Total Compensation

Pay and Incentive | Benefits | Pension

Registered Pension Plan
2005 Annual Report

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We are pleased to present the ***Canada Post Registered Pension Plan 2005 Annual Report***.

Canada Post is committed to strive for ways to improve the quality of information provided to members. Your comments on this annual report are important to us.

To assist you in providing comments back to us, we have enclosed a business reply card, which we ask you to complete. If you would like to provide your remarks regarding this report electronically, please contact Pension Services at **pension.services@canadapost.ca**

Privacy of pension records

Canada Post adheres to federal legislation on the privacy of personal information and ensures that personal pension information is treated in a secure and confidential manner.

To obtain information on their pension benefits, members may:

Visit the Canada Post pension website at **www.cpcpension.com**

Call the Pension Centre at 1-877-480-9220 and use the Voice Response Unit (VRU) or speak with a Benefit Service Representative

Write to:
CANADA POST PENSION CENTRE
PO BOX 2073
MISSISSAUGA ON L5B 3C6

Message from Gordon Feeney

Chairman of the Board

The Canada Post pension plan achieved another strong financial performance during the 2005 fiscal year. The results, marking the fifth full year of the Plan's operations, demonstrate that the investment strategies adopted since the Plan was created are sound.

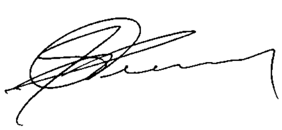
At December 31, 2005, the pension plan held total assets of $12.2 billion, an increase of $1.9 billion compared to the previous year. The increase in assets resulted from investment income of $1.4 billion and $0.7 billion in contributions, offset by benefits payments and administration costs. The Plan held assets of $6.9 billion at its inception.

As part of its governance function, the Canada Post Corporation Board of Directors is responsible for ensuring the Plan has adequate assets to cover its pension liabilities. In fulfilling these responsibilities, the Board monitors all developments regarding regulatory changes, investment returns and contributions.

With more than 71,000 members, our pension plan is one of the largest in Canada. As a "defined benefit" plan, it provides guaranteed, inflation-adjusted benefits, regardless of any volatile swings in the performance of financial markets. This represents both a significant benefit to our employees and a considerable obligation for the Corporation.

To fulfill its fiduciary responsibilities, the Board authorizes its Pension Committee and Audit Committee to ensure that management meets its obligations for financial reporting and internal control. The Board has the final authority to appoint those responsible for the management and operation of the Plan, approve Plan changes and ensure its sound administration.

On behalf of the Board of Directors, I would like to assure all Plan members they will continue to benefit from the sound governance practices implemented to monitor all aspects of the Canada Post pension plan.



Message from Moya Greene

President and CEO

The Canada Post pension plan, which continued to strengthen in 2005, represents a major component of our employees' overall compensation package. Our Plan provides one of the best benefits retirement packages in Canada and requires the Corporation to achieve strong returns on its invested assets to meet its legal obligations.

As a "defined benefit" plan, which guarantees inflation-protected benefits, employees can be confident that their pensions are secure. While this is reassuring for employees, it also creates a significant financial responsibility for the Corporation, as Plan sponsor.

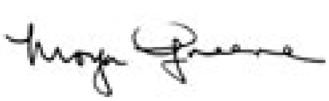
On a long-term or "going concern" basis, the Plan is fully funded. Canada Post has the financial strength to meet all its obligations. However, with interest rates holding at historically low levels, the Plan, like many others, faces a theoretical solvency deficit in the short term.

To address this issue, the Corporation made additional contributions of $302 million to the pension plan in 2005, over and above the normal contribution of $269 million, to further strengthen its funded position. It is likely that payments to the pension plan by the Corporation in 2006 will meet or exceed these amounts.

This serves to underscore the importance of our company remaining profitable. We need our profits to maintain our pension plan and other benefits to protect our collective future. Statistics show that more than 26,000 active members of the pension plan are over age 50, a situation that will lead to a significant increase in the number of new retirements over the next several years.

To assist plan members with easily accessible information about their benefits, visit our pension website at **www.cpcpension.com**. Through adherence to federal privacy regulations, we are able to ensure that personal pension information is treated in a secure and confidential manner.

It is satisfying to know that our pension plan is continuing to achieve successful results, reflecting the commitment and dedication of all our employees as we move forward.

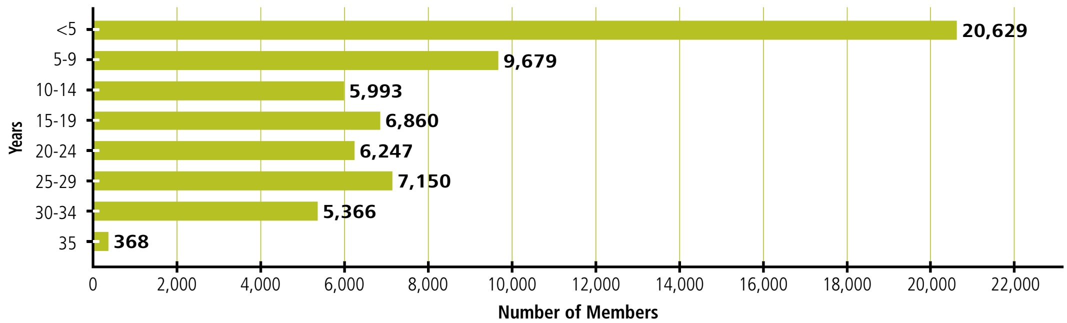


Plan Membership

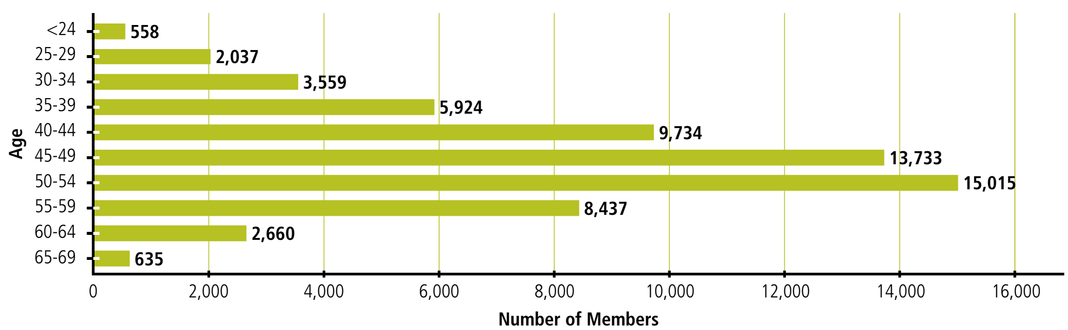
Active Member Profile

Our Plan covers the whole range between newcomers and those with up to and including 35 years of service. The Plan has more than 26,000 active members over age 50. Experience is showing that a significant number of active members are retiring. The average active member has 13.3 years of service and is 47.4 years old.

Years of Pensionable Service

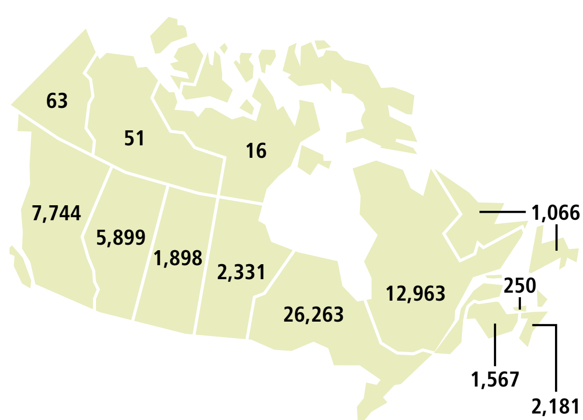


Age Distribution



Total Active Members by Province and Territory

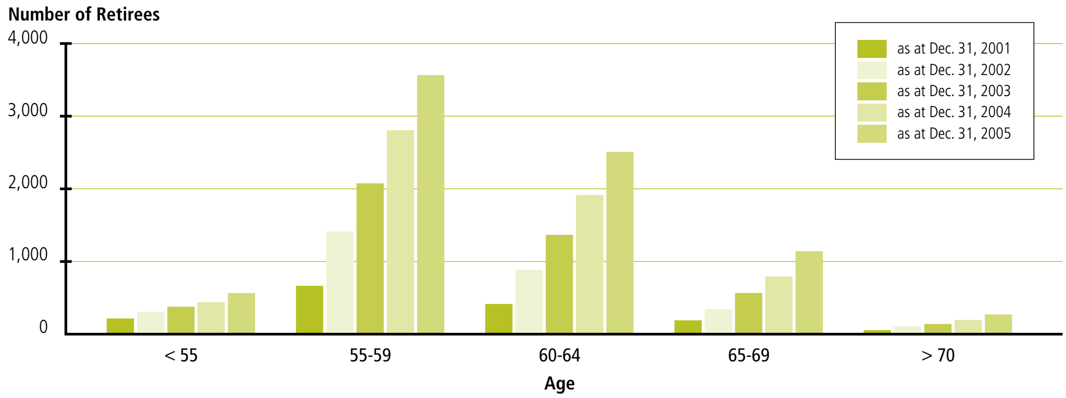
Our 62,292 active members are spread across Canada.



