation's disclosure. Refer to note 7(b).
- (d) **Impairment of Financial Assets – Amendments to Financial Instruments – Recognition and Measurement** • In August 2009, the CICA issued various amendments to Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3025 "Impaired Loans" to change the categories into which certain debt investments are required or permitted to be classified and to require the reversal of previously recognized impairment losses on available-for-sale financial assets in specified circumstances. These amendments had no significant effect on the Corporation's current operating results or financial position.

4. Recent Accounting Pronouncements Requiring Implementation in Future Years

- (a) **Business Combinations, Consolidated Financial Statements and Non-controlling Interest** • In January 2009, the AcSB issued CICA Section 1582 “Business Combinations”, Section 1601 “Consolidated Financial Statements” and Section 1602 “Non-controlling Interests”, which replace Section 1581 “Business Combinations” and Section 1600 “Consolidated Financial Statements”. Section 1582 applies to prospective business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted, but sections 1601 and 1602 must be applied concurrently.

Section 1582 provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 “Business Combinations”. The new recommendations require measuring business acquisitions at the fair value of the acquired assets and assumed liabilities, including any non-controlling interest and contingent liabilities. Acquisition-related costs are expensed as incurred.

Section 1601, combined with Section 1602, replaces Section 1600. Section 1601 establishes standards for the preparation of consolidated financial statements and is aligned with the corresponding provisions of Section 1600. Section 1602 is aligned with the corresponding provisions of International Financial Reporting Standard IAS 27, “Consolidated and Separate Financial Statements” and establishes standards for accounting for a non-controlling interest in a subsidiary subsequent to a business combination. Section 1602 introduces a number of changes, including:

- The presentation of non-controlling interests as a separate component of equity rather than in between liabilities and equity on the balance sheet.
- Non-controlling interests are no longer recorded as a deduction of net income and total comprehensive income, but are shown as a separate component of the income statement, which discloses the allocation of net income between the owners of the parent and the non-controlling interests based on their relative economic interests. This allocation is also disclosed on the statement of comprehensive income.

Canada Post will consider the early adoption of these sections, effective January 1, 2010, in the event of any business acquisitions undertaken in 2010, in order to be more closely aligned with International Financial Reporting Standards (“IFRS”) and to mitigate the impact of adopting IFRS at the January 1, 2011 changeover date. In accordance with the transitional provisions, these sections will be applied prospectively, except for the presentation requirements for non-controlling interests, which must be applied retrospectively. The adoption of these sections is not expected to have a significant impact on the Corporation’s consolidated financial statements, but will give rise to the above-mentioned reclassifications of non-controlling interests.

- (b) **International Financial Reporting Standards (“IFRS”)** • In February 2008, the AcSB confirmed that publicly accountable entities will be required to adopt IFRS in place of Canadian GAAP for fiscal years beginning on or after January 1, 2011. In October 2009, the Public Sector Accounting Board approved an amendment to the scope of public sector accounting standards, which confirms that government business enterprises will be required to follow IFRS for periods beginning January 1, 2011. The Corporation, which meets the current definition of a publicly accountable entity, will report under IFRS in its financial statements for the year ending December 31, 2011. These financial statements will include comparative results for the periods commencing January 1, 2010.

The Corporation has developed and implemented an IFRS changeover plan to support the transition from Canadian GAAP to IFRS in the 2011 financial statements. It has established a multi-disciplinary IFRS implementation team and instituted regular progress reporting to the Audit Committee of the Board of Directors.

The implementation plan consists of three phases. The first phase, focusing on planning and early issue identification, was completed in 2008. The Corporation is currently focused on finalizing the second and third phases consisting of detailed evaluations and implementation. The Corporation continues to assess the impact of its transition to IFRS, based on information available at this time.

5. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates through regulations under the *Canada Post Corporation Act* (“the Act”) for domestic Lettermail™ and international Letter-post items, as well as fees for certain other services such as Registered Mail. These regulations are subject to approval by the Government of Canada, the sole shareholder and, therefore, a related party of the Corporation. The Act permits the Corporation to offer rates that differ from regulated rates under certain circumstances, such as when the customer agrees to mail in bulk. The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray the costs incurred by the Corporation in the conduct of its operations under the Act.

The regulated pricing approval process requires that proposed rate changes be published in the *Canada Gazette* to provide interested persons with a reasonable opportunity to make representations to the Minister responsible for Canada Post. These representations are considered by the Corporation’s Board of Directors. Subsequently, the final form of the proposed rate changes is approved by the Board of Directors and submitted to the Minister responsible for Canada Post for approval by the Government of Canada, specifically the Governor in Council. The rate changes are deemed approved 60 days after submission to the Governor in Council, unless the Governor in Council previously approved or refused to approve the changes.

Since 2001, the basic domestic letter rate (“BLR”) has been determined by a price-cap formula set out in the *Letter Mail Regulations*, which limits increases to 66.67% of increases in the Consumer Price Index, implemented no more than once a year. However, Government approval was received to increase the BLR by one cent over that provided by the price-cap formula, and the BLR increased by 2 cents from \$0.52 to \$0.54 effective January 12, 2009. In October 2009, Government approval was received to replace the price-cap formula with five years of set prices for the BLR, effective January 2010. Under the new pricing plan, the BLR increased by 3 cents to \$0.57 in January 2010, then will increase by 2 cents each year after that through 2014. Government approval was also received in October 2009 to increase rates for other regulated products effective January 2010.

Under the provisions of the Act, the Corporation is required to provide services free of charge for certain Government mailings and for mailing of materials for the blind. The Government of Canada provides partial compensation to the Corporation in respect of these services (note 19).

The fact that postage rates for certain products and services are subject to regulation does not affect the application of Canadian generally accepted accounting principles to these consolidated financial statements.

Revenue from products and services charged to customers at regulated rates comprises 31% (2008 – 31%) of the Canada Post segment revenue (note 21).

6. Nature and Extent of Risks From Financial Instruments

Financial risk factors

The Corporation’s financial instruments are exposed to a variety of financial risks: market risk (including interest rate risk and foreign exchange risk), credit risk and liquidity risk. Risk management for investment activities is carried out by the Corporate Treasury function under policies approved by the Board of Directors. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return in the long term consistent with the investment policies approved by the Board of Directors. The Corporation has various other financial instruments, such as accounts receivable, accounts payable, salaries payable and money orders, which arise directly from operations. The Corporation does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Risk management strategies are likely to evolve in response to future conditions and circumstances, including the effects and consequences resulting from changes in the economic environment. These future strategies may not fully insulate the Corporation in the near term from adverse effects, the more significant of which relate to liquidity and capital resources as well as exposure to credit losses.

6. Nature and Extent of Risks From Financial Instruments (continued)

(a) Market risk

Market risk is the potential for loss that may arise from changes in external market factors, such as interest rates, foreign exchange rates and other prices such as commodities.

(i) Interest rate risk

The Corporation's investments are designated as held for trading or available-for-sale. Substantially all investments are fixed-rate debt securities and are therefore exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by either maintaining a short term to maturity or in the case of segregated securities other than illiquid securities, extending terms to maturity to better match certain long-term post-retirement obligations to which they are externally restricted. The maximum duration in the portfolio was 10 years as at December 31, 2009 (2008 – 92 days). The increase in term to maturity is attributable to the Corporation's increased use, as a risk management strategy, of longer terms to maturity for segregated securities.

The Corporation has performed a sensitivity analysis on interest rate risk using a 1 percent increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1 percent in market interest rates, with all other variables held constant, would increase or decrease the value of the segregated securities by \$35 million, excluding Master Asset Vehicle II ("MAVII") notes, at December 31, 2009. Such change in value would be partially offset by the change in value of certain long-term post-retirement obligations. Please refer to note 7(c) for a sensitivity analysis on MAVII notes. The Corporation's fixed-rate long-term debt will mature in 2016. There are no prepayment terms associated with the debt.

