2020

Canada Post Corporation

SECOND QUARTER FINANCIAL REPORT

For the period ended June 27, 2020

CANADA POST POSTES CANADA

Contents

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a discussion of the consolidated financial results and operational changes for the 13-week period (second quarter or Q2) and 26-week period (first two quarters or year to date) ended June 27, 2020, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI or Logistics) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Segments are based on the legal entities, Canada Post, Purolator, SCI and Innovapost.

Financial results reported in the MD&A were prepared using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Amounts are presented in Canadian dollars rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to August 20, 2020, unless otherwise noted.

This discussion should be read with the unaudited interim condensed consolidated financial statements (interim financial statements) for the second quarter of 2020, which were prepared in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* and International Accounting Standard (IAS) 34, "Interim Financial Reporting." We also recommend that this information be read in conjunction with the Corporation's annual consolidated financial statements and MD&A for the year ended December 31, 2019.

Management is responsible for the information presented in the interim financial statements and the MD&A. All references to *our* or *we* mean either Canada Post or, collectively, Canada Post and its subsidiaries, as the context may require. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the interim financial statements.

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Forward-looking statements

The interim financial statements and the MD&A contain forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by the words assumption, goal, guidance, objective, outlook, strategy, target and other similar expressions, or future or conditional verbs such as aim, anticipate, believe, could, expect, intend, may, plan, predict, seek, should, strive and will. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities. While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 8 Risks and Risk Management of this MD&A (risks).

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

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

The forward-looking statements included in the interim financial statements and MD&A are made as of August 20, 2020, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

COVID-19

COVID-19 had a significant and material impact on our financial performance for the second quarter. Looking ahead to the remainder of 2020 and thereafter, the impact on the Canadian and global economies, including our business, remains highly uncertain. Canadian businesses and consumers are choosing to use our products and services differently, and our suppliers and partners are facing their own challenges. Canada Post follows the direction of the Public Health Agency of Canada and health authorities across the country.

1. Executive Summary

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

The Group of Companies is one of Canada's largest employers providing jobs to almost 68,000 people. Canada Post, the largest segment with revenue of $3.3 billion for the first two quarters (75.1% of the Group of Companies revenue, after excluding intersegment revenue), is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement. Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians in a secure and financially self-sustaining manner. Canada Post operates the largest retail network in Canada with almost 6,100 retail post offices in the country.

1.1 Significant changes and business developments

Canada Post segment

There were no significant changes to our strategy in the second quarter of 2020. However, during the first two quarters our response to COVID-19 changed how we operate our post offices, plants and depots, as well as how we deliver items, to keep employees and Canadians safe. Our ability to provide an essential service continues to be tested. At the same time, record-high domestic parcel volumes were moving through our network and there was a significant decline in our Transaction Mail and Direct Marketing volumes. Because our ability to meet all service commitments was affected by these changes, service guarantees for all products were suspended. We chose to communicate the likelihood of delivery delays broadly in an effort to manage customer expectations.

In April, the Gustavson School of Business at the University of Victoria reached out to Canadians to see if their experience during COVID-19 had changed their views of Canada's top brands. They declared Canada Post as the "Most Trusted Brand in Canada," an improvement, which, according to the Gustavson School of Business, was the most pronounced increase since it began tracking brand trust in 2016.

In the second quarter, the impact of COVID-19 affected revenue from all lines of business. Parcels revenue increased significantly but this growth was not enough to offset declines in Transaction Mail and Direct Marketing. At the same time, labour costs increased due to special leaves, overtime and wages for a net negative estimated impact to earnings before tax of $164 million due to COVID-19.

Estimated financial impact of COVID-19	**Second quarter ended**
(in millions of dollars)	June 27, 2020
Revenue	
Parcels	183
Transaction Mail	(87)
Direct Marketing	(142)
Estimated impact on revenue	**(46)**
Cost of operations	(118)
Estimated impact on profit (loss) before tax	**(164)**

Labour and other matters

Labour negotiations

On June 11, the arbitrator released her decision under the binding arbitration process to replace expired collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). The new four-year agreements will expire December 31, 2021 (RSMC) and January 31, 2022 (UPO). Both agreements include annual wage increases, along with changes to a number of other provisions. The new agreements resulted in a plan amendment loss of $122 million in the second quarter, due to expanded eligibility for post-retirement healthcare benefits to employees represented by CUPW-RSMC.

Health and safety

COVID-19 continues to have a significant impact on the lives of all Canadians, including our employees, customers and suppliers. Our corporate pandemic plan was built to ensure the health and safety of our employees and Canadians, which remain our top priority during this challenging time.

We continue to introduce measures to reduce injury frequencies as we aim for zero harm based on our belief that all occupational injuries, illnesses and incidents are preventable. For the first two quarters of 2020, our total injury frequency and lost-time injury frequency were lower than the same period in 2019.

Equity, diversity and accessibility

At the beginning of the year, Canada Post and its four bargaining agents initiated a joint Equity and Diversity Committee to take an integrated and holistic approach to create and advance the Corporation's equity, diversity and accessibility strategy. On June 23, the committee issued a letter to all employees acknowledging a shared stance against racism, prejudice and violence, and a commitment to making continued improvements.

1.2 Financial highlights

Segment results for the second quarter and the year to date

	Second quarter ended				Year-to–date ended			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%
Profit (loss) before tax								
Canada Post Group of Companies	**(333)**	**11**	**(344)**	*****	**(386)**	**50**	**(436)**	*****
Canada Post	(378)	(50)	(328)	†	(444)	(27)	(417)	†
Purolator	39	52	(13)	(24.7)	49	64	(15)	(23.4)
Logistics	4	7	(3)	(39.9)	6	9	(3)	(26.6)
Other	2	2	–	(56.9)	3	4	(1)	(43.5)

* The calculation is not mathematically meaningful.
† Large percentage change.

In the second quarter of 2020, the Canada Post Group of Companies loss before tax was $333 million. This result was $344 million worse than Q2 2019. The Canada Post segment's loss before tax of $378 million was partly offset by Purolator's profit before tax of $39 million. Although COVID-19 and the new CUPW collective agreements contributed to the loss in the Canada Post segment, a loss would have been incurred without these factors.

For the year to date, the Group of Companies recorded a loss before tax of $386 million, a decrease in profitability of $436 million, compared to the same period in 2019. It is estimated that $194 million of this loss was due to the impact of COVID-19.

Canada Post segment

Canada Post segment revenue	**Second quarter ended**				**Year-to-date ended**			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%[1]
Parcels	864	638	226	35.4	1,530	1,251	279	23.3
Transaction Mail	573	677	(104)	(15.4)	1,302	1,422	(120)	(7.7)
Direct Marketing	146	272	(126)	(46.4)	376	528	(152)	(28.2)
Other	50	57	(7)	(10.8)	104	115	(11)	(8.3)
Total	**1,633**	**1,644**	**(11)**	**(0.7)**	**3,312**	**3,316**	**(4)**	**0.7**

For the second quarter and the first two quarters of 2020, revenue in the Canada Post segment was $11 million and $4 million lower, respectively, than in the same periods of 2019, as growth in Parcels was more than offset by declines in Transaction Mail and Direct Marketing.

Parcels revenue grew by $226 million, or 35.4%, in the second quarter and by $279 million, or 23.3%, for the year to date in 2020, compared to the same periods in 2019. Significantly higher volumes that started to approach peak-season levels early in Q2 resulted from increased online shopping by Canadians in response to COVID-19.

Transaction Mail revenue was $104 million lower in the second quarter of 2020 compared to the second quarter of 2019 due to continued erosion, which intensified as the impact of COVID-19 caused a further acceleration of digital substitution by many businesses and saw businesses delay or cancel some of their normal mailing programs. For the year to date, erosion was partly offset by a regulated rate increase early in the first quarter for Domestic Lettermail items, international Letter-post items, and special services and fees, resulting in net revenue declining by $120 million, compared to the first two quarters of 2019.

Direct Marketing revenue declined by $126 million and $152 million in the second quarter and for the first two quarters of 2020, respectively, compared to the prior year. In addition to erosion from ongoing digital substitution, revenue declines that resulted from customers delaying or cancelling marketing campaigns due to COVID-19 started at the end of the first quarter.

In the Canada Post segment the cost of operations was $310 million higher in the second quarter of 2020 compared to Q2 2019. For the year to date, costs increased by $403 million over the same period in the prior year. The increases in Q2 resulted mostly from higher labour costs, including special employee leave, overtime and wages related to COVID-19. Adding to these costs was $114 million as a net result of the arbitrator's decision for the new collective agreements with CUPW in the second quarter, the majority of which was a plan amendment loss of $122 million due to expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC.

At the end of the quarter, market-driven volatility continued to have an impact on the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment and long-term benefits. The solvency deficit (using market value of plan assets) deteriorated to an estimated $7.9 billion at the end of the second quarter primarily due to a significant discount rate decrease as well as low investment returns. Due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into force in May 2020, establishing the moratorium on solvency special payments for the remainder of 2020 for federally regulated, defined benefit pension plans. These regulations relieve the Corporation of making $368 million of special solvency payments for 2020. Market volatility could have a significant effect on solvency payments for 2021 and thereafter.

On an accounting basis, remeasurement losses primarily due to a decrease in discount rates partially offset by positive investment returns were recorded in other comprehensive income for the Group of Companies' defined benefit plans of $3,530 million, net of tax for the second quarter.

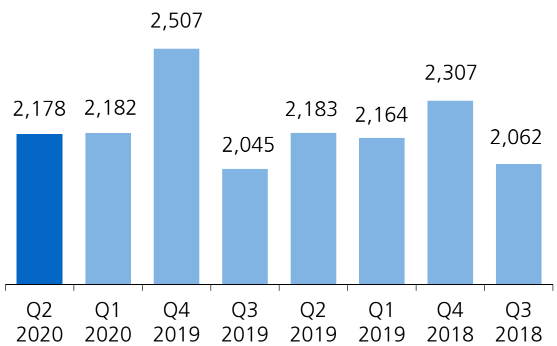
Remeasurement losses due to a decrease in discount rates were also recorded in loss before tax in the second quarter for the Group of Companies' other long-term benefits plans of $20 million. In addition, as a result of the arbitrator's ruling, the expanded eligibility of the post-employment health plan for employees represented by CUPW-RSMC resulted in a plan amendment loss of $122 million.

Group of Companies

The following charts show the Group of Companies' results for the last eight quarters. The highest demand for services historically occurs during the holiday season in the fourth quarter and declines over the following quarters. However, the Group of Companies' significant fixed costs do not vary in the short term.

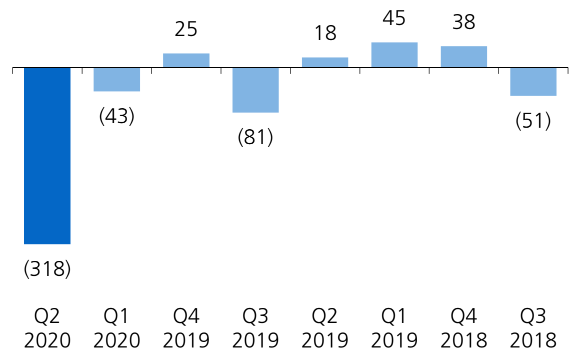
Quarterly consolidated revenue from operations

(in millions of dollars)



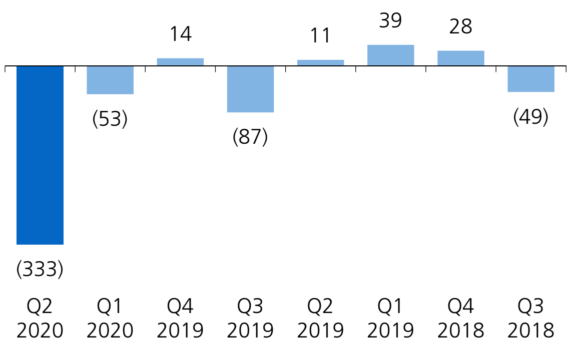
Quarterly consolidated profit (loss) from operations

(in millions of dollars)



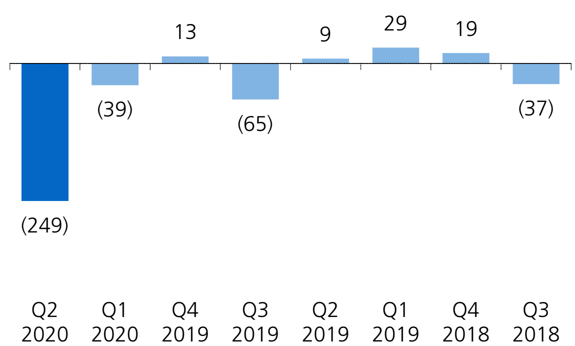
Quarterly consolidated profit (loss) before tax

(in millions of dollars)



Quarterly consolidated net profit (loss)

(in millions of dollars)



The following table presents the Corporation's consolidated performance for the second quarter and the year to date of 2020, compared to the same periods in the prior year.