Retiree Profile

Age Distribution

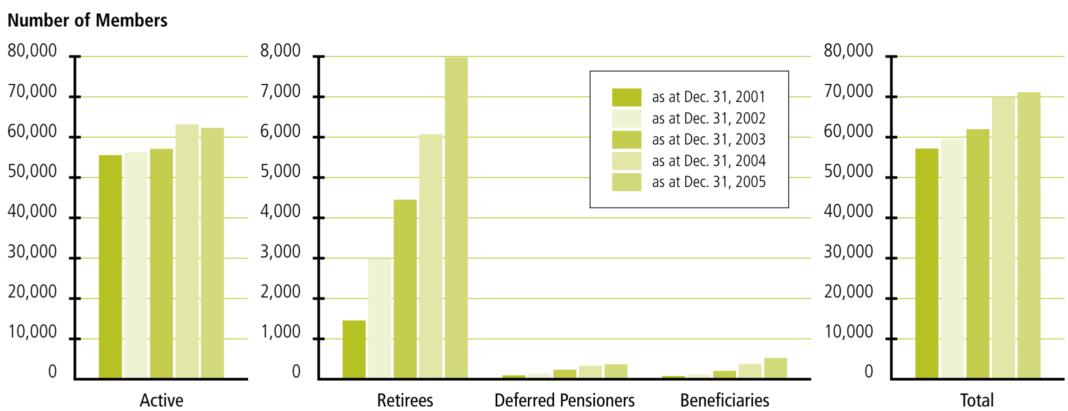
The largest group of retirees in 2005 continues to be between ages 55 and 59, with an average retiree age of 60.5.



Total Plan Membership

The Canada Post pension plan is one of the largest single employer defined benefit pension plans in Canada, with a total of 71,169 active members, retired members, deferred pensioners and beneficiaries.

Member Summary



Service to Members

Actives		**Retirees**	
Telephone calls	36,029	Telephone calls	3,883
Transactions		Transactions	
Buyback of service	1,589	Address change	1,087
Pension estimates	1,953	Bank change	505
Retirement/Termination/Death	3,051		

Fund Investments

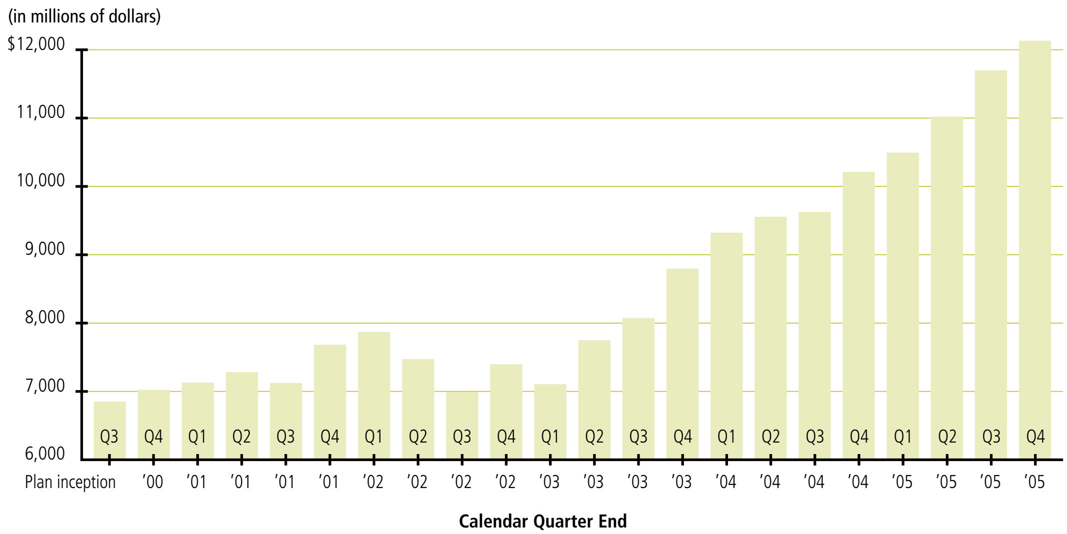
From the Office of Douglas D. Greaves, Vice-President Pension Fund and Chief Investment Officer

Fund Assets

Fund assets increased from $10,214 million to $12,131 million during 2005. The Canada Post pension plan, one of the largest in the country, earned another solid return of 13.7% over the year.

Five Years of Operations

September 30, 2005, marked the five-year anniversary of the Canada Post pension plan. Over the five-year period since Canada Post assumed management from the federal government, our pension fund earned a return of 6.9% per annum, an amount that substantially exceeded the benchmark return of 3.5%.



In retrospect, September of 2000 was indeed a difficult time to commence operations. We were subsequently to witness the collapse of technology stocks, the tragic events of September 11, 2001, and their negative impact on all markets, economic recession in the United States, a crisis of confidence following the uncovering of governance scandals and war in Iraq. Plunging long-term interest rates had serious implications for the valuation of pension liabilities for virtually all pension plans in the country, including our own.

Most pension plans had the ability to accumulate significant actuarial surpluses during the 1990s. The newly created Canada Post pension plan was not in this position.

Nevertheless, we have earned above-average rates of return on invested assets, which, coupled with additional contributions from Canada Post Corporation, have allowed the pension plan to accumulate a reasonable level of longer-term "going concern" surplus even during these trying times.

Starting from a zero base, we built the organization needed to manage and grow what is today one of the largest corporate pension plans in Canada. Pension Investment and Pension Services staff looks forward to providing further service and value to our stakeholders in the coming years.

Financial Markets During 2005

Energy-related issues continued to drive the Canadian equity markets in 2005 as the price of oil traded to record levels above US $70.00 per barrel in August, before receding in the last quarter of the year. This had a particularly salutary effect on the TSX Composite index because of its comparatively high weighting of about 27% in energy-related issues.

Aside from oil and gas equities, the main sectors contributing to the 24.1% return on the TSX were utilities and financials, which continue to benefit from the maintenance of historically low interest rates. Other sectors showing strong gains included materials and industrials. Consumer staples, health care and information technology were the only sectors showing a decline during 2005.

After a brief period of weakness during the early months of 2005, the Canadian dollar resumed its upward run trading briefly above US $0.87 in December and ending the year with an overall gain of about 3.1% versus the U.S. dollar. With the U.S. currency managing to stabilize versus other major currencies, such as the euro and the yen, this made the Canadian dollar one of the best performing currencies on global markets. Offshore investors are being attracted to the Canadian currency partly because of the current high demand for energy and materials with the accompanying favourable implications for economic growth in the western provinces. Although the prospects for growth in Central Canada are less attractive, the existence of substantial trade and budget surpluses continued to attract capital flows into the domestic market.

The U.S. economic climate looked reasonably buoyant before hurricane Katrina struck, with consumer spending driving relatively brisk overall business activity. The price of gasoline soared 70% in the days immediately after Katrina. Hurricane Rita, striking three weeks after Katrina, shut down several refineries in Texas pushing gasoline prices higher again. These hurricanes had a noticeable effect on consumers' purchasing power and inflation, and the spike in gasoline prices caused consumer confidence to plunge. However, gasoline prices have subsequently declined, consumer confidence and retail spending have increased and the economic climate now looks stronger. In spite of a sharp rally during November and December, this was not sufficient to give Wall Street much to cheer about since the S&P 500 gained only 1.6% for all of 2005 when translated into Canadian dollars.