(ii) Foreign exchange risk

The Corporation's exposure to foreign exchange risk mostly arises from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in Special Drawing Rights (SDRs) – a basket of currencies comprising the US Dollar ("US\$"), Japanese Yen, Sterling and Euro, whereas payment is usually denominated in US\$ or, in some circumstances, the Euro. The Corporation's principal exposure is to the US\$. The effect of a 10% increase or decrease in the US\$ exchange rate on the balance sheet date, all other variables held constant, would have increased or decreased net income for the year by \$6 million. There is no significant impact on revenue arising from exposures to other currencies. Net exchange losses included in revenue amounted to \$5 million (2008 – \$13 million of net exchange gains).

(b) Credit risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations resulting in financial loss to the Corporation. Credit risk arises from investments in corporations and financial institutions, as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Corporation's maximum exposure to credit risk. The Corporation does not believe it is subject to any significant concentration of credit risk.

Credit risks arising from investments are mitigated by investing with issuers who meet specific criteria and the imposition of dollar limits by financial product type and debt issuer. Investments in financial institutions and corporations must have minimum ratings from two external rating agencies that are equivalent to Dominion Bond Rating Service ("DBRS") ratings of R-1(middle) for short-term investments and A for long-term investments. The Corporation regularly reviews the credit ratings of issuers with whom the Corporation holds investments, and where an active market exists, disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels. Impairment losses on investments recognized during the year were \$2 million (2008 – \$9 million) as described in note 7.

6. Nature and Extent of Risks From Financial Instruments (continued)

Credit risk associated with accounts receivable from wholesale and commercial customers is mitigated by the Corporation's large customer base, which covers substantially all business sectors in Canada. The Corporation follows a program of individual customer credit evaluation based upon financial strength and payment history, and limits the amount of credit extended when deemed necessary. The Corporation monitors customer accounts against these credit limits and the aging of past due invoices. The Corporation establishes an allowance for doubtful accounts that reflects the estimated realizable value of accounts receivable. A general provision is estimated based on prior experience with, and the past due status of, doubtful debtors, while large accounts are assessed individually based on factors that include ability to pay and payment history. Despite continued weakness in certain sectors of the Canadian economy, the Corporation's bad debt expense has remained consistent with prior years. Weekly monitoring of aged receivables and day's sales outstanding has indicated no significant change in the trend of the aging of receivables.

Credit risk attributable to receivables from foreign postal administrations, other than the United States Postal Service ("USPS"), is generally mitigated by offsetting accounts payable to foreign postal administrations on an individual country basis, under the provisions of the Universal Postal Union ("UPU"). Amounts receivable from and payable to the USPS are settled independently under the bilateral agreement between the Corporation and the USPS. Estimates of receivables and payables, including monthly provisional payments, are based on statistics in regards to the weights and number of pieces exchanged by the two countries. Final settlement with each foreign postal administration can be billed a year or more after the service is performed. The Corporation's provision for uncollectible receivables from specific foreign postal administrations is based on the period past due after billing of the final settlement.

The following table sets out details of the age of receivables and the allowance for doubtful accounts:

Trade and Other Receivables As at December 31	2009	2008
(in millions of dollars)		
Trade accounts receivable:		
Current	\$ 360	\$ 338
1-15 days past due	58	71
16-30 days past due	18	26
Over 30 days past due	24	22
Allowance for doubtful accounts	(12)	(11)
Trade accounts receivable – net	\$ 448	\$ 446
Receivables from foreign postal administrations	86	76
Other receivables	52	53
Accounts receivable	\$ 586	\$ 575

Impairment losses on accounts receivable recognized during the year were \$6 million (2008 – \$7 million).

6. Nature and Extent of Risks From Financial Instruments (continued)

(c) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Corporation's objective is to maintain immediately available liquidity of \$200 million to support current operating activities. Surplus cash is invested into a range of short-term money market securities. The Corporation invests in high credit quality Government or corporate securities in accordance with policies approved by the Board of Directors.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted for approval to the Governor in Council on the recommendation of the Minister responsible for Canada Post, as part of its Corporate Plan approval process. The Minister of Finance may require that his recommendation also be obtained before the Corporate Plan is submitted to the Governor in Council for approval. In addition, the detailed terms and conditions for each borrowing must also be approved by the Minister of Finance. Pursuant to the *Canada Post Corporation Act*, the Corporation may borrow a maximum of \$500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4, 2009-10*, the Corporation is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding \$2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance.

Although the Corporation's indebtedness has been maintained at a low level, the Corporation is considering increasing its indebtedness to address ongoing cash management needs. The Canada Post Group's borrowings amounted to \$130 million as at December 31, 2009 (2008 – \$74 million), of which \$120 million (2008 – \$74 million) was long-term. Within the above limits, the Corporation has a line of credit of \$19 million with a Canadian chartered bank and a commercial paper program that were not used during the year.

The Corporation's subsidiaries and joint venture also have access to financing facilities totalling \$200 million and of this amount, \$69 million (2008 – \$18 million) was drawn as at December 31, 2009.

The following table details the Corporation's remaining contractual maturities for its financial liabilities. The amounts represent the undiscounted cash flows of financial liabilities based on the earliest date on which the Corporation can be required to pay. The table includes both principal and interest cash flows.

As at December 31					2009	2008
(in millions of dollars)						
	Weighted average effective interest rate	Less than 1 year	1–5 years	More than 5 years	Total	Total
Non-interest bearing*		\$ 719	\$ 1	\$ –	\$ 720	\$ 732
Non-redeemable bonds	10.6%	6	23	64	93	98
Other borrowings	Prime + 1.5%	–	25	–	25	18
Capital lease obligations	4%	12	38	5	55	1
		\$ 737	\$ 87	\$ 69	\$ 893	\$ 849

*Non-interest bearing consists of financial liabilities included in accounts payable and accrued liabilities, salaries and benefits payable and outstanding money orders.

Liquidity risk is also affected by the Corporation's management of debt and equity levels that is summarized in note 15.

7. Cash and Cash Equivalents, Marketable Securities, Illiquid Securities and Segregated Securities

(a) Nature and extent of investments

The nature and extent of the investments for each category are as follows:

As at December 31 (in millions of dollars)	Remaining term to maturity*			2009	2008
	Within 3 months	3 to 12 months	One to 10 years	Total	Total
Cash and cash equivalents					
Cash	\$ 126	\$ –	\$ –	\$ 126	\$ 90
Money market instruments issued by:					
Government of Canada	50	–	–	50	400
Provincial governments	35	–	–	35	40
Financial institutions	187	–	–	187	60
Corporations	75	–	–	75	15
Total cash and cash equivalents	\$ 473	\$ –	\$ –	\$ 473	\$ 605
Marketable securities					
Money market instruments issued by:					
Government of Canada	\$ 49	\$ 119	\$ –	\$ 168	\$ 103
Provincial governments	–	102	–	102	–
Total marketable securities	\$ 49	\$ 221	\$ –	\$ 270	\$ 103
Illiquid securities					
Master Asset Vehicle II (note 12)	\$ –	\$ –	\$ 4	\$ 4	\$ 5
Segregated securities					
Cash	\$ 14	\$ –	\$ –	\$ 14	\$ 1
Money market instruments issued by:					
Government of Canada	92	–	–	92	691
Provincial governments	31	20	–	51	88
Financial institutions	–	–	–	–	50
Corporations	–	–	–	–	15
Bonds issued by:					
Government of Canada	–	–	98	98	–
Provincial governments	–	–	167	167	–
Corporations	–	–	216	216	–
Master Asset Vehicle II	–	–	16	16	17
Total segregated securities	\$ 137	\$ 20	\$ 497	\$ 654	\$ 862

*Remaining term to maturity classifications are based on the contractual maturity of the investments or expected maturities for Master Asset Vehicle II notes.