(in millions of dollars)	Second quarter ended				Year to date ended				
	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	2,178	2,183	(5)	(0.3)	4,360	4,347	13	1.1	Growth in the Purolator segment, and, in the Canada Post segment, Parcels growth that was offset by declines in Transaction Mail and Direct Marketing, all mostly the result of COVID-19.
Cost of operations	2,496	2,165	331	15.3	4,721	4,284	437	11.1	Higher expenses in the Canada Post segment due to increased labour and employee benefits costs related to the arbitrator's decision and costs due to COVID-19. Also a result of Parcels volume growth in the Canada Post segment, and volume growth in the Purolator segment, both related to COVID-19.
Profit (loss) from operations	(318)	18	(336)	*	(361)	63	(424)	*	Mainly due to a loss in the Canada Post segment.
Profit (loss) before tax	(333)	11	(344)	*	(386)	50	(436)	*	
Net profit (loss)	(249)	9	(258)	*	(288)	38	(326)	*	
Comprehensive loss	(3,755)	(947)	(2,808)	†	(1,442)	(1,713)	271	†	For the quarter, mainly due to remeasurement losses on pension and other post-employment plans due to a decrease in discount rates partially offset by positive investment returns. Year to date, mainly due to a smaller decrease in discount rates compared to the prior year.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by (used in) operating activities	239	(101)	340	336.5	383	16	367	†	Primarily driven by changes in non-cash working capital, partially offset by lower income taxes paid.
Cash used in investing activities	(270)	(102)	(168)	(165.6)	(316)	(155)	(161)	(104.5)	Mainly due to higher acquisitions of capital assets in the Canada Post and Purolator segments, partially offset by proceeds from sales of securities in excess of acquisitions in the Canada Post segment.
Cash used in financing activities	(26)	(26)	–	(0.6)	(54)	(55)	1	1.9	No material change

* The calculation is not mathematically meaningful.

† Large percentage change.

2. Core Businesses and Strategy

A discussion of Canada Post's business and strategy

Canada Post segment

There was no change in the second quarter to our strategic initiatives of engaging our employees, delighting our customers, reinventing our retail model and leveraging our superior network, while addressing our environmental impact as we deliver customers' items.

The joint Equity and Diversity Committee formed earlier this year by Canada Post and its four bargaining agents is a collaborative effort with the following purpose:

- Ensuring all voices are valued and supported.
- Creating a strategy and action plan for meaningful, sustainable change in the workplace.
- Monitoring progress and strategic initiatives through cross-functional teams.
- Standing strong in our commitment to create a safe and caring environment for everyone.

In the second quarter, we continued to review our risks and adjust our strategy in response to COVID-19. Our top priority is the health and safety of our employees and Canadians during this challenging time. The substantial changes we made in the first quarter to the way we operate our post offices, plants and depots, and deliver items remain in place. We continue to assess the impact of COVID-19 on our operations, and follow recommendations by the Public Health Agency of Canada.

We've made significant changes to how we operate our post offices, plants and depots, and deliver items. For example:

- Customer interactions at the door were eliminated by lifting restrictions on signatures and transferring proof of age items directly to a post office.
- At post offices, protective barriers and sanitization supplies were added, physical distancing measures instituted, and hours of operation reduced.
- Physical distancing was adopted in plants and facilities through changes in scheduling, work layouts and work practices to keep employees at least two metres apart in all work areas.
- Gloves, hand sanitizers and wipes were distributed, frequency of facility cleaning and workstation sanitizing was increased and non-medical masks were made available.
- Special leave was implemented for child and elder care, quarantine, and employees at high risk.
- Enhanced contractor screening protocols when accessing our facilities.
- Introduced requirement for mandatory face coverings in our post offices and specific areas of facilities accessible to the public in compliance with emerging provincial and municipal legislation.

The significant impact of COVID-19 on Canadian society and the Canadian economy has occurred as public health measures resulted in more Canadians working, communicating and shopping online. Canadian consumers changed their spending habits, causing the digital economy to accelerate. Some changes to consumer behaviour are expected to remain after public health measures are lifted. Production and supply chain disruptions, workforce unavailability, temporary or permanent business closures, delayed economic investments, and increased financial volatility have had a major impact on the Canadian economy as sectors responded to COVID-19. Canadian communications, advertising and retail landscapes may all be considerably altered as a result.

Our core strategy remains to support, strengthen and maximize the role we play in this digital and e-commerce era, while supporting our physical delivery and mail services, which our customers rely on. We strive to be part of a meaningful solution that will help Canadians and the world community overcome the health crisis.

For more information on COVID-19 risks to Canada Post, refer to Section 8 Risks and Risk Management.

Purolator segment

To protect against the spread of COVID-19, Purolator established a cross-functional taskforce, robust emergency preparedness and business continuity plans to address detailed scenarios that could arise in its operating locations, in retail stores, office spaces and partner facilities across North America. Some of the key measures that Purolator has put in place since COVID-19 was declared a pandemic include the following:

- Following advice from the Public Health Agency of Canada, the United States Centers for Disease Control and Prevention (CDC) and medical experts to guide the COVID-19 response and protect customers and communities.
- Instituting advanced sanitation practices and increasing their frequency in all facilities.
- Conducting "contactless deliveries" through retail store and courier networks.
- Encouraging customers to protect themselves by using Purolator's online tools to schedule and track shipments, and pay invoices.
- Requesting detailed volume forecasts from every sector and continuously working with customers to plan their shipments.

Logistics segment

In the second quarter of 2020, COVID-19 continued to have a significant impact on customers, most of which have been defined as essential businesses. SCI met supply chain needs of customers, while ensuring the health and safety of its team members.

3. Key Performance Drivers

A discussion of our key achievements in 2020

The second quarter of 2020 presented an incredible challenge, with great uncertainty for our business and the customers we serve. We made many changes to delivery policies and procedures to support the health and safety of our employees and all Canadians, and to deliver unprecedented volumes. During this time, we were also required to suspend delivery guarantees for all products. COVID-19 changed many of our short-term priorities. We focused on eliminating backlogs of domestic and international packages in our plants and in customs, while maintaining physical distancing measures.

Performance scorecards monitoring progress against strategic priorities are reported monthly to senior management of the Canada Post segment. While detailed performance results for 2020 will be reported as part of the 2020 Annual MD&A, a summary of our progress toward achieving our 2020 plans during the second quarter is included below.

Engaging our people

Become the employer that inspires a trusted, safe and reliable workforce, which is valued by the communities it proudly serves.

Reduced total injury frequency and lost-time injury frequency by 34% over Q2 2019.

Instituted regular updates for all employees from the CEO and other executives to communicate process changes as we provided an essential service safely. Developed and distributed letters, videos and information from March 2020 to keep team leaders and employees updated about the impact of our COVID-19 safety measures on our business.

Developed action plans in response to results of 2019 employee engagement survey for 73% of teams.

Focused on employee recognition by showing appreciation to employees working on the frontlines under COVID-19 restrictions, including outreach calls and personalized letters from senior executives to individual employees.

Issued a joint letter signed by the CEO and all union presidents in which they committed to create and advance Canada Post's equity, diversity and accessibility strategy:

- Added anti-racism action planning as a standing agenda item for the joint Equity and Diversity Committee.
- Created a new diversity contact to solicit input from employees and expedite action.
- Launched training on identifying unconscious bias and managing bias.

Held four joint Equity and Diversity Committee meetings in Q2, focused on implementing pilots to improve representation of persons with disabilities and Indigenous persons:

- Identified pilot locations by each bargaining group.
- Started instituting preferential hiring processes to address the under-representation of designated groups.

Paused staffing plans in response to COVID-19, which adversely affected our ability to recruit targeted under-represented groups, and caused the following decreases compared to the second quarter of 2019:

- Decline of 75% in overall hiring for employment equity purposes, with highest declines in two groups:
  - Indigenous peoples – decreased to 2.5% (decline of 46.8%);
  - persons with disabilities – decreased to 5.6% (decline of 12.5%).

Endorsed the Accessibility Strategy. Overall vision for accessibility is to become a leader in advancing accessibility and inclusion. The strategy adopts a collaborative approach across business lines focusing on creating a diverse and inclusive workforce culture, building accessible barrier-free spaces, and leveraging inclusive and agile business opportunities. Future measures of success and key performance indicators will include the following:

- Increased diversity in recruitment and hiring measured through targeted recruitment campaigns, events (job fairs) and an increased representation by disabled persons.
- An increase in uptake of Canada Post accessible services measured from data collected from the retail network and the Delivery Accommodation Program.
- Standards established for new buildings and retrofits in the built environment to address accessibility requirements.

Resolved 12% fewer grievances and 24% fewer grievances were filed to date in 2020 compared to the same period in 2019. Despite the impact of COVID-19, the overall number of outstanding grievances was down compared to 2019.

Delighting our customers

Create a delivery experience that provides unsurpassed security, convenience and flexibility to respond to growing and changing needs of Canadians, a delivery experience that is their preferred choice.

Installed nearly 2,500 indoor parcel lockers to date in 2020 (for a total of over 11,000), serving customers in condominium and apartment buildings across Canada.

Launched media campaigns, including our Think Small program to support small businesses with shipping and marketing offers.

Developed a dedicated COVID-19 website with updates, videos and Q&As, and issued news releases and social media announcements – all to keep customers and businesses informed of delivery delays due to the requirement of maintaining physical distancing measures while also delivering record parcel volumes. Used our delivery vehicles and retail post offices to get visual messages out to Canadians, and emailed communications including how-to guides and status updates to our business customers.

Declared the Most Trusted Brand in Canada in the April 2020 trust survey for Canada's top brands by the Gustavson School of Business (University of Victoria). This result demonstrated that Canadians' experience during COVID-19 changed their views positively for the essential services provided by Canada Post.

Achieved 76% digital accessibility across all products tested in the second quarter, which surpassed our 2020 scorecard goal of 70%.

Received almost 700 new applications in 2020 for accommodations following the promotion of our delivery accommodation program at the end of 2019. Increased awareness of this program is anticipated due to the development of an outreach strategy in the second quarter.

Reinventing our retail model

Strengthen the retail network to maintain an effective community presence, providing all Canadians with access to important products and services, a secure place to receive their items, and a hub for local businesses to reach their customers.

Ensured the health and safety of our employees and Canadians during COVID-19 with adjustments to hours of operation, signage, protective barriers and other processes and measures.

Continued the retail technology modernization project, with almost 80% of functionality completed for full-service deployment.

Remained consistently above 90% target for current Retail Customer Satisfaction Survey with a score of 90.5%, even as we worked through the impact of COVID-19 on our retail operations.

Completed the procurement process for retail mobile devices, which will accelerate parcel pickup transactions and provide additional accessibility options for customers.