Returns for most international equity markets were impressive in 2005, particularly in Japan, Australia and some of the smaller European markets such as Austria, Denmark, Finland and Norway. The Morgan Stanley Europe, Australasia and Far East (EAFE) index returned 29.5% during the year although the strong Canadian dollar offset part of this return resulting in a Canadian dollar return of 10.0%. Japan, which has been in the doldrums for many years, suddenly came alive in the third quarter of 2005. Prime Minister Koizumi's landslide victory in the recent election should give him a greater mandate for reform. Moreover, the Japanese economic climate has been improving steadily since early 2005, rekindling hopes that the country has embarked on a sustained recovery. Foreigners' net purchases of Japanese equities have soared to their highest level in more than a decade, contributing to the Tokyo market's jump.

Fixed income markets provided returns that continued to surprise most investors. The US Federal Reserve continued its "measured" program of gradually lifting short-term interest rates, increasing rates by 25 basis points at each of its eight meetings in 2005. However, longer-term interest rates showed only modest increases in the U.S. as investors continued to be attracted to long-dated securities. Higher inflation in the U.S. in 2005 has created concerns over policymakers' likely reaction. Recently, the Federal Reserve has signaled that it is getting close to the end of the tightening cycle. The nomination of Ben Bernanke to the Chairmanship of the Federal Reserve should help to reassure investors that there might not be significant change in policy from that of his predecessor Alan Greenspan.

After staying on the sidelines for most of the first three quarters on concerns over the strength of the Canadian dollar and its negative implications for exports to the U.S., the Bank of Canada followed the lead of the US Federal Reserve in 2005 with three consecutive increases of 25 basis points each. In spite of these increases in short-term interest rates, long-term interest rates actually declined during the year, producing an overall gain of 6.5% on the Canadian Scotia Capital Bond Universe index, as investors around the world re-positioned their portfolios into this more stable, if lower yielding asset class. Strength in the bond markets was particularly evident in the "real return" sector, where possible concerns about future inflation brought about high levels of investor interest that bid the prices of such issues to levels that generated a very substantial gain of 15.2% for such investments during 2005.

During 2005, there have been several legal and regulatory developments that are likely to affect Canadian financial markets over the longer term. First, in a surprise move, Finance Minister Ralph Goodale announced the end of the 30% foreign content limit for registered Canadian pension plans as part of his 2005 Budget. Then, after the Ontario government passed legislation limiting the liability of income trust beneficiaries in late 2004, Standard & Poor's and the Toronto Stock Exchange announced their intention to include income trusts in the S&P/TSX Composite index starting in December 2005.

The Finance Minister subsequently announced in November that income trusts would not be taxed, with the government opting instead to reduce the tax burden of investors receiving dividends from corporations in an effort to level the playing field.

Asset Mix Policy and Investment Structure

The Canada Post pension plan currently maintains a long-term asset mix target of 62.5% equities and 37.5% fixed income. Real estate investments, in which the pension plan became active in 2004, are now approximately 0.8% of total assets, versus a target weight of 3.5%. These investments will increase on an opportunistic basis over the next several years.

During 2005, we conducted an in-depth review of our investment structure relative to our pension liabilities. In addition to a review of prospective market returns, we also reviewed the nature of our current and projected workforce to confirm the prudent mix of investments needed to earn the returns required to discharge our obligations to plan members. As a result of this review, the Board of Directors approved an increase in the target allocation to international equities from 10% to 15% of total fund investments and a reduction in the target allocation to Canadian equities to 24% from 29%. This will provide greater diversification of our large commitment to equity investments in the future.

These changes refer to the target allocation. Actual allocations will vary at any point in time within certain defined ranges and depending upon market conditions and the prospects for investment return.

Investment Activities

Beginning in the first quarter and continuing throughout the remainder of the year, the pension plan redeployed assets from the strongly performing Canadian equity market to international and U.S. equity markets. We still continue to maintain an overweight position in the domestic equity market. The Plan also increased positions in real estate during 2005.

Canada Post Corporation, the Plan sponsor, contributed an additional amount of $270 million to the pension plan in 2005 in order to strengthen its funded position. In addition, excess assets within the Canada Post Supplementary Retirement Arrangement in the amount of $32 million were transferred to the Registered Pension Plan and invested in October 2005.

Following approval from the Board of Directors in late 2004, we initiated a currency hedging program during the early months of 2005, totalling approximately 20% of our U.S. dollar exposure, which enhanced the total plan return over the remainder of the year.

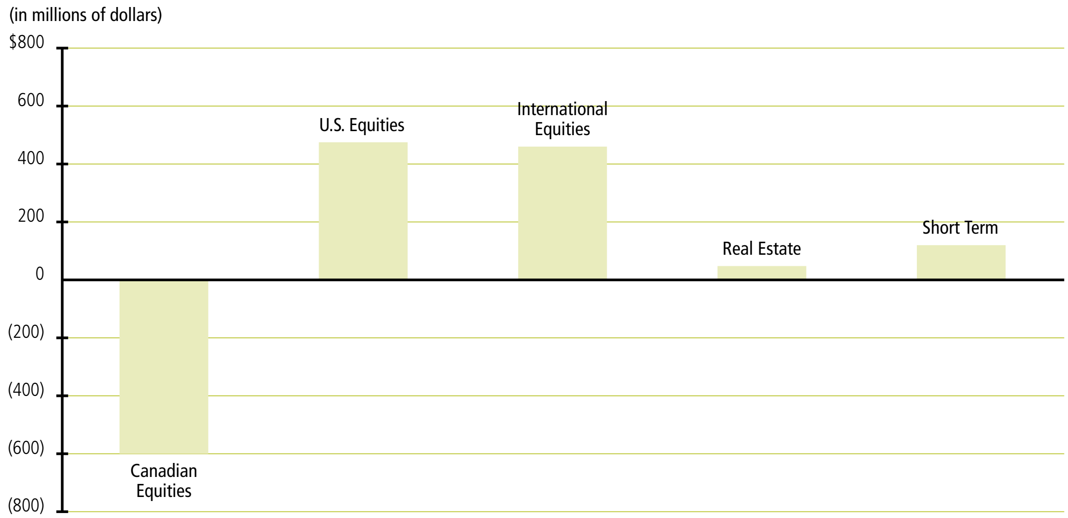
Following the inclusion of income trusts in the S&P/TSX Composite index, we allowed our active Canadian equity managers to increase the weight of income trusts in their respective portfolios to a maximum of 10%. We continue to monitor developments in this sector of the market and will make a decision later in 2006 regarding the possible inclusion of such investments within our indexed equity portfolio.

The pension plan became active in real estate investments in 2004, with commitments to four real estate managers and initial investments of approximately $40 million. We increased such investments with these and other managers by approximately $49 million during 2005. As at December 31, 2005, our real estate portfolio is valued at $102 million.

In total, $503 million was invested by the fund during 2005 as depicted in the following diagram.

Fund Investments

January 1, 2005 – December 31, 2005

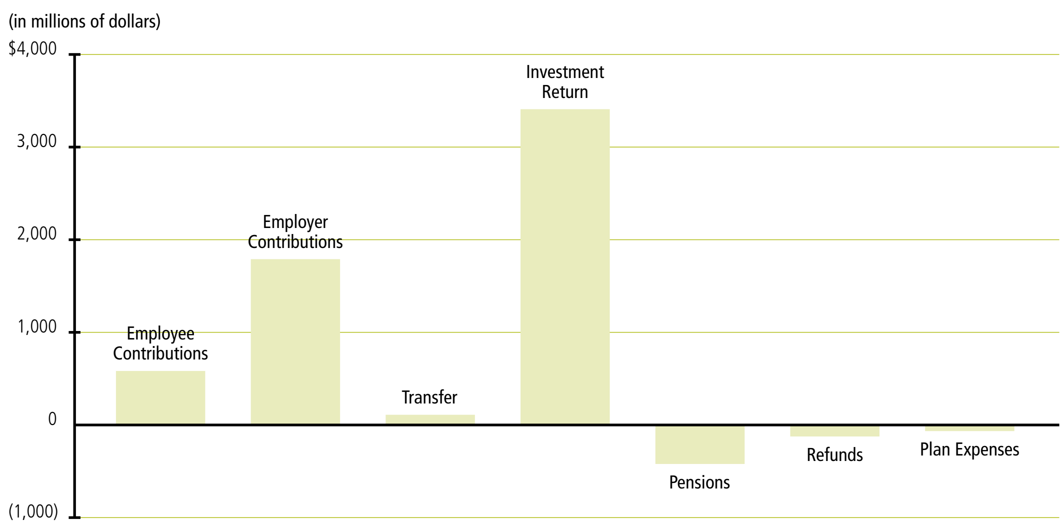


Sources and Uses of Funds

The chart below depicts the various sources and uses of funds since inception of the Plan. Slightly less than 60% of the increase in assets since inception came from investment return, while just over 30% is a result of employer contributions.