All money market instruments and bonds held as at December 31, 2009 were issued by Canadian entities at fixed interest rates or discounted values. The weighted average effective interest rate as at December 31, 2009 was 0.3% for money market instruments (2008 – 1.3%) and 3.7% for bonds.

7. Cash and Cash Equivalents, Marketable Securities, Illiquid Securities and Segregated Securities (continued)

(b) Fair value of financial instruments

The following table provides the estimated fair values of financial instruments carried at fair value in accordance with the Corporation's 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. The fair value of long-term debt is provided in note 13. The fair value of other financial assets and liabilities approximate their carrying values due to their expected settlement in the short-term.

As at December 31 (in millions of dollars)				2009	2008
	Level 1*	Level 2**	Level 3***	Total	Total
Cash and cash equivalents	\$ 473	\$ –	\$ –	\$ 473	\$ 605
Marketable securities	\$ 270	\$ –	\$ –	\$ 270	\$ 103
Other assets: illiquid securities	\$ –	\$ –	\$ 4	\$ 4	\$ 5
Segregated securities	\$ 638	\$ –	\$ 16	\$ 654	\$ 862

* Level 1 financial assets are defined as assets with quoted prices in active markets for identical assets.

** Level 2 financial assets are defined as assets measured at fair value with a valuation technique using observable inputs other than quoted prices included in Level 1.

*** Level 3 financial assets are defined as assets measured at fair value with a valuation technique using unobservable market inputs and requires management's best estimate. Level 3 assets comprise investments in MAVII notes.

The Corporation does not have financial liabilities measured at fair value or derivatives.

Reconciliation of level 3 fair values:

	Illiquid securities included in:	
	Other assets	Segregated securities
Opening balance	\$ 5	\$ 17
Total losses in net income*	(1)	(1)
Ending balance	\$ 4	\$ 16
Cumulative unrealized losses from assets still held at year end	\$ 4	\$ 14

* Losses from illiquid assets classified in other assets are included with "Investment and other income" and losses from illiquid assets classified in segregated securities are included with "Benefits" on the consolidated income and comprehensive income statement.

7. Cash and Cash Equivalents, Marketable Securities, Illiquid Securities and Segregated Securities (continued)

(c) Fair value of Master Asset Vehicle II notes ("MAVII")

On January 21, 2009, under the oversight of the Ontario Superior Court and as proposed by the Pan American Investors Committee, the non-bank sponsored asset backed commercial paper ("ABCP") programs were restructured under the Montreal Accord. Upon restructuring, the Corporation elected to receive various classes of MAVII notes with an equivalent face value of \$38 million.

The Corporation received the following MAVII notes (in millions of dollars):

MAVII notes	Face value received January 21, 2009	Cumulative fair value adjustment as at December 31, 2009	Fair Value at December 31, 2009
Class A-1	\$ 24	\$ (9)	\$ 15
Class A-2	8	(4)	4
Class B	2	(1)	1
Class C	1	(1)	–
Class 13	3	(3)	–
Total	\$ 38	\$ (18)	\$ 20

The MAVII notes include a pooling of leveraged investments as well as traditional assets and cash, which are expected to increase the stability of the notes when compared with the previously held ABCP. The Corporation elected to receive notes issued by MAVII in which investors are not required to advance funds to meet future margin calls, should they occur. The Class A-1 and A-2 have been rated "A" and "BBB(low)" respectively by the Dominion Bond Rating Service ("DBRS") while the Class B, C and 13 are unrated.

The Class A-1, Class A-2, and Class B notes have interest rates of Bankers' Acceptance (BA) rate less 50 basis points and have legal maturity dates of July 15, 2056. The Class C notes have interest rates of BA rate plus 20% per annum and mature on July 15, 2056. However, the expected repayment date of the Class A-1, A-2, B and C notes is January 22, 2017. The Class 13 notes have interest based on the net rate of return generated by certain asset tracking notes and mature on March 20, 2014.

The Corporation is monitoring the publicly announced market activity of these notes and is aware of certain transactions which occurred prior to December 31, 2009. However, these transactions have not been used as a basis to determine the fair value of its notes since in the Corporation's view, an active market remains to be established. If an active market were to develop in the future, the Corporation will change its valuation technique to determine fair value of its notes using quoted market prices.

The Corporation's estimate of the fair value of MAVII notes was determined using a discounted cash flow technique, based on the best available information as at December 31, 2009. The significant assumptions used in the valuation model at December 31, 2009 are based on expected maturities.

Weighted average interest rate	0.50%
Weighted average discount rate	8.75%
Credit losses	Up to 50%

7. Cash and Cash Equivalents, Marketable Securities, Illiquid Securities and Segregated Securities (continued)

Based on this analysis, an additional impairment of the total fair value of the MAVII notes of \$2 million was recorded in 2009. The most significant assumptions in determining the fair value are the discount rate and coupon interest rates assigned to the new notes. A 1% increase (decrease) in the weighted average discount rate or a 0.5% decrease (increase) in the weighted average interest rate would result in a decrease (increase) in the estimated fair value of MAVII notes held by the Corporation of approximately \$1 million.

Continuing uncertainties regarding the development of an active market for MAVII notes, the amount and timing of interest and principal payments, the value of the assets that underlie the notes, and the credit and liquidity risks associated with them could give rise to further changes in the fair value of the Corporation's investment in MAVII notes, although this is not expected to result in a significant impact on the Corporation's future earnings.

(e) Income from investments

Interest income and gains and losses on cash and cash equivalents, marketable and illiquid securities amounted to \$3 million (2008 – \$18 million). Interest income and gains and losses on segregated securities amounted to \$8 million (2008 – \$18 million). The portion of income relating to the defined benefit plans was \$7 million (2008 – \$10 million) and was used to offset benefit costs. The remaining \$1 million (2008 – \$8 million) relates to internally restricted funds and was recognized in investment and other income.

(f) Segregated securities

Funds have been segregated as follows:

As at December 31 (in millions of dollars)	2009	2008
Other retirement dental and life insurance benefits	\$ 511	\$ 511
Internally restricted funds	143	351
Total segregated securities	\$ 654	\$ 862

Funds were segregated either to conform with externally imposed restrictions or in anticipation of future cash flow requirements as explained below:

- External restrictions were imposed on other retirement dental and life insurance benefit plans repatriated through the *Federal Public Sector Pension Reform*. These defined benefit plans are partially funded by the transitional support and, therefore, the Corporation is obligated to use these funds exclusively for related benefit payments.
- The Corporation has segregated certain funds in anticipation of future cash flow requirements. These segregated funds will be used either for significant projects to renew the operational capability of the Corporation or required regulatory contributions to the Corporation's pension plan in the event of either a solvency or going-concern shortfall.

8. 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 and joint venture are subject to federal and provincial income taxes.

The sources of the temporary differences giving rise to net future income tax assets (liabilities) are as follows:

As at December 31 (in millions of dollars)	2009	2008
Net future income tax assets (liabilities)		
Capital assets	\$ (11)	\$ 6
Salaries and benefits payable	24	20
Accrued pension, other retirement and post-employment benefits	135	213
Other	20	24
Net future income tax assets	\$ 168	\$ 263
Presented in the consolidated balance sheet as:		
Future income tax assets:		
Current	\$ 25	\$ 23
Long-term	179	270
Total future income tax assets	204	293
Future income tax liabilities:		
Long-term	(36)	(30)
Net future income tax assets	\$ 168	\$ 263

Deductible temporary differences for which no future income tax assets have been recognized amount to \$768 million (2008 – \$768 million) and relate mainly to the accrued other retirement and post-employment benefit liability. These differences are not expected to reverse in the foreseeable future.