Leveraging our superior network

Leverage and create flexibility in the unrivalled national postal delivery network to best serve the growing delivery demands of all Canadians.

Implemented and maintained physical distancing measures throughout our operations to keep employees and communities safe in response to COVID-19. These safety measures remain in place in plants, depots, retail outlets and during delivery.

Resumed the installation of sorting equipment of Moncton and Montréal to support parcel and packet capacity expansion programs, after COVID-19 travel and construction restrictions were eased.

Began construction and equipment planning for a major new processing centre in the Greater Toronto Area.

Progressed the dynamic routing project with CUPW. Site selection to follow.

Progressed the construction of new and expanded delivery facilities in Montréal, Kitchener and Calgary, while plans to increase space for parcels and new addresses in other areas of the country, including east Montréal and Toronto, are being developed.

Received approval to modernize delivery operations in Kelowna.

Issued a request for proposal in consultation with the Canada Border Services Agency for the procurement of equipment to modernize Toronto and Montréal international exchange offices.

Progressed the development of advanced handling solutions including further deployment of automated guided vehicle (AGV) technology for material handling applications.

Greening Canada Post

Published the 2019 Sustainability Report to provide a detailed view of our non-financial performance.

Added nearly 80 hybrid light delivery vehicles to our fleet to date in 2020, bringing the total to almost 470.

Released a request for information about electric vehicles on MERX to solicit interest for participation in a pilot that will inform our last-mile delivery fleet strategy.

Finalized an agreement with RePack to enable the launch of a packaging-as-a-service pilot with Canadian e-commerce companies to reduce single-use packaging through the use of returnable shipping envelopes.

4. Capabilities

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

4.1 Our employees

An update of 2020 health and safety, and collective bargaining activities by segment is provided below.

Health and safety

Canada Post segment

Our focus this year is on addressing issues in locations where we experience high numbers of injuries. Our safety priorities include leadership, mindset change, effective execution, health and wellness, and road safety. Results for the second quarter of 2020 show improvement of total injury frequency and lost-time injury frequency by 34% compared to the same period in 2019.

We are taking measures to reduce injury frequencies even further and continue to strive for zero harm in the belief that all occupational injuries, illnesses, and incidents are preventable.

We continue to monitor and follow the guidance of the Public Health Agency of Canada (PHAC), the Government of Canada's lead on the COVID-19 response. During the second quarter of 2020, we introduced health and safety measures for the use of face coverings and are piloting the installation of improved splash guards at our retail counters.

Labour relations

Canada Post segment

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

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. Arbitration continued into the second quarter of 2020, with the parties presenting closing oral arguments in early May. The Arbitrator released her decision on June 11, 2020. The new four-year collective agreements will expire December 31, 2021 (RSMC) and January 31, 2022 (UPO). The arbitrator's decision included wage increases for employees represented by both bargaining units of 2% effective February 1, 2018, 2% effective February 1, 2019, 2.5% effective February 1, 2020, and 2.9% effective February 1, 2021, together with changes to a number of other provisions. The expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC resulted in a plan amendment loss of $122 million in the second quarter.

In 2019, Canada Post and CUPW implemented the major components of the arbitrator's May 2018 pay equity decision, with adjustments that were retroactive to January 1, 2016. One unresolved issue provided for in the original award was forwarded by CUPW to the binding arbitration process. Solutions for a few other issues that are outstanding are still being discussed.

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

PSAC/UPCE ratified a four-year collective agreement on May 8, 2020, prior to the expiry of the current collective agreement on August 31, 2020. The new agreement extends to August 31, 2024. PSAC/UPCE represents two groups of employees; those who perform administrative work, such as call centres, administration, pay and production, control and reporting, as well as technical employees in areas such as finance and engineering.

PSAC, APOC (Association of Postal Officials of Canada) and Canada Post continued their joint evaluation of certain jobs that the unions contend should have been included in their bargaining units. The evaluation is pursuant to a mediated settlement reached subsequent to PSAC's application to the Canada Industrial Relations Board (CIRB). The settlement provides for binding arbitration if a consensus cannot be achieved; PSAC has referred a number of the jobs at issue to the arbitration process. PSAC has withdrawn its application to the CIRB.

Logistics segment

SCI and Unifor – Toronto negotiated a new four-year collective agreement, which expires December 31, 2023. This agreement was ratified on July 6, 2020.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the second quarter of 2020, there were no changes in internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5. Discussion of Operations

A detailed discussion of our financial performance

5.1 Summary of quarterly results

Consolidated results by quarter

The Group of Companies' consolidated results for the last eight quarters are presented below, highlighting the seasonal nature of our business. Demand for services is highest during the holiday or peak season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level in the third quarter. The Group of Companies' significant fixed costs do not vary in the short term. Further, additional business (trading) days result in increased revenue, while additional paid days result in increased cost of operations. In the second quarter of 2020, there was no difference in the number of business days or paid days compared to the second quarter in 2019. For the year-to-date period of 2020, there was one less business day and one less paid day compared to the same period in 2019, except for the Logistics segment which had one additional business day and one additional paid day compared to the same period in 2019.

(in millions of dollars)	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Revenue from operations	2,178	2,182	2,507	2,045	2,183	2,164	2,307	2,062
Cost of operations	2,496	2,225	2,482	2,126	2,165	2,119	2,269	2,113
Profit (loss) from operations	**(318)**	**(43)**	**25**	**(81)**	**18**	**45**	**38**	**(51)**
Investing and financing income (expense), net	(15)	(10)	(11)	(6)	(7)	(6)	(10)	2
Profit (loss) before tax	**(333)**	**(53)**	**14**	**(87)**	**11**	**39**	**28**	**(49)**
Tax expense (recovery)	(84)	(14)	1	(22)	2	10	9	(12)
Net profit (loss)	**(249)**	**(39)**	**13**	**(65)**	**9**	**29**	**19**	**(37)**

5.2 Consolidated results from operations

Consolidated results for the second quarter and the year to date

	Second quarter ended				**Year to date ended**			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%
Revenue from operations	2,178	2,183	(5)	(0.3)	4,360	4,347	13	1.1[1]
Cost of operations	2,496	2,165	331	15.3	4,721	4,284	437	11.1[1]
Profit (loss) from operations	**(318)**	**18**	**(336)**	*****	**(361)**	**63**	**(424)**	*****
Investing and financing income (expense), net	(15)	(7)	(8)	(106.4)	(25)	(13)	(12)	(90.8)
Profit (loss) before tax	**(333)**	**11**	**(344)**	*****	**(386)**	**50**	**(436)**	*****
Tax expense (recovery)	(84)	2	(86)	*	(98)	12	(110)	*
Net profit (loss)	**(249)**	**9**	**(258)**	*****	**(288)**	**38**	**(326)**	*****
Other comprehensive income (loss)	(3,506)	(956)	(2,550)	266.2	(1,154)	(1,751)	597	34.2
Comprehensive income (loss)	**(3,755)**	**(947)**	**(2,808)**	**295.8**	**(1,442)**	**(1,713)**	**271**	**15.9**

* The calculation is not mathematically meaningful.

The Canada Post Group of Companies recorded a loss before tax of $333 million for the second quarter of 2020. Compared to a profit before tax of $11 million in Q2 2019, this result is $344 million worse. For the year to date, the Group of Companies loss before tax was $386 million, or $436 million worse than the same period in 2019. These results were mostly due to losses in the Canada Post segment.

Consolidated revenue from operations

In the second quarter of 2020, revenue from operations decreased slightly by $5 million compared to Q2 in the prior year. Revenue growth in the Purolator segment and the Canada Post segment's Parcels line of business was more than offset by revenue declines in the Canada Post segment's Transaction Mail and Direct Marketing lines of businesses and the Logistics segment. These changes were mostly due to COVID-19. For the first two quarters, revenue increased by $13 million compared to 2019, due to growth in the Purolator segment that was partly offset by decreases in the Canada Post and Logistics segments.

Consolidated cost of operations

The cost of operations increased by $331 million in the second quarter of 2020, and by $437 million for the first two quarters, compared to the same periods in 2019. Increased costs were related to COVID-19, Parcels volume growth in the Canada Post segment, volume growth in the Purolator segment, and $114 million in additional costs in the Canada Post segment due to the arbitrator's decision for the new collective agreements with CUPW in the second quarter.

Consolidated tax expense (recovery)

The consolidated tax recovery increased by $86 million and $110 million in the second quarter and for the year to date of 2020, respectively, compared with the same periods in 2019, as a result of decreases in profit before tax.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss of $3,506 million for the second quarter of 2020 was due to remeasurement losses, net of tax, on the Group of Companies' defined benefit plans resulting from a decrease in discount rates partially offset by positive investment returns. For the first two quarters, net remeasurement losses of $1,154 million resulted from a decrease in discount rates and lower-than-expected investment returns.

5.3 Operating results by segment

Segmented results – Profit (loss) before tax

	Second quarter ended				Year to date ended			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%
Canada Post	(378)	(50)	(328)	†	(444)	(27)	(417)	†
Purolator	39	52	(13)	(24.7)	49	64	(15)	(23.4)
Logistics	4	7	(3)	(39.9)	6	9	(3)	(26.6)
Other	2	2	–	(56.9)	3	4	(1)	(43.5)
Canada Post Group of Companies	**(333)**	**11**	**(344)**	*****	**(386)**	**50**	**(436)**	*****

* The calculation is not mathematically meaningful.
† Large percentage change.

5.4 Canada Post segment

The Canada Post segment recorded losses before tax of $378 million in the second quarter and $444 million for the first two quarters of 2020, respectively, compared to losses before tax of $50 million and $27 million for the same periods in 2019, respectively, as a result of higher labour and employee benefits, partly offset by Parcels volume growth.

Canada Post results for the second quarter and the year to date

	Second quarter ended				Year to date ended			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%
Revenue from operations	1,633	1,644	(11)	(0.7)	3,312	3,316	(4)	0.7[1]
Cost of operations	2,001	1,691	310	18.3	3,740	3,337	403	12.9[1]
Profit from operations	**(368)**	**(47)**	**(321)**	**†**	**(428)**	**(21)**	**(407)**	**†**
Investing and financing income (expense), net	(10)	(3)	(7)	(250.6)	(16)	(6)	(10)	(186.5)
Profit (loss) before tax	**(378)**	**(50)**	**(328)**	**†**	**(444)**	**(27)**	**(417)**	**†**
Tax expense (recovery)	(96)	(13)	(83)	†	(112)	(7)	(105)	†
Net profit (loss)	**(282)**	**(37)**	**(245)**	**†**	**(332)**	**(20)**	**(312)**	**†**

* The calculation is not mathematically meaningful.
† Large percentage change.

Revenue from operations

Canada Post's revenue from operations decreased by $11 million and $4 million in the second quarter and the year to date of 2020, respectively, compared to the same periods in 2019. The estimated total revenue shortfall attributed to COVID-19 was $46 million.