Cashflows

Plan Inception to December 31, 2005



Fund Performance

The Canada Post pension plan earned a return of 13.7% during 2005. This return exceeded our benchmark return of 11.2% represented by the blended return of our benchmark portfolio. This return compared to the median pension fund return of 12.8% provided by the RBC universe of large Canadian pension plans.

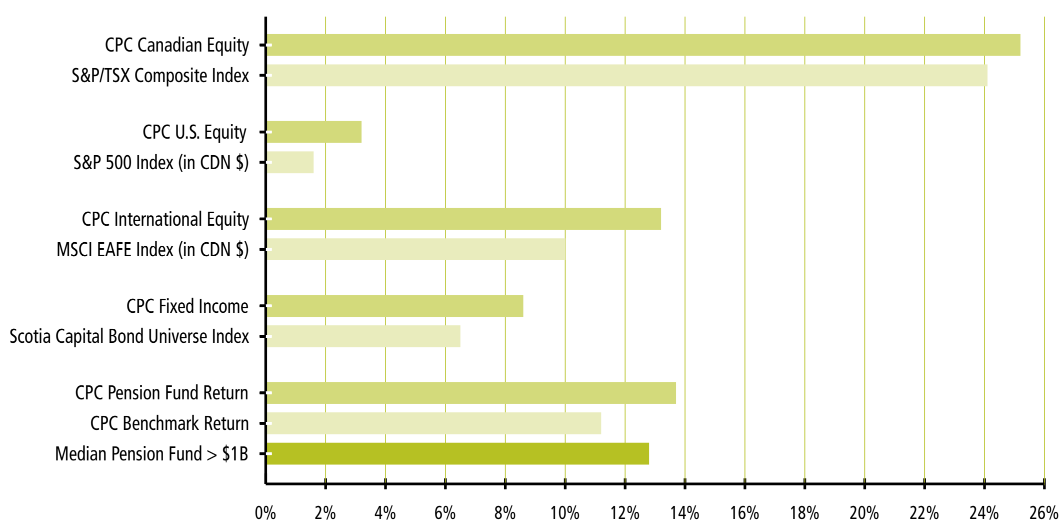
In spite of difficult conditions in 2001 and 2002, our pension fund earned a respectable annualized rate of return of 7.1% since inception (5¼ years) an amount that substantially exceeded the benchmark return of 3.8%. Our 2005 returns exceeded benchmarks in all asset classes.

Returns in 2003, 2004 and 2005 were gratifying. However, it should be noted that a return of 13.7% as we experienced in 2005 is above what could be viewed as the historic norm and might well be difficult to repeat in 2006.

In keeping with many other pension plans in Canada and around the world, the decline in certain benchmark interest rates witnessed in 2005 and over the last several years will mean that, although the Canada Post pension plan is well funded on a longer-term "going concern" basis, accounting rules mean that the Plan continues to be underfunded on a "solvency" or "wind-up" basis. Canada Post Corporation, as Plan sponsor, is committed to curing this underfunding in accordance with legislation that applies to all federally regulated pension plans. Such commitments represent a significant portion of the Sponsor's financial resources.

Index and Fund Returns

January 1, 2005 – December 31, 2005

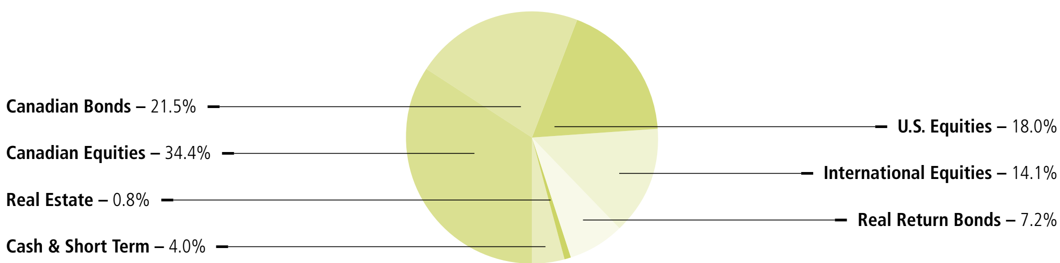


Asset Mix at December 31, 2005

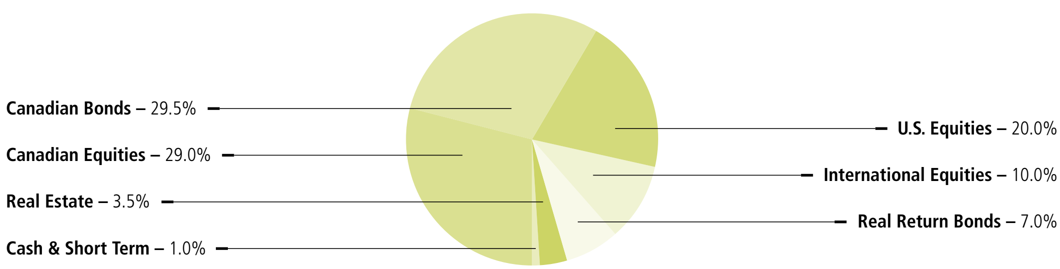
The asset mix of the Canada Post pension plan compared to our benchmark portfolio in place most of the year is depicted below. As indicated, total equity exposure of 67.3% of total assets exceeded the benchmark of 62.5% as a result of an over-weighted position in Canadian and international equity investments, and an under-weighted position in U.S. equities and real estate. Investments in real estate only commenced in 2004 and will be increased on an opportunistic basis over the next several years.

Our total fixed income position of 32.7% of total assets was less than the benchmark of 37.5%, derived from an over-weighted position in cash and short-term investments, a roughly equal weighted position in real return bonds, and an under-weighted position in nominal Canadian bonds.

Asset Mix – Actual



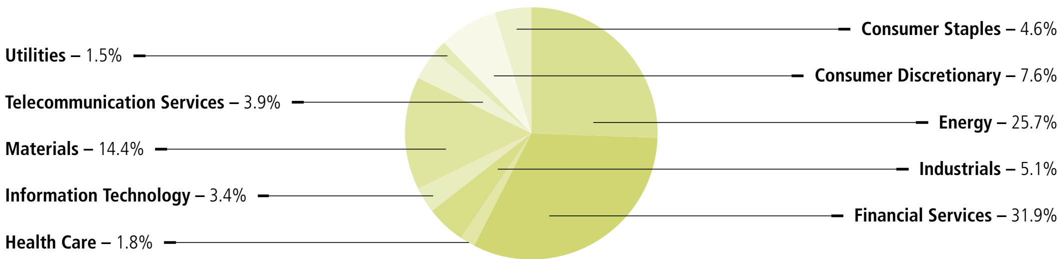
Asset Mix – Benchmark



Equity Investment Holdings by Industry Sectors

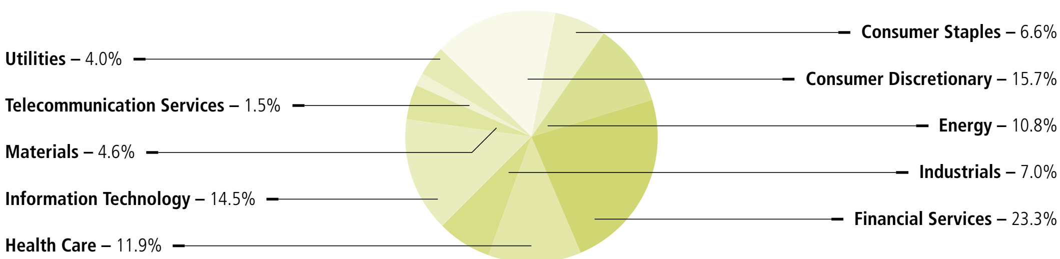
Canadian Equity Portfolio

as at December 31, 2005



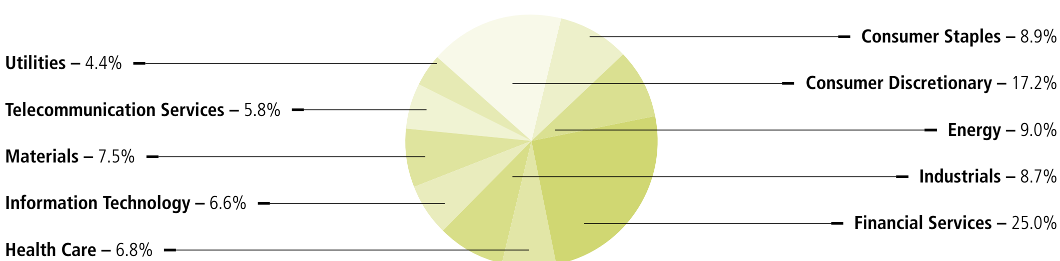
U.S. Equity Portfolio

as at December 31, 2005



International Equity Portfolio

as at December 31, 2005



Largest Equity Investment Holdings

The table below lists the largest holdings in dollar value and percentage of the overall fund.