The major components of the income tax expense are as follows:

Year ended December 31 (in millions of dollars)	2009	2008
Current income tax expense	\$ 5	\$ 131
Future income tax expense (benefit) relating to:		
Origination and reversal of temporary differences	88	(64)
Reduction in tax rate	2	–
Income tax expense	\$ 95	\$ 67

A reconciliation of the income tax expense, related to income before income taxes, to the amount of income tax using the statutory federal tax rate follows:

Year ended December 31 (in millions of dollars)	2009	2008
Income before income taxes	\$ 379	\$ 161
Federal income taxes at parent's statutory tax rate	\$ 110	\$ 48
Subsidiaries and joint venture's provincial income taxes less federal tax abatement	2	4
Effect of statutory tax rate changes on future income taxes	(20)	9
Other	3	6
Income tax expense	\$ 95	\$ 67

9. Capital Assets

As at December 31

(in millions of dollars)

2009

2008

	Cost	Accumulated amortization	Net carrying value	Cost	Accumulated amortization	Net carrying value
Property, plant and equipment						
Land	\$ 259	\$ –	\$ 259	\$ 259	\$ –	\$ 259
Buildings	1,796	1,021	775	1,801	1,024	777
Leasehold improvements	214	149	65	201	133	68
Plant equipment	1,055	787	268	975	738	237
Vehicles	239	157	82	219	152	67
Sales counters, office furniture and equipment	408	277	131	339	257	82
Other equipment	788	460	328	799	478	321
Assets under development	139	–	139	70	–	70
Total property, plant and equipment	4,898	2,851	2,047	4,663	2,782	1,881
Intangible assets						
Software	489	360	129	418	326	92
Software under development	33	–	33	52	–	52
Customer contracts and relationships	27	20	7	27	18	9
Total intangible assets	549	380	169	497	344	153
Total capital assets	\$ 5,447	\$ 3,231	\$ 2,216	\$ 5,160	\$ 3,126	\$ 2,034

Amortization of property, plant and equipment amounted to \$201 million in 2009 (2008 – \$196 million) while amortization of intangible assets amounted to \$45 million (2008 – \$41 million).

During the year, The Canada Post Group invested \$412 million (2008 – \$391 million) in capital assets, comprising \$354 million (2008 – \$342 million) of property, plant and equipment and \$58 million (2008 – \$49 million) of intangible assets.

As at December 31, 2009, The Canada Post Group has acquired assets held under capital leases in three asset classes. Sales counters, office furniture and equipment held under capital leases totalling \$18 million (2008 – \$1million), net of accumulated depreciation of \$12 million (2008 – nil); vehicles held under capital leases totalling \$20 million (2008 – nil), net of accumulated depreciation \$0 (2008 – nil); and plant equipment held under capital leases totalling \$25 million (2008 – nil), net of accumulated depreciation of \$1 million (2008 – nil).

10. Pension, Other Retirement and Post-Employment Benefit Plans

(a) Description of benefit plans

The Corporation has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits for most of its employees. Unfunded plans are plans where benefits are paid directly by the Corporation. With funded plans, funds are transferred to external trusts and the benefits are paid directly from these trusts. The Corporation's defined benefit pension plan is a funded plan based on length of pensionable service, the average of the best five consecutive years of pensionable salary and retirement age. The plan provides for retirement pension, survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plan and the retirement compensation arrangement, for benefits in excess of statutory limits as defined under the *Income Tax Act*. Pension benefits in pay are indexed annually. Both the Corporation's contributions and the employees' contributions to the external trusts are made in accordance with the provisions of the plan. In addition, the Corporation's contributions are determined by actuarial valuations, in compliance with the requirements of regulatory authorities, to ensure that the external trusts have sufficient assets to pay pension benefits when employees retire.

Other retirement defined benefit plans include unfunded health care, dental and life insurance plans. The post-employment defined benefit plans include unfunded employee termination benefits and health and dental coverage for employees receiving long-term disability benefits. The benefit costs covered by the Corporation and the costs assumed by employees and retirees are determined in accordance with the rules of each plan and the provisions of labour contracts.

By the end of 2006, the Corporation's employee termination benefit plan was fully curtailed. The curtailment of the plan froze the employees' entitlement based on the accumulation of years of service as of the curtailment date, and further benefit entitlements based on years of service was discontinued. On curtailment, employees were given the option of settlement by receiving the cash value of their accrued termination benefit or the option of deferring receipt of their benefit until departure, at which time the benefit would reflect their base salary at retirement or their base salary at the curtailment date if they resign or are terminated. Most employees chose the option of settlement.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. The Corporation is a self-insured employer, responsible for workers' compensation benefits incurred since incorporation. The Corporation's unfunded obligation for workers' compensation benefits is based on known awarded disability and survivor pensions and other potential future awards for accidents that occurred up to the measurement date. Workers' compensation benefits are provided according to the respective provincial workers' compensation legislation. Benefit entitlements in the three Territories are based on the Alberta legislation.

Purolator has a number of funded defined benefit pension plans. The defined benefit plans are based either on length of pensionable service and salary paid each year or on negotiated benefit rates, depending on the type of employees. Since these defined benefit plans are subject to the maximum pension payable under the *Income Tax Act*, a supplementary pension plan, based on length of pensionable service and final average salary, is offered to designated employees. Purolator also provides pension benefits to eligible employees through a defined contribution plan. Plan members are not required nor permitted to contribute to the defined benefit pension plans.

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

Certain employees of SCI presently belong to a pension plan sponsored by SCI's former owner, Bell Canada. The BCE Inc. Pension Plan is a non-contributory, defined benefit pension plan that provides for benefits based on length of pensionable service and final average salary. Pension benefits in pay are indexed annually. The assets of the pension plan are invested in units of the BCE Master Trust Fund with Royal Trust acting as trustee. However, in 2001 the Corporation entered into a Share Purchase Agreement with Bell Canada whereby the employees of SCI started participating in a new pension plan, disengaged from Bell Canada. The pension plan assets and liabilities for pensions and related benefits accrued at the date of change of ownership will be transferred to the new pension plan on completion of the related actuarial valuations, pending regulatory approval. The amounts of assets and liabilities included in these consolidated financial statements represent current estimates of the amounts to be transferred to the new Pension Plan, adjusted for all activity subsequent to the change of ownership. The estimate of the transfer amount relating to plan assets includes management's best estimate of the effect of certain events related to the BCE Inc. Pension Plan that occurred prior to the purchase of SCI by the Corporation. The estimate was revised in 2007 based on a report provided by BCE Corporate Services. The amounts to be transferred into the new, separate Pension Plan will be finalized and transferred over only when regulatory approval has been obtained. In 2005, a supplementary pension plan was created for designated employees to replace the current plan, whereby employees who reach the maximum pension payable from the registered plan would receive the excess pension payable by SCI. The results for this plan are included with those of the regular plan. After the acquisition, a defined contribution provision was added to SCI's pension plan.

The other retirement benefit plans pertaining to SCI's employees consist of medical and dental benefits, and life insurance after retirement. SCI pays the full cost of these benefits, except for the dental plan which is paid 100% by the retirees who choose this coverage.

Innovapost has a funded defined benefit pension plan. Like the Corporation, pension benefits that are not permissible in the registered pension plan are provided by a retirement compensation arrangement. Pension benefits, based on length of pensionable service and average pensionable salary, are indexed according to the annual increase in the consumer price index. Employer and employees' contributions are made in accordance with the plan. After October 31, 2002, no new members are eligible to join Innovapost's pension plan.