Revenue and volumes by line of business for the second quarter

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%
Parcels								
Domestic Parcels	711	478	233	48.9	80	51	29	57.6
Outbound Parcels	62	56	6	10.5	3	2	1	31.6
Inbound Parcels	87	98	(11)	(12.1)	17	21	(4)	(17.1)
Other	4	6	(2)	(33.1)	–	–	–	–
Total Parcels	**864**	**638**	**226**	**35.4**	**100**	**74**	**26**	**35.5**
Transaction Mail								
Domestic Lettermail	547	635	(88)	(13.8)	574	662	(88)	(13.3)
Outbound Letter-post	16	21	(5)	(27.8)	7	10	(3)	(27.5)
Inbound Letter-post	10	21	(11)	(52.8)	11	22	(11)	(50.6)
Total Transaction Mail	**573**	**677**	**(104)**	**(15.4)**	**592**	**694**	**(102)**	**(14.7)**
Direct Marketing								
Personalized Mail™	61	115	(54)	(46.9)	107	212	(105)	(49.3)
Neighbourhood Mail™	48	110	(62)	(56.5)	415	947	(532)	(56.2)
Total Smartmail Marketing™	**109**	**225**	**(116)**	**(51.6)**	**522**	**1,159**	**(637)**	**(55.0)**
Publications Mail™	30	39	(9)	(23.8)	44	58	(14)	(24.6)
Business Reply Mail™ and Other Mail	4	5	(1)	(18.0)	3	4	(1)	(24.3)
Other	3	3	–	(2.4)	–	–	–	–
Total Direct Marketing	**146**	**272**	**(126)**	**(46.4)**	**569**	**1,221**	**(652)**	**(53.4)**
Other Revenue	50	57	(7)	(10.8)	–	–	–	–
Total	**1,633**	**1,644**	**(11)**	**(0.7)**	**1,261**	**1,989**	**(728)**	**(36.6)**

Revenue and volumes by line of business for the year to date

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	June 27, 2020	June 29, 2019	Change	%[1]	June 27, 2020	June 29, 2019	Change	%[1]
Parcels								
Domestic Parcels	1,216	944	272	29.9	133	102	31	32.1
Outbound Parcels	124	114	10	10.3	6	4	2	19.8
Inbound Parcels	181	182	(1)	(0.2)	36	39	(3)	(6.9)
Other	9	11	(2)	(18.0)	–	–	–	–
Total Parcels	**1,530**	**1,251**	**279**	**23.3**	**175**	**145**	**30**	**21.2**
Transaction Mail								
Domestic Lettermail	1,226	1,336	(110)	(7.5)	1,290	1,406	(116)	(7.5)
Outbound Letter-post	40	48	(8)	(16.3)	19	23	(4)	(15.6)
Inbound Letter-post	36	38	(2)	(6.2)	33	45	(12)	(26.0)
Total Transaction Mail	**1,302**	**1,422**	**(120)**	**(7.7)**	**1,342**	**1,474**	**(132)**	**(8.2)**
Direct Marketing								
Personalized Mail	170	238	(68)	(27.7)	302	434	(132)	(29.8)
Neighbourhood Mail	128	200	(72)	(35.5)	1,096	1,722	(626)	(35.8
Total Smartmail Marketing	**298**	**438**	**(140)**	**(31.3)**	**1,398**	**2,156**	**(758)**	**(34.6)**
Publications Mail	63	74	(11)	(14.9)	91	109	(18)	(16.9)
Business Reply Mail and Other Mail	9	10	(1)	(11.2)	6	8	(2)	(17.3)
Other	6	6	–	(0.1)	–	–	–	–
Total Direct Marketing	**376**	**528**	**(152)**	**(28.2)**	**1,495**	**2,273**	**(778)**	**(33.7)**
Other Revenue	104	115	(11)	(8.3)	–	–	–	–
Total	**3,312**	**3,316**	**(4)**	**0.7**	**3,012**	**3,892**	**(880)**	**(22.0)**

Parcels

Volume growth of 35.5% for Parcels in the second quarter of 2020 was higher than in the same quarter of 2019, largely due to the impact of COVID-19 resulting in many more Canadians shopping from home. For the year to date, volume growth of 21.2% was offset in part by continued competitive pressures. We estimate that revenue growth of $183 million to date in 2020 is attributed to COVID-19.

Transaction Mail

In addition to ongoing erosion due to substitution of digital alternatives by households and businesses, the impact of COVID-19 increased in the second quarter of 2020, with total volume erosion of 14.7% and lower revenue. For the year to date, volume erosion of 8.2% was partially offset by a regulated rate increase that took effect in the first quarter for Lettermail™ items, international Letter-post items and special services and fees, and other non-volume related revenue. COVID-19 was estimated to have caused $87 million in additional erosion in Transaction Mail in 2020.

Direct Marketing

Declines in Direct Marketing revenue and volumes that started toward the end of the first quarter due to COVID-19 became more pronounced in the second quarter of 2020 as marketing expenditures shrank. Direct Marketing volume erosion was 53.4% and 33.7% for the second quarter and year to date period of 2020, respectively. Revenue decreases of an estimated $142 million to date in 2020 is attributed to COVID-19.

Other revenue

Other revenue decreased in the second quarter and on a year to date basis compared to the same periods in the prior year due to a decrease in consumer products and services and a loss on foreign exchange.

Cost of operations

Cost of operations for the Canada Post segment increased by $309 million in the second quarter and by $403 million for the year to date, compared to the same periods in 2019. The increases in the second quarter were largely from costs associated with COVID-19, including higher labour costs, special employee leave, as well as increased collection, processing and delivery costs resulting from required operational changes. Parcels growth also contributed to increased costs. In addition, the arbitrator's decision resulted in labour and benefits costs of $114 million in the second quarter, which were mostly due to expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC. Benefit costs also increased as a result of lower discount rates.

	Second quarter ended				**Year to date ended**			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%[1]
Labour	936	853	83	9.8	1,789	1,669	120	8.0
Employee benefits	512	343	169	49.4	865	668	197	30.5
Total labour and employee benefits	**1,448**	**1,196**	**252**	**21.1**	**2,654**	**2,337**	**317**	**14.5**
Non-labour collection, processing and delivery	281	239	42	17.4	554	495	59	12.8
Property, facilities and maintenance	53	47	6	10.3	107	101	6	6.7
Selling, administrative and other	140	132	8	5.9	268	251	17	7.3
Total other operating costs	**474**	**418**	**56**	**13.0**	**929**	**847**	**82**	**10.5**
Depreciation and amortization	79	77	2	2.7	157	153	4	3.5
Total	**2,001**	**1,691**	**310**	**18.3**	**3,740**	**3,337**	**403**	**12.9**

Labour

Labour costs were $83 million and $120 million higher in the second quarter and the year to date, respectively, compared to the same periods in 2019. This was mostly the result of special employee leave due to COVID-19, and higher Parcels growth due to COVID-19 with associated increased collection, processing and delivery costs, including physical distancing measures, as well as network growth and inflation.

Employee benefits

Benefit costs were $169 million higher in the second quarter of 2020, compared to Q2 2019. For the year to date, benefit costs increased by $197 million compared to the same period in 2019. The main factor was the plan amendment loss recognized in the second quarter. Other factors contributing to this cost increase were a decrease in the discount rate used to measure non-cash pension and other long-term expense in 2020, compared to 2019, and a decrease in income on segregated assets in 2020, compared to Q1 2019, which included a realized gain. These increases were partly offset by a decrease in employee benefit costs due to temporary closures of healthcare providers.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $42 million and $59 million, in the second quarter and the year to date, respectively, compared to 2019, as a result of higher expenses for transportation, maintenance and repairs due to Parcels volume growth related to COVID-19 and spending on health and safety supplies.

Property, facilities and maintenance

The cost of facilities increased by $6 million in the second quarter and for the year to date in 2020, when compared to the same periods in 2019, due to increased cleaning and maintenance costs related to COVID-19.

Selling, administrative and other

Selling, administrative and other expenses increased by $8 million in the second quarter of 2020, and by $17 million for the year to date, compared to the same periods in the prior year mainly due to higher spending on program expenses and bad debt allowances, partly offset by travel savings related to COVID-19.

Depreciation and amortization

Depreciation and amortization expenses increased by $2 million and $4 million in Q2 2020 and for the year to date, respectively, compared to the same periods in 2019, due to increased capital expenditures on infrastructure capacity.

5.5 Purolator segment

The Purolator segment's profit before tax decreased by $13 million in the second quarter of 2020, and by $15 million for the year to date, compared to the same periods in the prior year.

Purolator results for the second quarter and the year to date

	Second quarter ended				**Year to date ended**			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%
Revenue from operations	504	485	19	4.2	961	926	35	4.7[1]
Cost of operations	460	430	30	7.4	904	856	48	6.5[1]
Profit from operations	**44**	**55**	**(11)**	**(21.0)**	**57**	**70**	**(13)**	**(19.0)**
Investing and financing income (expense), net	(5)	(3)	(2)	(37.1)	(8)	(6)	(2)	(27.3)
Profit before tax	**39**	**52**	**(13)**	**(24.7)**	**49**	**64**	**(15)**	**(23.4)**
Tax expense	10	14	(4)	(24.9)	12	17	(5)	(29.6)
Net profit	**29**	**38**	**(9)**	**(24.7)**	**37**	**47**	**(10)**	**(21.2)**

In the second quarter, Purolator continued to experience the impact of COVID-19 due to increased online shopping and the closure of some non-essential businesses, which raised home deliveries by 30% and retail e-commerce deliveries to homes and businesses by up to 120%. Revenue from operations increased by $19 million and $35 million in the second quarter and the year to date of 2020, respectively, compared to the same periods in 2019, mainly due to increased volumes from the business-to-consumer market, a result of consumer buying behaviour shifting toward online shopping, and higher volumes from new and existing business, primarily in the business-to-consumer market.

Annual salary increases and business growth caused labour costs to increase by $18 million in Q2 2020, over the same period in 2019. Non-labour costs increased by $12 million in the second quarter of 2020, compared to the same period in the prior year, primarily due to business growth and additional costs incurred by the company for the implementation of COVID-19 safety and prevention measures.

5.6 Logistics segment

The Logistics segment's profit before tax decreased by 39.9% in the second quarter and 26.6% for the year to date of 2020, compared to the same periods in 2019.

Logistics results for the second quarter and the year to date

	Second quarter ended				Year to date ended			
(in millions of dollars)	June 27, 2020	June 29, 2019	Change	%	June 27, 2020	June 29, 2019	Change	%
Revenue from operations	**81**	85	(4)	(4.6)	157	165	(8)	(5.8)[1]
Cost of operations	76	77	(1)	(1.2)	149	155	(6)	(4.7)[1]
Profit from operations	**5**	**8**	**(3)**	**(38.5)**	**8**	**10**	**(2)**	**(22.6)**
Investing and financing income (expense), net	(1)	(1)	–	30.4	(2)	(1)	(1)	1.9
Profit before tax	**4**	**7**	**(3)**	**(39.9)**	**6**	**9**	**(3)**	**(26.6)**
Tax expense	1	1	–	(39.6)	2	2	–	(25.8)
Net profit	**3**	**6**	**(3)**	**(39.9)**	**4**	**7**	**(3)**	**(26.9)**

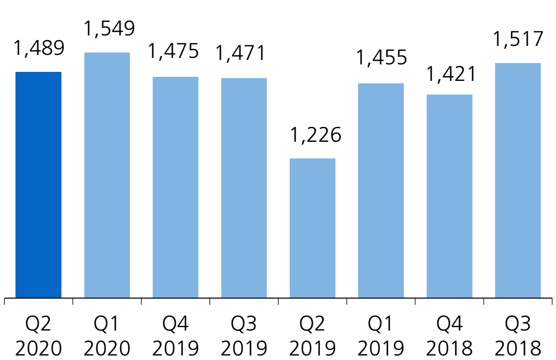
Revenue from operations and cost of operations decreased by $4 million and $1 million, respectively, in the second quarter of 2020, compared to 2019, and by $8 million and $6 million, respectively, for the year to date compared to the prior year, mainly due to customer attrition and decreases in certain customer volumes, a portion of which related to COVID-19. The impact on revenue and costs is expected to continue to be significant for the remainder of 2020 due to changing consumer volumes, temporary business closures and increased costs to operate safely in this environment. SCI has enacted mitigation plans to ensure that customer service continues with minimum impact, while addressing potential profit impact, including increased accounts receivable risk.

6. Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $1,489 million as at June 27, 2020. The increase of $14 million compared to December 31, 2019, was mostly generated by operating activities resulting from pension, other post-employment and long-term benefit expenses, which exceeded payments, partially offset by acquisitions of capital assets, net acquisition of securities and repayments of lease liabilities.