Equity Investments With a Market Value Greater Than $40 Million

December 31, 2005
(In millions of dollars)

Royal Bank	$ 224	1.8%
Manulife Financial	187	1.5%
Bank of Nova Scotia	186	1.5%
TD Bank	159	1.3%
Talisman Energy	143	1.2%
EnCana	136	1.1%
Bank of Montreal	110	0.9%
Nexen	105	0.9%
Canadian Natural Resources	105	0.9%
BCE	100	0.8%
Petro Canada	96	0.8%
Sun Life Financial	90	0.7%
CIBC	88	0.7%
Suncor Energy	86	0.7%
TransCanada	72	0.6%
Canadian National Railway	66	0.5%
Alcan	65	0.5%
Imperial Oil	55	0.5%
Rogers Communications	52	0.4%
Citigroup	50	0.4%
Exxon Mobil	49	0.4%
Barrick Gold	49	0.4%
Shell Canada	49	0.4%
Canadian Tire	48	0.4%
Enbridge	47	0.4%
Nortel Networks	45	0.4%
Great West Lifeco	42	0.3%
Telus	41	0.3%
Microsoft	40	0.3%
	$ 2,585	**21.0%**

Outlook for 2006

We believe that current business conditions are conducive to further gains in equity markets. However, the potential negative impact of rising short- and long-term interest rates, U.S. budget and trade deficits, relatively high levels of consumer indebtedness and moderation in corporate profit growth may place constraints on the extent of such returns during the year.

In Canada, the higher value of the Canadian dollar will negatively impact manufacturing and processing industries. This should be offset by the positive impact of higher energy pricing on business conditions in Western Canada barring any significant retrenchment in the realized price of oil and natural gas.

Financial Position of the Plan

Net Assets Available for Benefits

At December 31, 2005, the Canada Post Corporation Registered Pension Plan held total assets of $12,211 million, an increase of $1,904 million compared to the previous year.

Changes in Net Assets Available for Benefits

Net increases in assets of $1,904 million during the year resulted from investment income ($1,434 million) and contributions ($715 million), including solvency payments of $302 million, offset by benefits payments ($217 million) and administration expenses ($28 million).

Obligations for Pension Benefits

The actuarial present value of accrued pension benefits as at December 31, 2005, was $11,016 million, an increase of $890 million since December 31, 2004.

On an actuarial basis, the actuarial present value of net assets available for benefits is more than the actuarial value of accrued pension benefits, resulting in a funding excess of $480 million compared to a funding excess of $77 million at December 31, 2004.

The actuarial value of net assets available for benefits of $11,496 million is $715 million less than the market value of net assets of $12,211 million. Differences between actual and expected returns are recognized over a five-year period in accordance with generally accepted actuarial principles.

Management's Responsibility for Financial Reporting

The financial statements of the Canada Post Corporation Registered Pension Plan (the Plan) have been prepared by management, which is responsible for the integrity and fairness of the data presented therein. The accounting policies followed in the preparation of these financial statements conform to Canadian generally accepted accounting principles. Where appropriate, the financial statements include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this annual report is consistent with the financial statements.

In support of its responsibilities, management maintains systems of internal control and supporting procedures to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines. Internal Audit plans audits and reviews of pension activities on a cyclical basis, unless otherwise warranted through annual risk assessments.

Ultimate responsibility for the financial statements rests with the Canada Post Corporation Board of Directors. The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee and the Pension Committee. The Audit Committee oversees the internal audit activities of the Plan, reviews the annual financial statements and the external auditors' report, and recommends them to the Board of Directors for approval. The Pension Committee, which is composed of the Chairman of the Board of Directors of Canada Post Corporation and three directors who are not employees of the Corporation, meets regularly with management to satisfy itself that the responsibilities delegated are properly discharged.

The Plan's external auditors, Raymond Chabot Grant Thornton LLP, conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and performed such tests and other procedures as they considered necessary to express an opinion. The external auditors have access to the Audit and Pension Committees to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

President
and Chief Executive Officer
March 3, 2006

Vice-President, Finance
and Comptroller
March 3, 2006

Actuaries' Opinion

Ottawa, March 3, 2006

Mercer Human Resource Consulting was retained by Canada Post Corporation to perform an actuarial assessment of the assets and going-concern liabilities of the Registered Pension Plan as of December 31, 2005, for inclusion in the Plan's financial statements.

The objective of the financial statements is to fairly present the financial position of the Plan as of December 31, 2005, as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it.

As part of our assessment, we examined the Plan's recent experience relative to the economic and non-economic assumptions and presented our findings to management. In addition, we provided management with statistical, survey and other information used to develop its long-term assumptions.

Our assessment of the Plan's actuarial assets and liabilities was based on:

- an extrapolation to December 31, 2005, of the results of our December 31, 2004, actuarial valuation of the Plan's going-concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2005,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events that have been developed by management and Mercer Human Resource Consulting and are considered management's best estimate of these events.

We have tested the membership and pension fund data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the assumptions and methods employed in the valuation and extrapolation are, on the whole, appropriate. Our opinions have been given and our valuation performed in accordance with accepted actuarial practice.

Jacques Demers
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Cory Skinner
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Mercer Human Resource Consulting

Auditors' Report

To the Board of Directors of Canada Post Corporation

We have audited the statement of net assets available for benefits of the Canada Post Corporation Registered Pension Plan as at December 31, 2005, and the statements of changes in net assets available for benefits and obligations for pension benefits for the year then ended. These financial statements are the responsibility of the Plan'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 the Plan's management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2005, and the changes in net assets available for benefits and obligations for pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP

Chartered Accountants
Ottawa, Canada
March 3, 2006

Financial Statements

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

As at December 31	**2005**	2004
ASSETS		
Investments (note 2)	**$ 12,091**	$ 10,174
Receivables (note 3)	**177**	145
	12,268	10,319
LIABILITIES		
Accounts payable and accrued liabilities (note 4)	**57**	12
Net assets available for benefits	**$ 12,211**	$ 10,307

See description of the Plan and accompanying notes to the financial statements

Approved on behalf of the Board

Gordon Feeney
Chairman of the Board of Directors

Ernest J. Brennan
Chairperson of the Audit Committee

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

For the year ended December 31	**2005**	2004
INCREASES IN ASSETS		
Investment income (note 5)	**$ 1,434**	$ 1,007
Contributions (note 6)	**715**	549
	2,149	1,556
DECREASES IN ASSETS		
Benefits paid (note 7)	**217**	143
Administration expenses (note 8)	**28**	24
	245	167
Increase in net assets available for benefits	**1,904**	1,389
Balance, beginning of the year	**10,307**	8,918
Balance, end of the year	**$ 12,211**	$ 10,307

See description of the Plan and accompanying notes to the financial statements

STATEMENT OF OBLIGATIONS FOR PENSION BENEFITS

(in millions of dollars)

For the year ended December 31	**2005**	2004
ACTUARIAL PRESENT VALUE OF ACCRUED PENSION BENEFITS (note 9)		
Beginning of the year, as previously reported	**$ 10,126**	$ 9,323
Adjustments resulting from the December 31 actuarial valuation (note 9.c)		
Interest on accrued pension benefits	**9**	–
Benefits earned	**12**	–
Assumption changes	**(6)**	–
Experience (gains) losses	**(33)**	35
Beginning of the year, as adjusted	**10,108**	9,358
Increase during the year due to:		
Interest on accrued pension benefits	**615**	562
Benefits earned	**493**	478
Experience losses	**17**	17
	1,125	1,057
Decrease during the year due to:		
Changes in actuarial assumptions (note 9.d)	**–**	146
Benefits paid (note 7)	**217**	143
	217	289
Net increase in actuarial present value of accrued pension benefits	**908**	768
End of the year	**11,016**	10,126
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS		
Net assets available for benefits	**12,211**	10,307
Actuarial asset value adjustment (note 9.e)	**(715)**	(104)
Actuarial value of net assets available for benefits	**11,496**	10,203
Excess of actuarial value of net assets available for benefits over actuarial present value of accrued pension benefits (note 9.f)	**$ 480**	$ 77

See description of the Plan and accompanying notes to the financial statements

Notes to the Financial Statements

Plan description

The following description of the Canada Post Corporation Registered Pension Plan (the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the official Plan document. If there is any conflict between this summary and the official Plan document, the official Plan document will govern.