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

(b) Obligations and assets

A reconciliation of the defined benefit plan obligations, defined benefit plan assets and the funded status of the defined benefit plans to the amounts recorded in the consolidated balance sheet follows:

Year ended, and as at, December 31 (in millions of dollars)	2009		2008	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations				
Balance, beginning of year	\$ 11,732	\$ 2,489	\$ 14,208	\$ 3,215
Current service cost	243	73	447	107
Interest cost	880	189	803	180
Employee contributions	191	–	188	–
Benefits paid	(462)	(112)	(391)	(105)
Actuarial (gains) losses	1,351	86	(3,531)	(900)
Plan amendments	–	(27)	12	(6)
Curtailment	–	–	–	(2)
Settlement	–	–	(4)	–
Balance, end of year	13,935	2,698	11,732	2,489
Plan assets				
Fair value, beginning of year	12,175	–	15,180	–
Actual return on plan assets	1,903	–	(2,909)	–
Employer regular contributions	304	–	98	–
Employer special contributions	24	–	13	–
Employee contributions	191	–	188	–
Benefits paid	(462)	–	(391)	–
Settlement	–	–	(4)	–
Fair value, end of year	14,135	–	12,175	–
Funded status of defined benefit plans – surplus (deficit)				
Unrecognized net actuarial (gains) losses	1,155	40	506	(53)
Unrecognized past service costs (credits)	23	(163)	25	(166)
Unrecognized funding excess	(57)	–	(89)	–
Net amount recognized for:				
Defined benefit plans	1,321	(2,821)	885	(2,708)
Defined contribution plans	–	–	(1)	–
Total amount recognized	\$ 1,321	\$ (2,821)	\$ 884	\$ (2,708)

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

The recognized amounts are presented in the consolidated balance sheet as follows:

As at December 31 (in millions of dollars)	2009	2008
Accrued pension benefit asset	\$ 1,335	\$ 898
Accrued pension benefit liability	\$ 14	\$ 14
Accrued other retirement and post-employment benefit liability	2,821	2,708
Accrued pension, other retirement and post-employment benefit liability	\$ 2,835	\$ 2,722

(c) Benefit plans in a deficit position

Included in the above accrued benefit obligations and fair value of plan assets at year end are the following amounts with respect to plans that are in a deficit position:

As at December 31 (in millions of dollars)	2009		2008	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations	\$ 68	\$ 2,698	\$ 57	\$ 2,489
Plan assets	49	–	44	–
Funded status of defined benefit plans – deficit	\$ (19)	\$ (2,698)	\$ (13)	\$ (2,489)

(d) Investment objective and plan asset allocations

The Board of Directors of the Corporation adopts and reviews at least annually a Statement of Investment Policies and Procedures (“SIPP”) addressing the manner in which the Corporation’s pension plan assets will be invested. Investment principles and beliefs are revisited periodically to ensure that changes to the investment policies may be made if warranted. The Corporation believes that an investment portfolio with an appropriate asset allocation, the target portfolio, can over the long term achieve the investment objective of ensuring that sufficient assets will be available to meet the obligations of the pension plan as they come due. Under the current SIPP, it is recognized that it is not always desirable to have the investment portfolio exactly match the long-term asset target allocation and therefore minimum and maximum asset category limits have been established.

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

The Corporation's investment objective for its pension plan assets is to achieve a long-term rate of return, net of administrative expenses, which exceeds inflation by at least 4.75%. Investments are made according to criteria and limitations set by the Board of Directors and applicable legislation. Allowable types of investment, individual investment limits, portfolio investment limits, maturity limits and minimum credit quality ratings are set by the Board to reduce the level of risk and provide diversification between industry sectors, geographic/economic areas and management styles. The asset allocations, by asset category, of the Corporation's pension plan are as follows:

As at December 31	2009		2008
	Target	Actual	Actual
Cash and money market instruments	1 %	1 %	3 %
Bonds	36 %	36 %	38 %
Canadian equities	22 %	26 %	22 %
U.S. equities	20 %	17 %	17 %
International equities	15 %	14 %	14 %
Real estate	5 %	4 %	5 %
Other assets less liabilities	1 %	2 %	1 %
Pension plan assets of the Corporation	100 %	100 %	100 %

The pension plan assets of Purolator, SCI and Innovapost are governed by similar investment objectives and policies and account for 2% (2008 – 2%) of the total plan assets of \$14,135 million (2008 – \$12,175 million).

Total plan assets include \$2,271 million (2008 – \$2,338 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and \$128 million (2008 – \$122 million) in refundable taxes held by the Canada Revenue Agency.

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

(e) Costs (recoveries)

The elements of employee future benefit costs (recoveries) recognized in the year are as follows:

Year ended December 31 (in millions of dollars)	2009			2008		
	Incurring in year	Adjustments*	Recognized in year	Incurring in year	Adjustments*	Recognized in year
Pension benefit plans						
Current service cost	\$ 243	\$ –	\$ 243	\$ 447	\$ –	\$ 447
Interest cost	880	–	880	803	–	803
Return on plan assets	(1,903)	803	(1,100)	2,909	(3,976)	(1,067)
Actuarial (gains) losses on accrued benefit obligations	1,351	(1,453)	(102)	(3,531)	3,532	1
Plan amendments	–	2	2	12	(9)	3
Settlement loss	–	–	–	1	–	1
Amortization of funding excess	–	(32)	(32)	–	(32)	(32)
Defined benefit costs (recoveries)	571	(680)	(109)	641	(485)	156
Defined contribution costs	6	–	6	5	–	5
Total pension benefit costs (recoveries)	577	(680)	(103)	646	(485)	161
Transitional support from the Government of Canada	(23)	–	(23)	(35)	–	(35)
Net pension benefit costs (recoveries)	\$ 554	\$ (680)	\$ (126)	\$ 611	\$ (485)	\$ 126
Other benefit plans						
Current service cost	\$ 73	\$ –	\$ 73	\$ 107	\$ –	\$ 107
Interest cost	189	–	189	180	–	180
Actuarial (gains) losses on accrued benefit obligations	86	(93)	(7)	(900)	957	57
Plan amendments	(27)	(3)	(30)	(6)	(24)	(30)
Curtailed gain	–	–	–	(2)	–	(2)
Amortization of transitional obligation	–	–	–	–	3	3
Defined benefit costs	321	(96)	225	(621)	936	315
Return on segregated securities	(7)	–	(7)	(10)	–	(10)
Transitional support from the Government of Canada	(33)	–	(33)	(46)	–	(46)
Net other benefit costs	\$ 281	\$ (96)	\$ 185	\$ (677)	\$ 936	\$ 259

* Adjustments to allocate costs to different years so as to recognize the long-term nature of employee future benefits.

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

(f) Assumptions

The assumptions used in measuring the costs and accrued benefit obligations for the Corporation's significant defined benefit plans were as follows:

As at December 31	2009		2008	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations:				
Discount rate	6.7%	6.9%	7.5%	7.6%
Long-term rate of compensation increase	3.0%	3.0%	3.0%	3.0%
Benefit costs:				
Discount rate	7.5%	7.6%	5.6%	5.5%
Expected long-term rate of return on plan assets	7.25%	N/A	7.25%	N/A
Long-term rate of compensation increase	3.0%	3.0%	3.0%	3.0%
Assumed health care cost trend rates:				
Initial health care cost trend rate	N/A	8.4%	N/A	8.9%
Cost trend rate declines to	N/A	4.9%	N/A	5.3%
Year that the rate reaches the rate it is assumed to remain at	N/A	year 20	N/A	year 10

(g) Sensitivity analysis

(g.1) Pension Benefit Plans

The discount rate used to estimate the present value of accrued benefit obligations has a significant effect on the accrued benefit obligations at the end of the year as well as on the pension benefit costs. The latter is also impacted by the expected long-term rate of return on plan assets. A fifty basis points change in discount rate and expected long-term rate of return on plan assets would have had the following effects for 2009:

Change in discount rate of 0.5%:

(in millions of dollars)	Increase	Decrease
Total of current service and interest costs	\$ (35)	\$ 39
Accrued benefit obligations	\$ (887)	\$ 989

Change of 0.5% in expected long-term rate of return on plan assets:

(in millions of dollars)	Increase	Decrease
Pension benefit costs	\$ (76)	\$ 76

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

(g.2) Health Care Plans

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have had the following effects for 2009:

(in millions of dollars)	Increase	Decrease
Total of current service and interest costs	\$ 40	\$ (30)
Accrued benefit obligations	\$ 330	\$ (264)

The above sensitivities are hypothetical and must be used with caution. Changes in amounts based on the above variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. The sensitivities have been calculated independently of changes in other key assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

(h) Total cash payments

Cash payments for pension, other retirement and post-employment benefits are as follows:

Year ended December 31 (in millions of dollars)	2009	2008
Benefits paid directly to beneficiaries for unfunded other benefit plans	\$ 112	\$ 105
Employer regular contributions to funded pension benefit plans	304	98
Employer special solvency contributions to funded pension benefit plans	24	13
Total cash payments for defined benefit plans	440	216
Contributions to defined contribution plans	6	5
Total cash payments	\$ 446	\$ 221

Under current legislation, the funding valuation of the Corporation's defined benefit pension plans is required to be filed at least every three years and annually if the solvency ratio of a plan assets to solvency liabilities is less than 1.0 at the time of filing. In the event of a solvency or going-concern deficit, regulatory authorities require special contributions be made over specified future periods.

The Corporation's pension plan last filed a valuation report as at December 31, 2007 at which time the plan was in a funding excess position, both on a going concern and solvency basis. This allowed the Corporation to take contribution holidays for part of 2008. Given the current position of the Corporation's pension plan, the Corporation resumed its contributions as at November 1, 2008 and continued to do so in 2009. Furthermore, a funding valuation as at December 31, 2009 will be filed with regulatory authorities during the course of 2010 which is one year earlier than initially planned.

10. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

Pursuant to current legislation, the expected solvency deficit will require special contributions for 2010 that are currently estimated at \$455 million. However, as the legislation and regulations for federally regulated pension plans are currently under review, future funding rules may differ from those currently in effect which could affect the required deficit contributions.

The most recent actuarial valuations for funding purposes, and the next required actuarial valuations, are as of the following dates:

	Most recent actuarial valuation for funding purposes	Next required actuarial valuation for funding purposes
Canada Post Corporation	December 31, 2007	December 31, 2009
Purolator	December 31, 2008	December 31, 2009
SCI	December 31, 2006	December 31, 2009
Innovapost	December 31, 2007	December 31, 2010

11. Goodwill

The changes in the carrying amount of goodwill are as follows:

Year ended December 31 (in millions of dollars)				2009	2008
	Canada Post segment	Purolator segment	Logistics segment	Total	Total
Balance, beginning of year	\$ –	\$ 121	\$ 3	\$ 124	\$ 124
Purchase price adjustment	–	–	1	1	–
Balance, end of year	\$ –	\$ 121	\$ 4	\$ 125	\$ 124

In 2009, under the terms of a share purchase agreement, a further cash payment of \$1 million became payable upon the achievement of certain specific conditions relating to contract renewals and related revenues under the contracts.

12. Other Long-Term Assets

As at December 31 (in millions of dollars)	2009	2008
Assets held for sale	\$ 6	\$ 1
Illiquid securities (note 7)	4	5
Other	13	13
Total other long-term assets	\$ 23	\$ 19

The Corporation has classified several properties as held for sale at the end of 2009. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds. All but two of the properties held for sale at the end of 2008 were sold in 2009 as anticipated. A gain of less than \$1 million was recorded on the disposition.

13. Long-Term Debt

As at December 31 (in millions of dollars)	2009		2008	
	Fair value	Carrying value	Fair value	Carrying value
Non-redeemable bonds maturing March 2016, interest at 10.35% payable semi-annually on March 15 and September 15 ¹	\$ 78	\$ 55	\$ 79	\$ 55
Capital lease obligations, maturing on various dates in 2011 and 2012, net of implicit interest at rates varying from 5.7% to 7.5% ²	6	6	1	1
Capital lease obligations, maturing in 2016, net of implicit interest at rates between 3.1% and 5.5% ³	44	44	–	–
Revolving term credit facility, interest at Bank of Canada prime plus 1.5%, repayment term three years due in January 2012 ⁴	25	25	–	–
Other long-term borrowing, interest at Bank of Canada prime rate, repayment term five years ⁵	–	–	18	18
Total long-term debt	153	130	98	74
Less current portion	10	10	–	–
Long-term portion	\$ 143	\$ 120	\$ 98	\$ 74

¹ Fair value of long-term bonds is estimated by reference to quoted market prices of similar bonds. The effective interest rate as at December 31, 2009 was 10.6% (2008 – 10.5%) for the non-redeemable bonds. The scheduled repayment date of these bonds is March 2016. There are no prepayment terms associated with this debt.

² Capital lease obligations relate to the Corporation's computer refresh program and are repayable in monthly installments. The effective interest rate as at December 31, 2009 was 6.7% (2008 – 6.8%).

³ A subsidiary has drawn \$44 million from a leasing facility to acquire capital assets. The leasing facility, which allows for borrowings of up to \$50 million, requires on a quarterly basis the funded debt to earnings before interest, tax and amortization covenant ratio be equal to or less than 2.5:1. The subsidiary is in compliance with this covenant.

⁴ A subsidiary entered into a revolving term credit facility with a Canadian bank in January 2009. The facility allows the subsidiary to borrow to a maximum of \$150 million on an unsecured three year term revolving line of credit. The amount drawn under this facility is \$25 million at December 31, 2009 and is not due until the end of the term of the facility. The fair value of this borrowing approximates its carrying value as a result of the floating interest rate at the Bank of Canada prime rate plus 1.5%. This credit facility contains two covenant requirements applied to the subsidiary. On a quarterly basis the funded debt to earnings before interest, tax and amortization covenant ratio must be equal to or less than 2.5:1 and the interest coverage ratio must be equal to or greater than 4:1. The subsidiary is in compliance with both covenants.

⁵ The other long-term borrowing of one of the Corporation's subsidiaries represented an amount drawn on a credit facility as at December 31, 2008, which was converted to capital leases in 2009.

Interest expense on long-term debt amounted to \$8 million (2008 – \$6 million).

13. Long-Term Debt (continued)

Principal repayments on long-term debt excluding capital lease obligations are as follows:

(in millions of dollars)

2012	\$	25
2016		55
	\$	80

Minimum capital lease payments are as follows:

(in millions of dollars)

	Principal	Interest	Payment
2010	\$ 10	\$ 2	\$ 12
2011	9	1	10
2012	9	1	10
2013	8	1	9
2014	9	–	9
Thereafter	5	–	5
	\$ 50	\$ 5	\$ 55

14. Conditional Asset Retirement Obligations

Certain of the Corporation's owned buildings have asbestos-containing materials which the Corporation will be obligated to remove and dispose of in a special manner should the property undergo major renovations or demolition. As a result of the longevity of the Corporation's buildings where asbestos exists, ongoing asbestos management programs, and the fact that the Corporation does not have plans for major changes that would require the removal of asbestos, the timing of the removal of the asbestos is indeterminable. The fair value of a conditional asset retirement obligation associated with asbestos removal can be reasonably estimated only when the Corporation has sufficient information to estimate the timing of the settlement of the obligation. Certain of the Corporation's buildings also have other site restoration costs.

The Corporation has recognized conditional asset retirement obligations associated with asbestos removal and other site restoration costs for properties which are planned to be disposed of by sale. These conditional asset retirement obligations are expected to be transferred to the prospective purchasers of the properties on the date of sale. For the remaining properties with asbestos-containing materials and other site restoration obligations, the Corporation does not have sufficient information as of December 31, 2009 to reasonably estimate the fair value of the conditional asset retirement obligations. Similarly, the fair value of conditional asset retirement obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates. The Corporation will continue to assess its ability to estimate the fair values of its asset retirement obligations at each future reporting date.