6.2 Operating activities

(in millions of dollars)	Second quarter ended June 27, 2020	June 29, 2019	Change	Year to date ended June 27, 2020	June 29, 2019	Change
Cash provided by (used in) operating activities	239	(101)	340	383	16	367

Cash provided by operations in the second quarter and the year to date of 2020 increased by $340 million and $367 million, respectively, compared to the same periods in 2019. The positive change in 2020 cash flow was primarily due to CUPW-RSMC pay equity payments made in June 2019, lower benefit payments in 2020 mainly as a result of timing and COVID-19 related closures of healthcare providers and changes in non-cash operating working capital in the quarter. This was partially offset by higher labour costs due to COVID-19, including special employee leave, and increased collection, processing and delivery costs related to higher Parcels growth.

6.3 Investing activities

(in millions of dollars)	Second quarter ended June 27, 2020	June 29, 2019	Change	Year to date ended June 27, 2020	June 29, 2019	Change
Cash used in investing activities	(270)	(102)	(168)	(316)	(155)	(161)

Cash used in investing activities increased by $168 million and $161 million, respectively, in the second quarter and the year to date of 2020, compared to the same periods in 2019, mainly due to net investment activities, partially offset by lower acquisitions of capital assets in the Canada Post and Purolator segments.

Capital expenditures

(in millions of dollars)	Second quarter ended June 27, 2020	June 29, 2019	Change	Year to date ended June 27, 2020	June 29, 2019	Change
Canada Post	58	106	(48)	119	162	(43)
Purolator	17	37	(20)	40	50	(10)
Logistics	2	8	(6)	4	15	(11)
Innovapost and intersegment	–	–	–	–	–	–
Canada Post Group of Companies	**77**	**151**	**(74)**	**163**	**227**	**(64)**

Capital expenditures for the Group of Companies decreased by $74 million in the second quarter and by $64 million for the year to date in 2020, compared to the same periods in 2019, mainly due to lower spending on infrastructure capacity in the Canada Post and Purolator segments, and lower acquisitions in the Logistics segment.

6.4 Financing activities

(in millions of dollars)	Second quarter ended June 27, 2020	June 29, 2019	Change	Year to date ended June 27, 2020	June 29, 2019	Change
Cash used in financing activities	(26)	(26)	–	(54)	(55)	1

Cash used in financing activities was relatively unchanged in the second quarter and for the year to date of 2020 compared to the same periods in 2019.

6.5 Canada Post Corporation Registered Pension Plan

In May 2020, Canada Post filed the actuarial valuation of the Canada Post Corporation Registered Pension Plan (RPP) as at December 31, 2019, with the federal pension regulator, the Office of the Superintendent of Financial Institutions. This actuarial valuation disclosed a going-concern surplus of $3.9 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $5.6 billion (using the three-year average solvency ratio basis), or $4.9 billion (using market value of plan assets).

Also in May, due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into force, establishing the moratorium on solvency special payments for the remainder of 2020 for federally regulated, defined benefit pension plans. Under these regulations, solvency special payments are not required until December 30, 2020. These measures relieve the Corporation of making $368 million of special solvency payments for 2020. Market volatility could have a significant effect on solvency payments for 2021 and thereafter. Canada Post is working with all stakeholders, including its only shareholder, the Government of Canada, to explore short-term options.

At the end of the second quarter, market volatility effects were observed in the measurement of the solvency position and accounting obligation of the RPP. The solvency deficit (using market value of plan assets) increased to an estimated $7.9 billion primarily due to a decrease in the discount rate and low investment returns.

On an accounting basis, remeasurement losses of almost $2.8 billion for the RPP, net of tax, were recorded in other comprehensive income for the second quarter of 2020, due to a decrease in the discount rate, partially offset by positive investment returns. For the first two quarters of 2020, remeasurement losses, net of tax, amounted to $930 million.

Current service contributions amounted to $44 million and $103 million, respectively, for the second quarter and first two quarters of 2020, compared to $55 million and $123 million, respectively, for the same periods in 2019.

6.6 Liquidity and capital resources

Liquidity

The Canada Post segment had $2,387 million of unrestricted liquid investments on hand as at June 27, 2020, and $100 million of lines of credit.

As a result of the temporary relief granted to sponsors of federally regulated, defined benefit pension plans, Canada Post will not have to make solvency special payments in 2020. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $361 million of unrestricted cash on hand and undrawn credit facilities of $143 million as at June 27, 2020, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

Borrowings for the Canada Post segment as at June 27, 2020, amounted to $997 million. For more information on liquidity and access to capital markets, refer to Section 6.6 Liquidity and capital resources of the 2019 Annual MD&A.

7. Changes in Financial Position

A discussion of significant changes in our assets and liabilities between June 27, 2020, and December 31, 2019

(in millions of dollars)

ASSETS	June 27, 2020	Dec. 31, 2019	Change	%	Explanation of change
Cash and cash equivalents	1,489	1,475	14	1.0	Refer to Section 6 Liquidity and capital resources.
Marketable securities	1,259	1,077	182	16.9	Due to purchase of corporate bonds.
Trade and other receivables	992	1,011	(19)	(1.9)	Mainly due to lower trade receivables in all segments, partially offset by higher international trade settlement receivables in the Canada Post segment.
Other assets	283	171	112	65.8	Mainly due to a higher income tax receivable balance in the Canada Post segment.
Total current assets	**4,023**	**3,734**	**289**	**7.8**	
Marketable securities	140	171	(31)	(18.3)	Due to maturity of corporate bonds.
Property, plant and equipment	2,930	2,942	(12)	(0.4)	No material change.
Intangible assets	141	124	17	13.6	Mainly due to acquisitions in the Logistics and Other segments.
Right-of-use assets	1,195	1,113	82	7.4	Mainly due to acquisitions (new leases and lease renewals) exceeding depreciation in the Canada Post, Purolator and Logistics segments.
Segregated securities	558	514	44	8.5	Mainly due to unrealized gains in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	28	75	(47)	(62.4)	Mainly due to remeasurement losses resulting from a decrease in discount rates and lower than expected investment returns.
Deferred tax assets	2,065	1,659	406	24.5	Mainly due to the increase of temporary differences related to remeasurement losses on Canada Post's pension and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	65	65	–	(1.4)	No change.
Total non-current assets	**7,252**	**6,793**	**459**	**6.7**	
Total assets	**11,275**	**10,527**	**748**	**7.1**	

(in millions of dollars)

LIABILITIES	June 27, 2020	Dec. 31, 2019	Change	%	Explanation of change
Trade and other payables	749	676	73	10.9	Mainly due to higher trade payables in the Purolator segment partially due to high parcel volumes as well as higher consumption taxes payables and international settlements in the Canada Post segment.
Salaries and benefits payable and related provisions	881	839	42	5.1	Mainly due to higher source deductions payable and accrued salaries in the Canada Post segment.
Provisions	56	55	1	1.6	No material change.
Deferred revenue	168	152	16	11.1	Mainly related to higher customer credit balances and other deferred parcel and mail-redirection revenue in the Canada Post segment.
Lease liabilities	120	116	4	3.3	No material change.
Other long-term benefit liabilities	63	63	–	–	No change.
Total current liabilities	**2,037**	**1,901**	**136**	**7.2**	
Lease liabilities	1,264	1,183	81	6.8	Mainly due to acquisitions (new leases and lease renewals) in the Canada Post, Purolator and Logistics segments net of lease payments.
Loans and borrowings	997	997	–	–	No change.
Pension, other post-employment and other long-term benefit liabilities	8,472	6,498	1,974	30.4	Mainly due to remeasurement losses resulting from a decrease in discount rates and lower than expected investment returns.
Other liabilities	19	20	(1)	(9.3)	No material change.
Total non-current liabilities	**10,752**	**8,698**	**2,054**	**23.6**	
Total liabilities	**12,789**	**10,599**	**2,190**	**20.7**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	95	64	31	49.7	Mainly due to unrealized gains on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Retained earnings (accumulated deficit)	(2,797)	(1,326)	(1,471)	(111.0)	Mainly driven by remeasurement losses in the Canada Post segment resulting from a decrease in discount rates and lower than expected investment returns.
Equity of Canada	**(1,547)**	**(107)**	**(1,440)**	†	
Non-controlling interests	33	35	(2)	(5.7)	
Total equity	**(1,514)**	**(72)**	**(1,442)**	†	
Total liabilities and equity	**11,275**	**10,527**	**748**	**7.1**	

† Large percentage change.

8. Risks and Risk Management

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

Management considers risks and opportunities at all levels of decision-making and has implemented a rigorous approach to enterprise risk management. Where appropriate, Canada Post has recorded provisions for some of the following claims. Should the ultimate resolution of these actions differ from management's assessments and assumptions, this could result in a material future adjustment to the Corporation's financial position and results of operations.

COVID-19

On March 11, 2020, the World Health Organization declared the global outbreak of COVID-19 a pandemic. COVID-19 has created challenges for Canada Post. Although we are managing the operational challenges through the implementation of additional health and safety measures in our post offices, plants, depots and in how we deliver items, there could be downstream, long-term risks to Canada Post given COVID-19 is expected to have a continued impact on the Canadian economy. The long-term impact remains highly uncertain. During this time, the health and safety of our employees and Canadians remain our top priority.

Going forward the net effect on Canada Post's business may include the following:

- Lettermail™ volumes may be negatively affected due to an acceleration of digital substitution and reduced overall Canadian economic activity;
- a reduction in overall advertising spending or a change in mix, resulting in decreased advertising mail;
- permanent changes to consumer behaviour, including increased online shopping and increased demand for parcels.

During this difficult time, Canada Post is monitoring the situation and adapting its operations in order to keep employees and Canadians safe while continuing to deliver the important services that customers rely on.

For more information on changes to our operations, including measures to address health and safety risks as a result of COVID-19, refer to Section 2 Core Businesses and Strategy.

Labour agreements

The arbitrator designated under the *Postal Services Resumption and Continuation Act* (2018), to resolve two separate collective agreements (Urban Postal Operations, UPO, and Rural and Suburban Mail Carriers, RSMC) with the Canadian Union of Postal Workers (CUPW) bargaining agent, released her decision June 11, 2020. The four-year agreements expire December 31, 2021 (RSMC) and January 31, 2022 (UPO) respectively. The Corporation is continuing to interpret and implement the awards. CUPW is Canada Post's largest union, representing more than 40,000 employees. The Corporation's objective during any collective bargaining process is to build a framework for growth, while protecting its financial self-sustainability, in a manner that provides fair and reasonable working conditions to its employees and service to Canadians.

Accelerated delivery service – Class-action lawsuit

An application was made to the Quebec Superior Court on July 6, 2020, to institute a class action against Canada Post on behalf of a class of customers who, since March 14, 2020, paid for an expedited service offered by Canada Post, for which the on-time delivery guarantee had not been met. Canada Post suspended on-time delivery guarantees on March 19, 2020, until further notice, due to COVID-19 and required operational changes to preserve the health and safety of employees and Canadians. The allegation is essentially that Canada Post, nevertheless, continued to promote the delivery guarantees for expedited services while refusing to honour them. The proposed class action is seeking, for all proposed class members, full refunds, compensatory damages and punitive damages.

9. Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2020 and future years

9.1 Critical accounting estimates and estimation uncertainties

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

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

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2019 Annual MD&A and Note 4 Critical Accounting Estimates and Judgments of the 2019 consolidated financial statements in addition to Note 2 Basis of Presentation in this second quarter financial report.