General

The Plan was adopted by Canada Post Corporation (the Corporation) effective October 1, 2000. The Plan is a defined benefit pension plan and automatically covers all employees of the Corporation who were employed as of September 30, 2000, and who were contributors under the *Public Service Superannuation Act* (PSSA) on that date, all new employees of the Corporation hired after September 30, 2000, who meet the eligibility requirements of the Plan and eligible Rural and Suburban Mail Carriers (RSMCs) who became employees of the Corporation after December 31, 2003.

Benefits

A full-time or part-time member will contribute to the Plan and receive benefits based on age, years of pensionable service and the average of the best five consecutive years of pensionable salary. Pensions in pay are fully indexed annually and provide survivor benefits to the eligible spouse and children on the death of the member.

Funding

Contributions and investment earnings fund Plan benefits. The Plan's funding policy aims to achieve long-term stability in contribution rates for both the Corporation and members. Actuarial funding valuations are conducted to determine pension liabilities and the funded position of the Plan. Employees who are members of the Plan are required to contribute a percentage of their pensionable salary to the Plan fund, that is, 4.8% of their earnings up to the Year's Maximum Pensionable Earnings $41,100 ($40,500 in 2004) as defined in the Canada Pension Plan and Quebec Pension Plan and 8.3% of earnings in excess of that maximum. An annual increase to employee contributions of 0.4% came into effect starting on January 1, 2004. This increase is in compliance with the *Public Sector Pension Investment Board Act*, which authorizes yearly capped increases to contribution rates until the employee share of contributions to the Plan reaches 40% of the annual current service cost. The actual employee share of contributions for current service in 2005 was 33%.

Income tax and regulatory status

The Plan is registered with Canada Revenue Agency (CRA) under registration number 1063874, and is subject to the requirements of the *Canada Income Tax Act* (ITA) and the regulations thereunder. The Plan is also registered with the Office of the Superintendent of Financial Institutions Canada (OSFI) under registration number 57136, and is subject to the *Pension Benefits Standards Act*, 1985 and the regulations thereunder (PBSA).

The Plan will continue to be subject to the requirements of the ITA and the PBSA, both as amended from time to time, to maintain such registrations. Contributions to the Plan fund are made in accordance with the Plan, the ITA and the PBSA, and are deductible by the contributors and investment income is not taxable within the fund.

1. Summary of significant accounting policies

a) Presentation

These financial statements present the financial position and results of operations of the Plan in accordance with Canadian generally accepted accounting principles.

b) Investments

Investments are stated at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

- Valuation of investments

  Fair value of investments is determined as follows:

  1 Short-term securities are valued at cost or amortized cost that, together with accrued interest or discount earned, approximate fair value.

  2 Bonds are valued on the basis of market quotes using the average of the bid and ask prices. Where quoted year-end prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, and financial analysis, as appropriate.

  3 Equities and pooled funds are valued at year-end quoted market prices.

  4 Foreign exchange forward contracts are valued using year-end market prices.

  5 Real estate investments are valued on the basis of external appraisals, usually annually (and at least once every three years), by professionally qualified independent appraisers, certified by the Appraisal Institute of Canada. The appraisals are in accordance with generally accepted appraisal practices and procedures, based mainly on the discounted cash flows of income approach.

• Investment transactions and income

Investment transactions are recognized on a trade-date basis. Investment income, including interest income, is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Realized gains and losses on the sale of investments include gains and losses on disposition. Unrealized gains and losses on investments represent the change in the difference between the cost-based value and the fair value of investments at the beginning and end of each year.

c) Non-investment assets and liabilities

The fair value of non-investment assets and liabilities approximates book amount due to their short-term nature.

d) Actuarial present value of accrued pension benefits

The actuarial present value of accrued pension benefits is based on an actuarial valuation prepared by a firm of independent actuaries using assumptions and methods identical to those used to set the funding objective for the Plan (see note 9.d).

e) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Elective service contributions are recorded in the year in which the member commits to buy back elective service. Contributions for approved leave of absence without pay are recorded in the year in which the leave without pay occurred. Contributions for solvency shortfalls are recorded in the year recommended by the Plan's actuary in the actuarial valuation.

f) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year-end. Income and expenses are translated at the rate of exchange prevailing at the time of the transaction. Foreign exchange forward contracts are reported at fair value at the reporting date. The realized and unrealized gains and losses arising from these translations are included in investment income.

g) Actuarial asset value adjustment

The actuarial value of net assets available for benefits is determined using a formula that smoothes out the effects of the volatility in market values over a five-year period. It recognizes excess gains and losses occurring in a particular year evenly over the current and the following four years. Excess gains and losses are determined by reference to a long-term rate of return assumption. The actuarial asset value adjustment reflects the portion of such excess gains or losses not yet recognized for purposes of determining the net assets available for benefits.

h) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Management monitors estimates and assumptions used in the preparation of the financial statements, as actual results may differ from these estimates.

2. Investments

Summary of investments

(in millions of dollars)	**2005**		2004	
	Fair Value	**Cost**	Fair Value	Cost
Cash and short-term securities	$ 644	$ 643	$ 450	$ 449
Fixed income				
Canadian	2,528	2,430	2,424	2,331
United States	56	55	–	–
Real return bonds	824	628	737	607
	3,408	3,113	3,161	2,938
Equities				
Canadian	4,064	2,941	3,850	3,189
Real estate	100	88	42	41
United States	2,089	2,146	1,598	1,736
International	1,786	1,579	1,073	974
	8,039	6,754	6,563	5,940
Investments	**12,091**	**10,510**	10,174	9,327
Investment related receivables (note 3)				
Accrued investment income	39	39	32	32
Investment trades to settle	35	35	11	11
Withholding taxes receivable	1	1	2	2
	75	75	45	45
Investment related liabilities (note 4)				
Investment trades to settle	(33)	(33)	(4)	(4)
Foreign exchange forward contracts	(2)	–	(1)	–
	(35)	(33)	(5)	(4)
Net investments	**$ 12,131**	**$ 10,552**	$ 10,214	$ 9,368

a) Risk management

The Plan's Statement of Investment Policies and Procedures (SIP&P) prescribes a long-term debt-equity asset mix policy, requires portfolio investment diversification, sets guidelines on investment categories, and limits exposure to individual investments and major asset classes.

The Plan's investment portfolio is subject to price and credit risks that could adversely affect its cash flows, financial position, and income. Price risk is the risk of loss that results from changes in interest rate risk, currency risk, and market risk. Credit risk is the risk of loss should the counter-party to a transaction default or otherwise fail to perform under the terms of the contract. Credit risk is mitigated by establishing limits on exposure to individual counter-parties and by adhering to the investment criteria set out in the Plan's SIP&P.

i. Interest rate risk

Interest rate risk is the risk that the market value of the Plan's investments will fluctuate due to changes in market interest rates. It arises from the potential variation in the timing and amount of cash flow related to the Plan's assets and liabilities.

The value of the Plan's investments is affected by short-term changes in nominal interest rates and equity markets, while pension liabilities are influenced by expectations of long-term inflation and salary escalation, as well as long-term rates of return on investments.

To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for the fixed income portfolio are set and monitored.