The Corporation estimates that the undiscounted cash flows required to transfer its recognized conditional asset retirement obligations approximate \$7 million (2008 – \$11 million). The sales of the properties are expected to occur within the next four years, and the estimated cash flows have been discounted at a credit-adjusted risk-free rate of between 3% and 4.2%. The present values of the Corporation's conditional asset retirement obligations at December 31, 2009, totalling \$6 million (2008 – \$10 million), are included in other long-term liabilities.

15. Capital Management

The Corporation is subject to the *Canada Post Corporation Act* and the *Financial Administration Act* ("the Acts") and any directives issued pursuant to the Acts. These Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, while maintaining basic postal service and in carrying out its objectives, the Corporation must have regard for the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that meets the needs of the people of Canada.

In April 2008, the Government launched a Strategic Review of the Corporation to examine the Corporation's public policy objectives, its ability to remain financially self-sustaining, and the continued relevance of the 1998 Policy Financial Framework. The Strategic Review Advisory Panel submitted its findings and recommendations to the Minister responsible for the Corporation in December 2008. Among various recommendations, the Advisory Panel endorsed the importance of investment renewal, enabled through increased access to financing, needed to sustain the Corporation and assure that universal postal services can continue. The panel also recommended the need for a new financial framework for the Corporation.

The Government has endorsed the Corporation's need for an increased authority for its external borrowing. To that end, the Corporation's borrowing limit, other than from the Crown, increased from \$300 million to \$2.5 billion pursuant to *Appropriation Act No. 4, 2009-10*, which received Royal Assent on December 15, 2009. At any time, the value of these borrowings cannot exceed an aggregate amount of \$2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance. The increase will help the Corporation to address ongoing cash management needs.

The Corporation defines and computes its capital as follows:

As at December 31 (in millions of dollars)	2009	2008
Equity of Canada	\$ 1,787	\$ 1,507
Long-term debt	130	74
Other long-term financial obligation	16	19
Total capital	\$ 1,933	\$ 1,600

The Corporation's objectives in managing capital are to:

- Provide sufficient liquidity to support its financial obligations and its operating and strategic plans;
- Generate a reasonable return to the Government of Canada in support of the objectives of the Policy Framework; and
- Maintain financial capacity and access to credit facilities to support future development of the business.

In 2009 and 2008, the Corporation relied on cash flow provided by operations and accumulated funds to support its financial obligations and fund its capital and strategic requirements. Indebtedness has been maintained at a low level. Since 2007, the Corporation has segregated funds for specific future cash flow requirements. These segregated funds would be drawn only for significant projects related to the renewal of the Corporation's operational capabilities or to make regulatory contributions to the Corporation's pension plan in the event of a solvency or going-concern deficit.

The Corporation's ability to obtain additional capital is subject to market conditions and pursuant to the provisions of the Acts. The *Canada Post Corporation Act* provides for the establishment of a share capital structure giving the Corporation the ability to raise funds through the issuance of shares to the Government of Canada and to the Corporation's employees, however no such shares have been issued.

15. Capital Management (continued)

The borrowing capacity of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk in Note 6(c). Pursuant to the *Financial Administration Act*, Part X, the Corporation must indicate its intention to borrow money in the annual Corporate Plan, or in an amendment thereto, which are subject to the approval of the Board of Directors and the Governor in Council. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

The declaration, amount and payment of a dividend to the Government of Canada are subject to the Acts. Consistent with the 1998 Policy Framework, the Corporation has been making dividend payments equivalent to 40 per cent of the prior year's consolidated net income since 2004, when the return on equity target was first reached. It has paid \$271 million in dividends to the Government since that time.

Given the Corporation's current financing pressures, no dividend was paid in 2009. The Government of Canada has approved the Corporation's proposal not to pay a dividend in 2010.

The Corporation's financial objectives and strategies are reviewed and approved each year by the Board of Directors through the annual Corporate Plan submission, which is then forwarded for Governor in Council approval. Approval was received on December 10, 2009 for the first year of the Corporation's 2009 to 2013 Corporate Plan and for the Corporation's 2010 to 2014 Corporate Plan.

The Corporation and its subsidiaries and joint venture are not subject to any externally imposed capital requirements.

16. Commitments and Contingencies

(a) Two complaints have been filed with the Canadian Human Rights Commission ("the Commission") alleging discrimination by the Corporation concerning work of equal value.

The complaint filed by the Public Service Alliance of Canada ("PSAC") in 1983, was referred by the Commission to the Canadian Human Rights Tribunal ("the Tribunal") which rendered a decision in October 2005, concluding that the Corporation had participated in "systemic discrimination" in the setting of wages for a group of PSAC members and ordered payment of lost wages at a discount of 50%.

Both PSAC and the Corporation appealed the decision of the Tribunal to the Federal Court Trial Division. In February 2008, this Court released its decision allowing the Corporation's application for judicial review and referred the complaint back to the Tribunal with the direction that the complaint be dismissed. In March 2008, PSAC and the Commission appealed this decision to the Federal Court of Appeal.

On February 22, 2010, a majority of the Court of Appeal upheld the Trial Division's decision, finding in favour of the Corporation and dismissing both appeals. PSAC and the Commission have 60 days from the date of the Court of Appeal's decision to seek leave to appeal to the Supreme Court of Canada.

The complaint filed by the Canadian Postmasters and Assistants Association initially in December 1982 was, in February 2006, recommended by a conciliator to be declined by the Commission on the basis that the complaint is one that could more appropriately be dealt with under the *Canada Labour Code*. There have been no new developments in respect of this complaint.

The outcome of these complaints is currently not determinable and as a result no provision has been recorded in the consolidated financial statements. Settlement, if any, arising from resolution of these matters, is presently planned to be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*) and/or from the Government of Canada.

16. Commitments and Contingencies (continued)

- (b) The Corporation and Purolator have made certain commitments that apply upon the expiration or termination of their respective agreements with Innovapost. These agreements were signed for a 10 year period that commenced in 2002, with an optional renewal period of five years. These commitments include the purchase of assets used on a dedicated basis in the provision of services to the Corporation and Purolator, as the case may be, at the time of expiration or termination of the agreements, for an amount equal to the then net book value and the assumption of certain obligations and contracts related to such assets or applicable to the services provided by Innovapost to the Corporation or Purolator, as the case may be. In addition, upon the occurrence of specific events described in its agreement with Innovapost, Purolator has the option rather than the obligation, to assume these commitments. It is not practicable, at this time, to determine the value of assets used on a dedicated basis, nor the carrying value of the contractual obligations at the time of expiration or termination of the agreements.

The maximum potential future liability under the above commitments is dependent on the value of the subject assets, obligations and contracts at the time of expiration or termination of the agreements. The Corporation and Purolator do not currently possess sufficient information to estimate such future liability.

- (c) CPIL and its subsidiary entered into an agreement with the Government of the Netherlands Antilles to provide postal and postbanking services, to the residents of the five islands that comprise the Netherlands Antilles, for a 20 year period that commenced in May 2003. Compliance with certain terms of the agreement for the concession was in dispute, with each party alleging defaults by the other. A number of meetings were held in 2007 with the Government of the Netherlands Antilles, with the objective of negotiating an amicable settlement. As a result of these meetings, the parties signed a Memorandum of Understanding in December 2007 and a Settlement Agreement in January 2008. The appropriate authorization under the *Financial Administration Act* was obtained in February 2008.

As per the terms and conditions set out in the Settlement Agreement, in April 2008, CPIL transferred 100% of the shares in its subsidiary, Nieuwe Post Nederlandse Antillen N.V., to the Government of the Netherlands Antilles and paid \$7 million as full and final settlement. Subsequently, in November 2008, the Corporation wound up and dissolved CPIL.

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

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

- (e) The Corporation is involved in various claims and litigation in the normal course of business. Provisions are recorded when and if losses are likely and amounts can be reasonably estimated.
- (f) The Corporation's employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in future years cannot reasonably be determined. Payments of sick leave benefits are included in the cost of operations.