As the COVID-19 situation extends in magnitude and duration, the continuation of these circumstances could result in an economic downturn that could have a prolonged negative impact on our financial results. There is a wide range of possible outcomes, resulting in a particularly high degree of uncertainty about the ultimate trajectory of the COVID-19 situation. Additional estimation uncertainties, significant judgments and risks as a result of COVID-19 include the recoverability and impairment of financial and non-financial assets, accounting for fair value of financial assets, deferred revenue and contract modifications.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

The following amendment issued by the International Accounting Standards Board (IASB) was adopted by the Group of Companies immediately upon issuance:

Amendment to IFRS 16 "Leases" (IFRS 16) • In May 2020, IASB issued a narrow-scope amendment, *COVID-19 Related Rent Concessions*, to provide lessees with a practical expedient to assess whether a COVID-19 related rent concession is a lease modification. A lessee that makes this election accounts for the change in lease payments as a result of the rent concession the same way it would account for the change if it was not a lease modification. The practical expedient would apply only to rent concessions occurring as a direct consequence of COVID-19 and only if certain conditions are met. The amendment is to be applied for annual reporting periods beginning on or after June 1, 2020, but earlier application is permitted. Although the Corporation has not experienced many rent concessions to date as a direct consequence of COVID-19 and the amendment has minimal impact on these interim financial statements, the Group of Companies has chosen to early adopt this amendment as it could bring possible future relief, to the extent of which is dependent on the magnitude and duration of COVID-19.

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

New standards, amendments and interpretations issued by the IASB or the Interpretations Committee that would have a possible effect in the future include the following. The Group of Companies is assessing the impact of adopting these amendments.

Standard or amendment	Effective for annual periods beginning on or after
Amendments to "IAS 1 Presentation of Financial Statements"	January 1, 2022
Amendments to "IFRS 3 Business Combinations – Reference to the Conceptual Framework"	January 1, 2022
Amendments to "IAS 16 Property, Plant and Equipment – Proceeds before Intended Use"	January 1, 2022
Amendments to "IAS 37 Onerous Contracts – Cost of Fulfilling a Contract"	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022

Endnote

1. Adjusted for trading (business) or paid days, where applicable.

Management's Responsibility for Interim Financial Reporting

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

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

President and CEO

Chief Financial Officer

August 20, 2020

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	Notes	June 27, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 1,489**	$ 1,475
Marketable securities		**1,259**	1,077
Trade, other receivables and contract assets		**992**	1,011
Other assets	**4**	**283**	171
Total current assets		**4,023**	3,734
Non-current assets			
Marketable securities		**140**	171
Property, plant and equipment	**5**	**2,930**	2,942
Intangible assets	**5**	**141**	124
Right-of-use assets	**5**	**1,195**	1,113
Segregated securities		**558**	514
Pension benefit assets	**6**	**28**	75
Deferred tax assets		**2,065**	1,659
Goodwill		**130**	130
Other assets	**4**	**65**	65
Total non-current assets		**7,252**	6,793
Total assets		**$ 11,275**	$ 10,527
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 749**	$ 676
Salaries and benefits payable and related provisions		**881**	839
Provisions		**56**	55
Deferred revenue		**168**	152
Lease liabilities	**7**	**120**	116
Other long-term benefit liabilities	**6**	**63**	63
Total current liabilities		**2,037**	1,901
Non-current liabilities			
Lease liabilities	**7**	**1,264**	1,183
Loans and borrowings		**997**	997
Pension, other post-employment and other long-term benefit liabilities	**6**	**8,472**	6,498
Other liabilities		**19**	20
Total non-current liabilities		**10,752**	8,698
Total liabilities		**12,789**	10,599
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income	**8**	**95**	64
Retained earnings (accumulated deficit)		**(2,797)**	(1,326)
Equity of Canada		**(1,547)**	(107)
Non-controlling interests		**33**	35
Total equity		**(1,514)**	(72)
Total liabilities and equity		**$ 11,275**	$ 10,527
Contingent liabilities	**10**		

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the		13 weeks ended		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	**Notes**	**June 27, 2020**	June 29, 2019	**June 27, 2020**	June 29, 2019
Revenue from operations	**15**	**$ 2,178**	$ 2,183	**$ 4,360**	$ 4,347
Cost of operations					
Labour		**1,188**	1,088	**2,275**	2,138
Employee benefits		**568**	395	**983**	777
		1,756	1,483	**3,258**	2,915
Other operating costs	**12**	**632**	576	**1,248**	1,158
Depreciation and amortization	**5**	**108**	106	**215**	211
Total cost of operations		**2,496**	2,165	**4,721**	4,284
Profit (loss) from operations		**(318)**	18	**(361)**	63
Investing and financing income (expense)					
Investment and other income	**13**	**9**	17	**23**	34
Finance costs and other expense	**13**	**(24)**	(24)	**(48)**	(47)
Investing and financing expense, net		**(15)**	(7)	**(25)**	(13)
Profit (loss) before tax		**(333)**	11	**(386)**	50
Tax expense (recovery)		**(84)**	2	**(98)**	12
Net profit (loss)		**$ (249)**	$ 9	**$ (288)**	$ 38
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net profit (loss)					
Change in unrealized fair value of financial assets		**$ 24**	$ 10	**$ 31**	$ 33
Foreign currency translation adjustment		**(1)**	–	**–**	–
Reclassification adjustments for gains included in net profit (loss)		**–**	–	**–**	(7)
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	**6**	**(3,529)**	(966)	**(1,185)**	(1,777)
Other comprehensive loss	**8**	**(3,506)**	(956)	**(1,154)**	(1,751)
Comprehensive loss		**$ (3,755)**	$ (947)	**$ (1,442)**	$ (1,713)
Net profit (loss) attributable to					
Government of Canada		**$ (251)**	$ 6	**$ (291)**	$ 34
Non-controlling interests		**2**	3	**3**	4
		$ 249	$ 9	**$ (288)**	$ 38
Comprehensive loss attributable to					
Government of Canada		**$ (3,751)**	$ (946)	**$ (1,440)**	$ (1,710)
Non-controlling interests		**(4)**	(1)	**(2)**	(3)
		$ (3,755)	$ (947)	**$ (1,442)**	$ (1,713)

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

Interim Condensed Consolidated Statement of Changes in Equity

For the 13 weeks ended June 27, 2020 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at March 28, 2020	**$ 1,155**	**$ 72**	**$ 977**	**$ 2,204**	**$ 37**	**$ 2,241**
Net profit (loss)	**–**	**–**	**(251)**	**(251)**	**2**	**(249)**
Other comprehensive income (loss) (Note 8)	**–**	**23**	**(3,523)**	**(3,500)**	**(6)**	**(3,506)**
Comprehensive income (loss)	**–**	**23**	**(3,774)**	**(3,751)**	**(4)**	**(3,755)**
Balance at June 27, 2020	**$ 1,155**	**$ 95**	**$ (2,797)**	**$ (1,547)**	**$ 33**	**$ (1,514)**

For the 13 weeks ended June 29, 2019 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at March 30, 2019	$ 1,155	$ 59	$ (2,188)	$ (974)	$ 34	$ (940)
Net profit	–	–	6	6	3	9
Other comprehensive income (loss) (Note 8)	–	10	(962)	(952)	(4)	(956)
Comprehensive income (loss)	–	10	(956)	(946)	(1)	(947)
Balance at June 29, 2019	$ 1,155	$ 69	$ (3,144)	$ (1,920)	$ 33	$ (1,887)

For the 26 weeks ended June 27, 2020 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2019	**$ 1,155**	**$ 64**	**$ (1,326)**	**$ (107)**	**$ 35**	**$ (72)**
Net profit (loss)	**–**	**–**	**(291)**	**(291)**	**3**	**(288)**
Other comprehensive income (loss) (Note 8)	**–**	**31**	**(1,180)**	**(1,149)**	**(5)**	**(1,154)**
Comprehensive income (loss)	**–**	**31**	**(1,471)**	**(1,440)**	**(2)**	**(1,442)**
Balance at June 27, 2020	**$ 1,155**	**$ 95**	**$ (2,797)**	**$ (1,547)**	**$ 33**	**$ (1,514)**

For the 26 weeks ended June 29, 2019 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance as at December 31, 2018	$ 1,155	$ 43	$ (1,408)	(210)	$ 36	(174)
Net profit	–	–	34	34	4	38
Other comprehensive income (loss) (Note 8)	–	26	(1,770)	(1,744)	(7)	(1,751)
Comprehensive income (loss)	–	26	(1,736)	(1,710)	(3)	(1,713)
Balance at June 29, 2019	$ 1,155	$ 69	$ (3,144)	$ (1,920)	$ 33	$ (1,887)

Interim Condensed Consolidated Statement of Cash Flows

For the		13 weeks ended		26 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	**June 27, 2020**	June 29, 2019	**June 27, 2020**	June 29, 2019
Cash flows from operating activities					
Net profit (loss)		**$ (249)**	$ 9	**$ (288)**	$ 38
Adjustments to reconcile net profit to cash provided by operating activities:					
Depreciation and amortization	**5**	**108**	106	**215**	211
Pension, other post-employment and other long-term benefit expense	**6**	**416**	230	**671**	458
Pension, other post-employment and other long-term benefit payments	**6**	**(103)**	(140)	**(232)**	(281)
Gain on sale of capital assets and assets held for sale	**13**	**–**	(1)	**–**	(1)
Tax expense (recovery)		**(84)**	2	**(98)**	12
Net interest expense	**13**	**12**	4	**19**	7
Change in non-cash operating working capital:					
(Increase) decrease in trade and other receivables		**(34)**	(41)	**19**	57
Increase (decrease) in trade and other payables		**129**	(2)	**73**	(99)
Increase (decrease) in salaries and benefits payable and related provisions		**6**	(223)	**42**	(205)
Increase (decrease) in provisions		**3**	(4)	**(3)**	(4)
Net change in other non-cash operating working capital		**33**	(15)	**4**	(64)
Other income not affecting cash, net		**(3)**	(5)	**(7)**	(16)
Cash provided by (used in) operations before interest and tax		**234**	(80)	**415**	113
Interest received		**18**	23	**32**	41
Interest paid		**(11)**	(10)	**(42)**	(41)
Tax paid		**(2)**	(34)	**(22)**	(97)
Cash provided by (used in) operating activities		**239**	(101)	**383**	16
Cash flows from investing activities					
Acquisition of securities		**(641)**	(428)	**(977)**	(1,016)
Proceeds from sale of securities		**446**	474	**821**	1,095
Acquisition of capital assets		**(77)**	(151)	**(163)**	(227)
Proceeds from sale of capital assets		**1**	2	**1**	2
Increase (decrease) in long-term receivables		**1**	1	**2**	(9)
Cash used in investing activities		**(270)**	(102)	**(316)**	(155)
Cash flows from financing activities					
Repayments of lease liabilities, net of sublease proceeds		**(27)**	(26)	**(54)**	(55)
Other financing activities, net		**1**	–	**–**	–
Cash used in financing activities		**(26)**	(26)	**(54)**	(55)
Net (decrease) increase in cash and cash equivalents		**(57)**	(229)	**13**	(194)
Cash and cash equivalents, beginning of period		**1,549**	1,455	**1,475**	1,421
Effect of exchange rate changes on cash and cash equivalents		**(3)**	–	**1**	(1)
Cash and cash equivalents, end of period		**$ 1,489**	$ 1,226	**$ 1,489**	$ 1,226

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

Notes to Interim Condensed Consolidated Financial Statements

For the 26 weeks ended June 27, 2020
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

Under the *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. The Corporation is also subject to directives issued pursuant to section 89 of the *Financial Administration Act* as described in Note 1 to the Corporation's annual consolidated financial statements for the year ended December 31, 2019. There is no change to the status of these directives.

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements (interim financial statements) in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2019. These interim financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors August 20, 2020.

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

Functional and presentation currency • These interim financial statements are presented in Canadian dollars. The Canadian dollar is the functional currency of the Corporation.

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

Significant accounting policies • Significant accounting policies used in these interim financial statements are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2019, except for the application of new standards, amendments and interpretations effective January 1, 2020, disclosed in Note 3 of the Corporation's interim financial statements for the quarter ended March 28, 2020, as well as in Note 3 (a) in these interim financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 4 of the Corporation's annual consolidated financial statements for the year ended December 31, 2019.