The terms to contractual maturity of interest-bearing investments, as at December 31, are as follows:

	Terms to maturity				**2005**		2004	
Interest-bearing investments (in millions of dollars)	Within 1 Year	1 to 5 Years	>5 to 10 Years	Over 10 Years	**Total**	**Yield to Maturity**	Total	Yield to Maturity
Bonds								
Government of Canada	$ 104	$ 313	$ 161	$ 198	$ 776	3.9%	$ 1,047	3.0%
Government of the United States	–	–	48	–	48	4.6%	–	–
United States corporate	–	8	–	–	8	4.2%	–	–
Provincial and municipal	–	119	115	258	492	4.4%	522	4.4%
Canadian corporate	27	645	227	361	1,260	4.7%	855	4.6%
Real return – Canada	–	–	–	707	707	1.5%	625	2.0%
Real return – Provincial	–	–	–	117	117	1.7%	112	2.3%
	$ 131	**$1,085**	**$ 551**	**$1,641**	**$3,408**	**3.6%**	$ 3,161	3.6%

ii. Currency risk

Currency risk is the risk that the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. The Plan does not speculate in currencies, but to mitigate its overall currency exposure, the Plan can enter into foreign exchange forward contracts for the purchase or sale of foreign currency, to adjust the exposure to a particular foreign currency. The Plan's net investments by geographical location of the issuer and by currency, as at December 31, are as follows:

	Geographical location		**Currency**	
Currency – Canadian $ equivalent (in millions of dollars)	**2005**	2004	**2005**	2004
Canadian dollar	$ 8,199	$ 7,521	$ 8,824	$ 7,622
United States dollar	2,143	1,614	1,801	1,688
Euro	963	585	462	354
Other European	85	61	474	242
Japanese yen	503	291	428	225
Other Pacific	124	86	113	75
Emerging markets	114	56	29	8
	$ 12,131	$ 10,214	**$ 12,131**	$ 10,214

Foreign exchange forward contracts

The Plan enters into foreign exchange forward contracts in order to hedge part of the currency risk associated with holding securities denominated in foreign currencies. The Plan does not speculate or hold short positions. All current contracts expire within three months. The Plan's foreign exchange forward contracts by currency, as at December 31, are as follows:

Currency (in millions of dollars)	**2005** Receivable	**2005** Payable	**2005** Net	**2005** Average rate	2004 Receivable	2004 Payable	2004 Net	2004 Average rate
United States dollar	$ 465	$ (465)	$ –	$ 1.17	$ –	$ –	$ –	$ –
Euro	93	(93)	–	1.38	–	–	–	–
British pound	–	–	–	–	24	(25)	(1)	2.19
Danish krona	–	–	–	–	4	(4)	–	0.22
Swedish krona	–	–	–	–	4	(3)	1	0.18
Swiss franc	15	(15)	–	0.90	14	(15)	(1)	1.02
Japanese yen	76	(78)	(2)	0.01	66	(66)	–	0.01
Australian dollar	4	(4)	–	0.86	3	(3)	–	0.93
Singapore dollar	–	–	–	–	5	(5)	–	0.74
	$ 653	**$ (655)**	**$ (2)**		$ 120	$ (121)	$ (1)	

iii. Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the SIP&P.

b) Securities lending

To enhance investment returns, the Plan entered into a securities lending agreement with its custodian, RBC Global Services. The securities lending program is operated by loaning the Plan's available securities to approved borrowers. Credit risk associated with this program is mitigated by requiring the borrower to provide daily collateral with market values exceeding the market value of loaned securities. Securities lending generated $4 million in 2005 ($2 million in 2004).

3. Receivables

(in millions of dollars)	**2005**	2004
Current service contributions – Sponsor	$ 36	$ 35
– Members	12	11
Past service contributions – Members*	54	54
Investment related receivables (note 2)	75	45
	$ 177	$ 145

*Members buying back past service or eligible leave without pay pensionable service make contributions in future periods.

4. Accounts payable and accrued liabilities

(in millions of dollars)	**2005**	2004
Accounts payable and accrued liabilities	$ 7	$ 7
Accrued benefits payable	15	–
Investment related liabilities (note 2)	35	5
	$ 57	$ 12

5. Investment income

Investment income by primary financial instrument type for the year ended December 31 is as follows:

(in millions of dollars)	**2005**	2004
Interest income		
Cash and short-term securities	$ 21	$ 9
Bonds – Canadian	122	122
– Real return	23	21
	166	152
Dividend income		
Canadian equities	69	64
Real estate	3	1
United States equities	29	30
International equities	39	24
	140	119
Securities lending income (note 2.b)	4	2
Realized capital gains on disposal		
Canadian fixed income	68	64
Canadian equities	346	103
United States equities	64	86
International equities	40	31
	518	284
Realized currency (losses) gains on disposal		
Canadian equities	(1)	–
United States equities	(127)	(53)
International equities	1	9
	(127)	(44)
Net realized investment income	701	513
Unrealized net capital gains	826	577
Unrealized net currency losses	(93)	(83)
Net change in unrealized gains on investments	733	494
	$ 1,434	$ 1,007

6. Contributions

(in millions of dollars)		**2005**	2004
Sponsor	– Current service	$ 269	$ 281
	– Solvency payments		
	Regular	270	51
	Transfer from SRA	32	78
Members	– Current service	136	122
	– Past service	8	17
		$ 715	$ 549

As required in the December 31, 2004, actuarial valuation, the Corporation made solvency deficit payments of $270 million to the Plan fund in 2005. The Corporation also transferred $32 million of excess assets, as determined by the actuary for the Canada Post Corporation Supplementary Retirement Arrangement (SRA), from the SRA to the Plan fund in 2005 (note 10).

7. Benefits paid

(in millions of dollars)	**2005**	2004
Retirement pensions	$ 161	$ 118
Commuted value transfers, death benefits and refunds	56	25
	$ 217	$ 143

8. Administration expenses

(in millions of dollars)	**2005**	2004
Plan administration	$ 9	$ 10
External investment management fees	17	12
Professional fees	1	1
Custodial fees	1	1
	$ 28	$ 24

9. Actuarial present value of accrued pension benefits

a) Actuarial present value of accrued pension benefits

The actuarial present value of accrued pension benefits is based on management's best estimate assumptions as described in note 9.d.

b) Actuarial methodology

The actuarial valuation completed by Mercer Human Resource Consulting as at December 31, 2004, was extrapolated to determine the accrued pension benefit as at December 31, 2005. The valuation used the projected accrued benefit method with respect to benefits, and assumes that the Plan will continue on a going-concern basis.

c) December 31, 2004, actuarial valuation results

The actuarial present value of accrued pension benefits as at December 31, 2004, was reduced by $18 million to reflect the results of the December 31, 2004, actuarial valuation prepared by Mercer Human Resource Consulting. Experience gains of $33 million were due to economic ($12 million) and demographic gains ($10 million), elective service and leave without pay buyback ($8 million) and data adjustments ($5 million) offset by other miscellaneous experience losses ($2 million).

d) Actuarial assumptions

The actuarial assumptions management has adopted for the determination of the actuarial present value of accrued pension benefits are those recommended by the Plan's actuary for purposes of the regulatory funding valuation of the Plan. During 2005, a review of these assumptions was conducted to ensure their adequacy and appropriateness. For the actuarial present value of accrued pension benefits determined as at December 31, the following long-term economic assumptions were selected:

	2005	2004
Discount rate net of expenses	**6.0%**	6.0%
General salary escalation rate	**CPI + 1.0%**	CPI + 1.0%
Consumer price index (CPI)	**2.5%**	2.5%

In addition to the above, various assumptions are made such as salary promotional scale, mortality, retirement and turnover.

e) Actuarial asset value adjustment

The market value of assets is actuarially adjusted to smooth out gains and losses through amortization over a five-year period (see note 1.g). The composition of the actuarial asset value adjustment, as at December 31, is summarized below:

(in millions of dollars)	Actuarial asset value adjustment	Unamortized (gains) losses to be recognized in 2005	2006	2007	2008	2009
2005	**$ (715)**		$ (77)	$ (302)	$ (203)	$ (133)
2004	$ (104)	$ 78	$ 56	$ (169)	$ (69)	

f) Excess of actuarial value of net assets available for benefits over actuarial present value of accrued pension benefits

This value represents the difference between the actuarial value of net assets and the actuarial present value of accrued pension benefits. The nature of this value is subject to the delivery of performance against management's best estimates of long-term economic and demographic trends.

10. The SRA

The SRA provides the Plan members and their survivors with benefits that are in accordance with the *Public Sector Pension Investment Board Act* but because of limitations imposed by the ITA, cannot be provided under a registered pension plan. The SRA, together with the Plan, provides overall pension benefits to eligible members.

The SRA is registered with CRA as a Retirement Compensation Arrangement under registration number RC4102229 and is administered in accordance with the applicable requirements of the ITA. Because the assets of the SRA are held in a separate fund, the net assets available for benefits and the actuarial present value of accrued benefits of the SRA are not included in these financial statements.