16. Commitments and Contingencies (continued)

- (g) The future minimum lease payments with respect to facilities, transportation equipment and other operating leases with terms in excess of one year, are as follows:

(in millions of dollars)

2010	\$	143
2011		127
2012		103
2013		80
2014		63
2015 and thereafter		593
Total	\$	1,109

Included in the above are lease payments made in the normal course of business in the amount of \$20 million with a related party, the Government of Canada, for premises used in postal operations (2008 – \$27 million).

- (h) The Corporation has contractual arrangements with third-party suppliers totalling approximately \$306 million related to its Postal Transformation investment project. These contractual arrangements are subject, in most instances, to the Corporation's contractual right of termination and extend to 2013 as follows:

(in millions of dollars)

2010	\$	114
2011		98
2012		65
2013		29
Total	\$	306

- (i) In the normal course of business, the Corporation enters into contractual arrangements for the supply of goods and services over periods extending beyond one year. Disbursements largely depend on future, volume-related requirements and are subject to the Corporation's contractual rights of termination.

17. Cash Flow Information

Year ended December 31 (in millions of dollars)	2009	2008
Change in non-cash operating working capital		
Decrease (increase) in accounts receivable	\$ (7)	\$ 6
Decrease in net income tax payable	(69)	(13)
Increase (decrease) in accounts payable and accrued liabilities	(56)	38
Increase in salaries and benefits payable	66	119
Decrease in deferred revenue	(6)	(9)
Net increase (decrease) in other non-cash operating working capital items	(7)	2
Total	\$ (79)	\$ 143
Supplementary information		
Interest paid	\$ 8	\$ 8
Income tax paid	\$ 64	\$ 142

18. Joint Venture

The Corporation has a 51% ownership interest in Innovapost, The Canada Post Group's primary information technology service provider. Virtually all of Innovapost's services are provided to The Canada Post Group based on consideration contractually established and agreed to by the related party. Cost of operations included in the consolidated financial statements of the Corporation includes the Corporation's proportionate share of expenses related to these services of approximately \$153 million (2008 – \$158 million). The Corporation's proportionate share of the assets and liabilities of Innovapost at year end is \$35 million (2008 – \$36 million) and \$34 million (2008 – \$51 million), respectively.

19. Related Party Transactions

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements:

- (a) Government of Canada, its agencies and other Crown corporations** • The Government of Canada provides compensation to the Corporation to partially offset foregone postage revenue from Government free mail services and mailing of materials for the blind (note 5). In addition, pursuant to an agreement with the Department of Indian Affairs and Northern Development, the Government of Canada compensates the Corporation for the difference between the Corporation's cost of shipping eligible goods under the Food Mail Program and the applicable postage paid by shippers. Compensation payments from the Government of Canada amounting to \$79 million (2008 – \$78 million) are included in revenue from operations.

In addition, the Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business at commercial prices and terms.

For the year ended December 31, 2009, the amounts of accounts receivable and deferred revenue from these related parties are \$28 million (2008 – \$41 million) and \$3 million (2008 – \$4 million), respectively.

- (b) Directors** • In the normal course of business, the Corporation may interact with companies whose directors or officers are directors of the Corporation. The affected directors always recuse themselves from all discussions and decisions related to transactions between the companies. Such cases of company interaction occurred during the year with Telus Corporation and Québec Média. In 2009, the Corporation provided services to Telus Corporation of \$53 million (2008 – \$51 million). Services received from Telus Corporation in 2009 amounted to \$4 million (2008 – \$3 million). Similarly, during 2009, the Corporation provided services to Québec Média of \$15 million (2008 – \$16 million).
- (c) Other** • During the year, a subsidiary of the Corporation had business transactions with a company controlled by a minority shareholder of that subsidiary. The minority shareholder is also a director of the subsidiary. This company provided air services to the subsidiary in the amount of \$111 million (2008 – \$109 million). These transactions were made at prices and terms comparable to those given to other suppliers of the subsidiary.

20. Publications Assistance Program

Under the Government of Canada's Publications Assistance Program, the Government and the Corporation have subsidized a portion of the distribution costs incurred by eligible publishers of eligible publications using the Corporation's Publications Mail™ service. Although subsidy payments payable to eligible publishers vary over the Government's fiscal year, the Government's contribution to the Program was capped at \$45 million in its fiscal year 2008/2009 (\$45 million in 2007/2008). The Corporation's contribution to the Program was capped at \$15 million in 2008/2009 (\$15 million in 2007/2008) and is included in cost of operations. As directed by the Government of Canada in December 2006, Canada Post continued its financial contribution to the Program until March 31, 2009. No further financial contribution was, or will be, made to this Program. However, the Corporation agreed to continue to provide certain administrative services under the Program until March 31, 2010 in order to assist the Government's transition to a new or restructured program.

21. Segmented Information

The Corporation manages its operations and, accordingly, determines its operating segments on the basis of the legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and Logistics. The Logistics segment is comprised of SCI.

The Canada Post segment provides transaction mail, parcels and direct marketing services, as well as other mail products and services. The Purolator segment derives its revenues from specialized courier services. The Logistics segment provides third-party logistics services in supply chain management and, from March 30, 2007, transportation services in the small to medium enterprise market.

Operating segments below the quantitative thresholds, for determining reportable operating segments, are combined and disclosed in the "all other" category. Their revenues are attributable to information technology services.

The accounting policies of the operating segments are the same as those described in the significant accounting policies (note 2).

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

Year ended, and as at, December 31, 2009

(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	\$ 5,818	\$ 1,351	\$ 143	\$ –	\$ –	\$ 7,312
Intersegment revenue	22	82	8	168	(280)	–
Revenue from operations	\$ 5,840	\$ 1,433	\$ 151	\$ 168	\$ (280)	\$ 7,312
Income (loss) before the undernoted items	\$ 477	\$ 98	\$ 16	\$ 16	\$ (4)	\$ 603
Amortization	(197)	(44)	(7)	(1)	3	(246)
Investment and other income	45	–	–	–	(16)	29
Interest and other expense	(6)	(1)	–	–	–	(7)
Income (loss) by segment	\$ 319	\$ 53	\$ 9	\$ 15	\$ (17)	379
Unallocated amounts						(3)
Income tax expense						(95)
Net income						\$ 281
Assets by segment	\$ 5,445	\$ 787	\$ 86	\$ 219	\$ (507)	\$ 6,030
Unallocated amounts						(1)
Total assets						\$ 6,029
Acquisition of capital assets	\$ 372	\$ 41	\$ 4	\$ 1	\$ (6)	\$ 412

21. Segmented Information (continued)

Year ended, and as at, December 31, 2008

(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	\$ 6,084	\$ 1,499	\$ 147	\$ 3	\$ –	\$ 7,733
Intersegment revenue	24	68	9	173	(274)	–
Revenue from operations	\$ 6,108	\$ 1,567	\$ 156	\$ 176	\$ (274)	\$ 7,733
Income (loss) before the undernoted items	\$ 211	\$ 135	\$ 20	\$ 16	\$ (6)	\$ 376
Amortization	(191)	(40)	(7)	(2)	3	(237)
Investment and other income	54	–	–	1	(21)	34
Interest and other expense	(8)	(4)	–	–	–	(12)
Income (loss) by segment	\$ 66	\$ 91	\$ 13	\$ 15	\$ (24)	161
Unallocated amounts						(4)
Income tax expense						(67)
Net income						\$ 90
Assets by segment	\$ 5,096	\$ 689	\$ 88	\$ 240	\$ (523)	\$ 5,590
Unallocated amounts						1
Total assets						\$ 5,591
Acquisition of capital assets	\$ 271	\$ 117	\$ 6	\$ 1	\$ (4)	\$ 391