COVID-19 • Declared a pandemic in March 2020, COVID-19 has had a significant impact on the Canadian and global economies, including our business in 2020 and, likely so going forward. As the COVID-19 situation extends in magnitude and duration, entities are experiencing conditions often associated with a general economic downturn. These conditions include, but are not limited to, financial market volatility and erosion, deteriorating credit, increasing unemployment, broad declines in consumer discretionary spending, decreased demand and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn, which could have a prolonged negative impact on our financial results. There is a wide range of possible outcomes, resulting in a particularly high degree of uncertainty about the ultimate trajectory of the COVID-19 situation. Additional estimation uncertainties, significant judgments and risks as a result of COVID-19 include the recoverability and impairment of financial and non-financial assets, accounting for fair value of financial assets, timing of revenue recognition and contract modifications.

Canadian businesses and consumers may choose to use our products and services differently, and our suppliers and partners will experience their own impacts. Some of these changes could lead to credit losses and reductions in future business. These uncertainties may include interruptions in the supply chain, unavailability of personnel, closure of facilities, increased volatility on the value of financial instruments and a reduction in sales, earnings and productivity.

Canada Post follows the direction of the Public Health Agency of Canada and health authorities across the country. The duration and impact of COVID-19 are unknown at this time, as is the efficacy of government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of Canada Post and its operating subsidiaries in future periods. We've added disclosures where our interim financial statements have been affected.

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2020, or from their date of issue

Other than those disclosed in Note 3 (a) of the 2020 First Quarter Financial Report, the following amendment issued by the International Accounting Standards Board (IASB) was adopted by the Group of Companies:

Amendment to IFRS 16 "Leases" (IFRS 16) • In May 2020, IASB issued a narrow-scope amendment, *COVID-19 Related Rent Concessions*, to provide lessees with a practical expedient to assess whether a COVID-19 related rent concession is a lease modification. A lessee that makes this election accounts for the change in lease payments as a result of the rent concession the same way it would account for the change if it was not a lease modification. The practical expedient would apply only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

- The change in lease payments results in a revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021 (a rent concession would meet this condition if it results in reduced lease payments on or before June 30, 2021, and increased lease payments that extend beyond June 30, 2021).
- There is no substantive change to other terms and conditions of the lease.

The amendment is to be applied for annual reporting periods beginning on or after June 1, 2020, but earlier application is permitted. Although the Corporation has not experienced many rent concessions to date as a direct consequence of COVID-19 and the amendment has minimal impact on these interim financial statements, the Group of Companies has chosen to early adopt this amendment as it could bring possible future relief, to the extent of which is dependent on the magnitude and duration of COVID-19.

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

Other than those disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2019, new standards, amendments and interpretations were issued by the IASB or the Interpretations Committee that could have a possible effect on the Group of Companies in the future. In May 2020, the IASB issued amendments to the following standards, which are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

Amendments to IFRS 3 "Business Combinations – Reference to the Conceptual Framework" (IFRS 3) • The amendments replace a reference to the *Framework for the Preparation and Presentation of Financial Statements*, issued in 1989, with a reference to the *Conceptual Framework for Financial Reporting*, issued in March 2018, without significant changes in requirements. The IASB has included an exception to the recognition principle of IFRS 3 to avoid the possible issue of "day 2" gains or losses arising for liabilities and contingent liabilities within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or IFRIC 21 "Levies" if incurred separately. The IASB also clarified the existing guidance in IFRS 3 for contingent assets, adding a paragraph that explicitly states contingent assets do not qualify for recognition at the acquisition date.

Amendments to IAS 16 "Property, Plant and Equipment – Proceeds before Intended Use" • The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced, while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The meaning of "testing whether an asset is functioning properly" and disclosure requirements were also clarified.

Amendments to IAS 37 "Onerous Contracts – Cost of Fulfilling a Contract" • The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts.

Annual Improvements to IFRS 2018-2020 • The pronouncement contains amendments to the following IFRS as a result of the IASB's annual improvements project.

- **IFRS 1 "First-time Adoption of IFRS – Subsidiary as a First-time Adopter" •** The amendment permits a subsidiary to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to IFRS.
- **IFRS 9 "Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities" •** The amendment clarifies which fees an entity includes when it applies the "10 per cent" test in IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.
- **IFRS 16 "Leases – Lease Incentives" •** The amendment to Illustrative Example 13 accompanying IFRS 16 removes the illustration of the reimbursement of leasehold improvements by the lessor to resolve any potential confusion regarding the treatment of leas e incentives.

4. Other Assets

As at (in millions)	**June 27, 2020**	December 31, 2019
Income tax receivable	$ 150	$ 50
Prepaid expenses	134	119
Assets held for sale	2	1
Finance lease receivable	12	14
Other receivables	50	52
Total other assets	**$ 348**	$ 236
Current other assets	**$ 283**	$ 171
Non-current other assets	**65**	65

As at June 27, 2020, all properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds. The table below identifies undiscounted lease payments to be received on an annual basis for each of the following periods:

As at (in millions)	**June 27, 2020**	December 31, 2019
Contractual undiscounted cash flows		
Less than one year	$ 5	$ 5
One to five years	7	9
Total undiscounted finance lease receivable	**$ 12**	$ 14

5. Capital Assets

(a) Property, plant and equipment

(in millions)	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2019	$ 452	$ 2,197	$ 364	$ 1,187	$ 599	$ 371	$ 1,169	$ 115	$ 6,454
Additions	7	5	4	11	13	4	35	47	126
Reclassified as held for sale	(1)	(6)	–	–	–	–	–	–	(7)
Retirements	–	–	(2)	(2)	(2)	(2)	(173)	–	(181)
Transfers	–	22	1	1	–	6	3	(33)	–
June 27, 2020	**$ 458**	**$ 2,218**	**$ 367**	**$ 1,197**	**$ 610**	**$ 379**	**$ 1,034**	**$ 129**	**$ 6,392**
Accumulated depreciation									
December 31, 2019	$ –	$ 1,218	$ 256	$ 758	$ 360	$ 291	$ 629	$ –	$ 3,512
Depreciation	–	31	9	36	23	12	25	–	136
Reclassified as held for sale	–	(6)	–	–	–	–	–	–	(6)
Retirements	–	–	(2)	(2)	(1)	(2)	(173)	–	(180)
June 27, 2020	**$ –**	**$ 1,243**	**$ 263**	**$ 792**	**$ 382**	**$ 301**	**$ 481**	**$ –**	**$ 3,462**
Carrying amounts									
December 31, 2019	$ 452	$ 979	$ 108	$ 429	$ 239	$ 80	$ 540	$ 115	$ 2,942
June 27, 2020	**$ 458**	**$ 975**	**$ 104**	**$ 405**	**$ 228**	**$ 78**	**$ 553**	**$ 129**	**$ 2,930**

(b) Intangible assets

(in millions)	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2019	$ 815	$ 49	$ 23	$ 887
Additions	4	34	–	38
Transfers	7	(7)	–	–
June 27, 2020	**$ 826**	**$ 76**	**$ 23**	**$ 925**
Accumulated amortization				
December 31, 2019	$ 741	$ –	$ 22	$ 763
Amortization	20	1	–	21
June 27, 2020	**$ 761**	**$ 1**	**$ 22**	**$ 784**
Carrying amounts				
December 31, 2019	$ 74	$ 49	$ 1	$ 124
June 27, 2020	**$ 65**	**$ 75**	**$ 1**	**$ 141**

(c) Right-of-use assets

(in millions)	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
December 31, 2019	$ 117	$ 265	$ 709	$ 21	$ 1	$ 1,113
Additions	4	11	126	–	–	141
Depreciation	(2)	(13)	(40)	(3)	–	(58)
Terminations	–	–	(1)	–	–	(1)
June 27, 2020	**$ 119**	**$ 263**	**$ 794**	**$ 18**	**$ 1**	**$ 1,195**

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

(a) Net defined benefit liability

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

As at (in millions)	**June 27, 2020**	December 31, 2019
Pension benefit assets	**$ 28**	$ 75
Pension benefit liabilities	$ 4,241	$ 2,660
Other post-employment and other long-term benefit liabilities	4,294	3,901
Total pension, other post-employment and other long-term benefit liabilities	$ 8,535	$ 6,561
Current other long-term benefit liabilities	**$ 63**	$ 63
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 8,472**	$ 6,498

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended (in millions)		**June 27, 2020**			June 29, 2019	
`	**Pension benefit plans**	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 179	$ 32	$ 211	$ 132	$ 29	$ 161
Interest cost	245	31	276	270	35	305
Interest income on plan assets	(224)	–	(224)	(246)	–	(246)
Other administration costs	4	–	4	4	–	4
Actuarial losses[1]	–	20	20	–	–	–
Plan amendments[2]	–	122	122	–	–	–
Defined benefit expense	204	205	409	160	64	224
Defined contribution expense	7	–	7	6	–	6
Total expense	211	205	416	166	64	230
Return on segregated securities	–	(4)	(4)	–	(4)	(4)
Component included in employee benefits expense	**$ 211**	**$ 201**	**$ 412**	$ 166	$ 60	$ 226
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (1,864)	$ –	$ (1,864)	$ (457)	$ –	$ (457)
Actuarial losses	5,755	816	6,571	1,601	147	1,748
Component included in other comprehensive loss[3,4]	**$ 3,891**	**$ 816**	**$ 4,707**	$ 1,144	$ 147	$ 1,291

1. Remeasurements for other long-term benefits plans are recognized in net profit (loss) in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at June 27, 2020, was 2.4%, compared to 3.7% at March 28, 2020.
2. During the quarter, the arbitrator rendered her decision relating to collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). This ruling led to expanded eligibility for the post-employment health plan for employees represented by CUPW-RSMC, resulting in a plan amendment loss of $122 million.
3. Amounts presented in this table exclude income tax recovery of $1,178 million for the 13 weeks ended June 27, 2020 (income tax recovery of $325 million at June 29, 2019).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at June 27, 2020, was 2.9%, compared to 4.2% and 4.3% at March 28, 2020. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at June 29, 2019, were 3.0% and 3.1% compared to 3.3% and 3.4% at March 31, 2019.

For the 26 weeks ended (in millions)	**June 27, 2020**			June 29, 2019		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 355	$ 62	$ 417	$ 263	$ 57	$ 320
Interest cost	482	61	543	536	70	606
Interest income on plan assets	(441)	–	(441)	(487)	–	(487)
Other administration costs	7	–	7	7	–	7
Actuarial losses[1]	–	9	9	–	–	–
Plan amendments[2]	–	123	123	–	–	–
Defined benefit expense	403	255	658	319	127	446
Defined contribution expense	13	–	13	12	–	12
Total expense	416	255	671	331	127	458
Return on segregated securities	–	(8)	(8)	–	(15)	(15)
Component included in employee benefits expense	**$ 416**	**$ 247**	**$ 663**	$ 331	$ 112	$ 443
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ 428	$ –	$ 428	$ (2,006)	$ –	$ (2,006)
Actuarial losses	945	209	1,154	3,934	445	4,379
Component included in other comprehensive loss[3,4]	**$ 1,373**	**$ 209**	**$ 1,582**	$ 1,928	$ 445	$ 2,373

1. Remeasurements for other long-term benefits plans are recognized in net profit (loss) in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at June 27, 2020, was 2.4%, compared to 2.9% at December 31, 2019.
2. During the quarter, the arbitrator rendered her decision relating to CUPW-UPO and CUPW-RSMC collective agreements. This ruling led to expanded eligibility for the post-employment health plan for employees represented by CUPW-RSMC, resulting in a plan amendment loss of $122 million. In the first quarter, a plan amendment loss of $1 million was recorded due to the ratification of a new collective agreement with the Canadian Postmasters and Assistants Association (CPAA), which included modifications of the post-employment health plan.
3. Amounts presented in this table exclude income tax recovery of $397 million for the 26 weeks ended June 27, 2020 (income tax recovery of $596 million at June 29, 2019).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at June 27, 2020, was 2.9%, compared to 3.1% and 3.2%, respectively, at December 31, 2019, and 3.0% and 3.1%, respectively at June 29, 2019, compared to 3.8% and 3.9%, respectively, at December 31, 2018.