The SRA is funded from employer and employee contributions, and investment earnings on the assets of the SRA. Employer contributions to the SRA are based on an actuarial funding valuation. The actuarial assumptions used in determining the actuarial value of net assets and the actuarial present value of accrued benefits are consistent with the assumptions used in the Plan, except that the assumed discount rate has been adjusted to reflect the impact of the 50% refundable tax payable under the ITA. Contributions to the SRA and investment income earned by the SRA assets are subject to a 50% tax that is refundable as disbursements are made from the SRA fund.

In 2005, the Board of Directors approved a transfer of $32 million from the SRA to the Plan. This amount represented the excess of the actuarial value of net assets available for benefits over the actuarial present value of accrued pension benefits as reported in the December 31, 2004, actuarial valuation of the SRA.

11. Funding valuation

In accordance with the PBSA and the ITA, an actuarial valuation is required to be filed at least every three years, on a going concern and solvency basis, to estimate the Plan's actuarial difference of assets to liabilities in the Plan, and to determine the Plan's funding requirements. However, annual actuarial valuations are required to be filed when the Plan's solvency ratio is less than 100%. The value of the Plan's assets and liabilities on a solvency basis are determined as though the Plan were wound up and settled on the valuation date.

The latest actuarial valuation for regulatory funding purposes was prepared as at December 31, 2004, by the Plan's actuary, Mercer Human Resource Consulting, and a copy of this valuation was filed with OSFI and CRA. As at December 31, 2004, the Plan's ratio of solvency assets to solvency liabilities was 90%. Under the PBSA, the Corporation is required to eliminate a solvency shortfall over a five-year period. As required in the current actuarial valuation, monthly solvency payments of $22 million will be remitted to the Plan fund in 2006 until the December 31, 2005, valuation is finalized and the new solvency shortfall payments are determined.

The funding valuation methodology and assumptions used to determine the Plan's actuarial pension liabilities and contribution requirements on a going concern basis are consistent with those used to produce the results shown in the statement of obligations for pension benefits, with the exception that the discount rate utilized to establish the contribution requirements has been set at 7% per annum.

12. Related party transactions

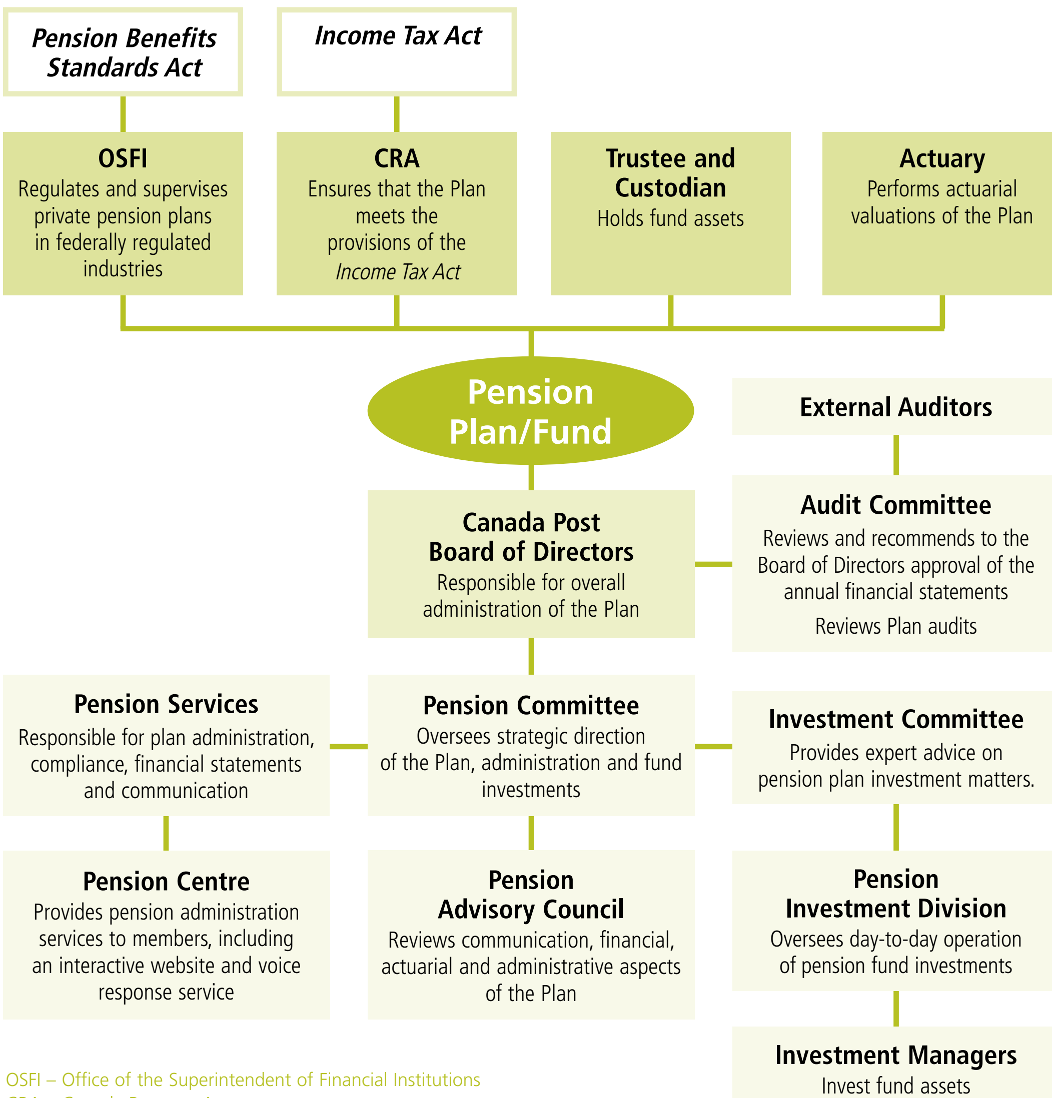
Transactions with the Corporation were concluded in the normal course of activities and measured at the exchange amount. Included in administration expenses is $4.7 million ($3.8 million in 2004) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $0.6 million ($1.1 million in 2004) due to the Corporation for administration services provided to the Plan.

A Sound Governance Structure

Pension plan governance is the term used to describe the various roles, responsibilities and accountabilities involved in carrying out the complex actions required in managing a pension plan. Everyone needs to clearly understand the division of duties between those who perform the activities on a day-to-day basis and those responsible for seeing that those activities are carried out.

The Plan's governance structure was designed by Canada Post management in discussion with external industry experts as well as the unions/associations, then approved by the Board of Directors.

Canada Post Pension Plan Governance Structure



OSFI – Office of the Superintendent of Financial Institutions
CRA – Canada Revenue Agency

Directory of Board and Committee Members

The following outlines the committees involved in governance of the Plan as at December 31, 2005, along with the names of the Board and Committee members:

	Board of Directors	Audit Committee	Pension Committee	Investment Committee	Pension Advisory Council
Gordon J. Feeney	Chairman	•	•		
Moya Greene	•				
Vivian G. Albo, BA, BComm (Hons)	•				
Terri M. Lemke, PFP	•		Chairperson	•	
Jean Turmel	•	•	•		
Denyse Chicoyne, MBA, CFA	•	•	•		
Cedric E. Ritchie, O.C.	•	•			
Ernest J. Brennan, F.C.A.	•	Chairperson			
Louis P. Salley, BA, B.LL	•				
Dr. Daurene E. Lewis, C.M.	•				
Lorne Braithwaite, MBA, BComm				Chairperson	
Douglas D. Greaves, BA (Hons), CFA				•	•
Hugh Mackenzie, MA				•	
Kenneth W. McArthur, BComm, CA				•	
Bernard Bonin, DSc Econ				•	
Isla Carmichael, PH.D, M.Ed, AM				•	
Louis O'Brien (Canada Post)					Chairperson
Brad Smith (Canada Post)					•
Chris Boland (Canada Post)					•
Barb Stanyar (Canada Post)					•
Robin Ghosh (elected by active members not represented by a bargaining agent)					•
William Price (elected retiree representative)					•
Micki McCune (elected by all active members of the Plan)					•
John Barrowclough (APOC)					•
Daryl Bean (PSAC/UPCE)					•
Shirley Dressler (CPAA)					•
Pat Bertrand (CUPW)					•
George Kuehnbaum (CUPW)					•
Donald Lafleur (CUPW)					•
Cindy McCallum (CUPW)					•
Mike Moeller (UPCE/APOC/CPAA Rep)					•

APOC – Association of Postal Officials of Canada
CPAA – Canadian Postmasters and Assistants Association
CUPW – Canadian Union of Postal Workers
PSAC – Public Service Alliance of Canada
UPCE – Union of Postal Communications Employees