(c) Total cash payments and funding relief

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

For the (in millions)	**13 weeks ended**		**26 weeks ended**	
	June 27, 2020	June 29, 2019	**June 27, 2020**	June 29, 2019
Benefits paid directly to beneficiaries for other benefit plans	$ 31	$ 41	$ 69	$ 81
Employer regular contributions to pension benefit plans	64	77	137	159
Employer special contributions to pension benefit plans	1	16	13	29
Cash payments for defined benefit plans	96	134	219	269
Contributions to defined contribution plans	7	6	13	12
Total cash payments	**$ 103**	$ 140	**$ 232**	$ 281

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2020 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2019.

Due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into effect May 27, 2020, establishing the moratorium on solvency special payments for the remainder of 2020 for federally regulated, defined benefit pension plans. Under these regulations, from the effective date until December 30, 2020, solvency special payments are not required. The regulations also provide accommodations for payments made since April 1, 2020. These measures relieve the Corporation of making $368 million of special solvency payments for 2020. Market volatility due to COVID-19 could have a significant effect on solvency payments for 2021 and thereafter.

7. Lease Liabilities

(a) Lease liabilities

As at (in millions)	June 27, 2020	December 31, 2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$ 151	$ 156
One to five years	523	512
More than five years	1,194	1,073
Total undiscounted lease liabilities	**$ 1,868**	$ 1,741
Lease liabilities in the consolidated statement of financial position	**$ 1,384**	$ 1,299
Current lease liabilities	$ 120	$ 116
Non-current lease liabilities	1,264	1,183

Included in the above table are lease payments (undiscounted lease liabilities) to be made to related parties in the normal course of business, in the amount of $27 million for premises used in postal operations and transportation services (December 31, 2019 – $29 million). Leases that have not yet commenced, but which have been committed to as at June 27, 2020, have future cash outflows of $57 million that are included in the above maturity analysis, but they are excluded from the measurement of lease liabilities.

(b) Changes in liabilities arising from financing activities

(in millions)	December 31, 2019	Payments	Interest	Net lease additions	June 27, 2020
Lease liabilities	$ 1,299	$ (77)	$ 21	$ 141	**$ 1,384**

8. Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 26 weeks ended June 27, 2020 (in millions)	Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2019	$ 59	$ 5	$ 64		
Gains arising	$ 42	$ –	$ 42	$ (1,582)	$ (1,540)
Income taxes	(11)	–	(11)	397	386
Net	**$ 31**	**$ –**	**$ 31**	**$ (1,185)**	**$ (1,154)**
Accumulated balance as at June 27, 2020	**$ 90**	**$ 5**	**$ 95**		

9. Labour-related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. There have been no significant changes to the labour-related matters as disclosed in Note 15 of the Corporation's 2019 annual consolidated financial statements, except as noted below.

(a) Canada Post and the Canadian Union of Postal Workers (CUPW) completed implementing the major components of the arbitrator's May 2018 pay equity decision in 2019 with only a few outstanding items remaining. One unresolved issue provided for in the original award has been forwarded by CUPW to the binding arbitration process, while solutions for others are still being discussed. Adjustments were retroactive to January 1, 2016.

(b) On June 11, the arbitrator released her decision under the binding arbitration process to replace expired collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). The new four-year agreements will expire December 31, 2021 (RSMC) and January 31, 2022 (UPO), and include annual wage increases (both units), together with changes to a number of other provisions. The Corporation is continuing to interpret and implement the awards.

It is currently not possible for the Corporation to predict the final outcome of the various pay equity and related matters, and it may adjust any such provisions in its net profit for subsequent periods, as required. These matters will continue to evolve, but further detailed information will not be provided as it could be prejudicial to the Corporation.

10. Contingent Liabilities

There have been no significant changes to the contingent liabilities as disclosed in Note 16 of the Corporation's 2019 consolidated financial statements except as noted below.

Accelerated delivery service – Class-action lawsuit

An application was made to the Quebec Superior Court on July 6, 2020, to institute a class action against Canada Post on behalf of a class of customers who, since March 14, 2020, paid for an expedited service offered by Canada Post, for which the on-time delivery guarantee had not been met. Canada Post suspended on-time delivery guarantees on March 19, 2020, until further notice, due to COVID-19 and required operational changes to preserve the health and safety of employees and Canadians. The allegation is essentially that Canada Post, nevertheless, continued to promote the delivery guarantees for expedited services, while refusing to honour them. The proposed class action is seeking, for all proposed class members, full refunds, compensatory damages and punitive damages.

11. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

The fair values of cash and cash equivalents, marketable securities, segregated securities, trade and other receivables, trade and other payables and salaries and benefits payable and related provisions are a reasonable approximation of their carrying values as presented on the statement of financial position. Also, these financial instruments are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between levels of the fair value hierarchy during the period ended June 27, 2020.

Financial risk factors

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

(a) Market risk

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

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. COVID-19 has led to additional market volatility, including foreign exchange. The valuation of outstanding forward contracts was as follows:

As at June 27, 2020
(in millions)

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$79	$ 104	1.312$/US$	July 10, 2020 - December 4, 2020	Sell forward	$ (4)
Euro	€44	66	1.478$/€	July 10, 2020 - December 4, 2020	Sell forward	(3)
British pound	£10	17	1.717$/£	July 10, 2020 - December 4, 2020	Sell forward	–
Japanese yen	¥1,395	17	0.012$/¥	July 10, 2020 - December 4, 2020	Sell forward	(1)
Chinese renminbi	CN¥116	22	0.190$/CN¥	July 10, 2020 - December 4, 2020	Sell forward	–
Total		**$ 226**				**$ (8)**

As at December 31, 2019
(in millions)

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$54	$ 71	$1.321/US$	January 17, 2020	Sell forward	$ 1
Euro	€36	53	$1.467/€	January 17, 2020	Sell forward	1
British pound	£8	13	$1.732/£	January 17, 2020	Sell forward	–
Japanese yen	JP¥1,100	13	$0.012/JP¥	January 17, 2020	Sell forward	–
Chinese renminbi	CN¥94	18	$0.187/CN¥	January 17, 2020	Sell forward	–
Total		$ 168				$ 2

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

For the 13 weeks ended (in millions)			**June 27, 2020**			June 29, 2019
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange losses	Derivative gains	Total
Unrealized	$ (14)	$ 8	$ (6)	$ (5)	$ 4	$ (1)
Realized	3	(1)	2	–	1	1
Total	**$ (11)**	**$ 7**	**$ (4)**	$ (5)	$ 5	$ –

For the 26 weeks ended (in millions)			**June 27, 2020**			June 29, 2019
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange losses	Derivative gains	Total
Unrealized	$ 3	$ (8)	$ (5)	$ (7)	$ 7	$ –
Realized	8	(1)	7	–	–	–
Total	**$ 11**	**$ (9)**	**$ 2**	$ (7)	$ 7	$ –

(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 Group of Companies. 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. Additional measurement uncertainty exists given that the magnitude and duration of COVID-19 are unknown; however, increases to expected credit losses recorded to the financial statements in 2020 were not significant.

(b.1) Cash equivalents, marketable securities and segregated securities • COVID-19 has caused volatility in global market conditions. Bond yield spreads widened and default rates increased, resulting in an increased credit risk. We assessed and increased our estimate of the 12-month expected credit loss on certain marketable securities and segregated asset investments for investment categories with maturities greater than 12 months in the first quarter. There were no changes to this assessment in the second quarter.

(b.2) Trade and other receivables • The Group of Companies estimates the lifetime expected credit losses from a combination of risk modelling and specific allowances. The risk model uses forward-looking information to identify a deterioration of credit. The specific allowances include amounts known to be in default, which have not been written off because internal collection efforts continue. Active monitoring of aged receivables, credit utilization and risk modelling caused by continued weakness in many sectors of the Canadian economy due to COVID-19 have resulted in an increase to the Group of Companies' bad debt expense and expected credit loss allowance of our commercial accounts receivable.

(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 Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in what management believes are high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

Due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into force May 27, 2020, establishing the moratorium on solvency special payments for the remainder of 2020 for federally regulated, defined benefit pension plans. This moratorium relieves the Corporation of making $368 million of solvency special payments in 2020. Market volatility due to COVID-19 could have a significant effect on solvency payments for 2021 and thereafter.

12. Other Operating Costs

For the (in millions)	**13 weeks ended**		**26 weeks ended**	
	June 27, 2020	June 29, 2019	**June 27, 2020**	June 29, 2019
Non-labour collection, processing and delivery	$ 412	$ 373	$ 812	$ 755
Property, facilities and maintenance	72	65	147	139
Selling, administrative and other	148	138	289	264
Other operating costs	**$ 632**	$ 576	**$ 1,248**	$ 1,158

13. Investing and Financing Income (Expense)

For the (in millions)	**13 weeks ended**		**26 weeks ended**	
	June 27, 2020	June 29, 2019	**June 27, 2020**	June 29, 2019
Interest revenue	$ 8	$ 16	$ 22	$ 33
Gain (loss) on sale of capital assets and assets held for sale	–	1	–	1
Other income	1	–	1	–
Investment and other income	**$ 9**	$ 17	**$ 23**	$ 34
Interest expense	$ (20)	$ (20)	$ (41)	$ (40)
Other expense	(4)	(4)	(7)	(7)
Finance costs and other expense	**$ (24)**	$ (24)	**$ (48)**	$ (47)
Investing and financing expense, net	**$ (15)**	$ (7)	**$ (25)**	$ (13)

14. Related Party Transactions

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

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

For the (in millions)	**13 weeks ended**		**26 weeks ended**	
	June 27, 2020	June 29, 2019	**June 27, 2020**	June 29, 2019
Related party revenue	**$ 60**	$ 57	**$ 121**	$ 119
Compensation payments for programs				
Government mail and mailing of materials for persons who are blind	**$ 6**	$ 5	**$ 12**	$ 11
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2	**$ 4**	$ 4
Related party expenditures	**$ 4**	$ 5	**$ 10**	$ 12

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for persons who are blind sent free of postage. For related party lease information, refer to Note 7 (a).

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

As at (in millions)	June 27, 2020	December 31, 2019
Due to/from related parties		
Included in trade and other receivables	**$ 11**	$ 15
Included in trade and other payables	**$ 7**	$ 10
Deferred revenue from related parties	**$ 1**	$ 2

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 26 weeks ended June 27, 2020, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $3 million and $6 million for the 13 and 26 weeks ended June 27, 2020, respectively (June 29, 2019 – $4 million and $7 million, respectively). These transactions were made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 and 26 weeks ended June 27, 2020, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million and $6 million, respectively (June 29, 2019 – $3 million and $6 million, respectively). As at June 27, 2020, $7 million (December 31, 2019 – $13 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables. Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 6 (c).

15. Segmented and Disaggregation of Revenue Information

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

As at and for the 13 weeks ended June 27, 2020
(in millions)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,608	$ 497	$ 72	$ 1	$ 2,178
Intersegment revenue	25	7	9	(41)	–
Revenue from operations	$ 1,633	$ 504	$ 81	$ (40)	$ 2,178
Labour and employee benefits	$ 1,448	$ 235	$ 42	$ 31	$ 1,756
Other operating costs	474	205	24	(71)	632
Depreciation and amortization	79	20	10	(1)	108
Cost of operations	$ 2,001	$ 460	$ 76	$ (41)	$ 2,496
Profit (loss) from operations	$ (368)	$ 44	$ 5	$ 1	$ (318)
Investment and other income	$ 9	$ 1	$ –	$ (1)	$ 9
Finance costs and other expense	(19)	(6)	(1)	2	(24)
Profit (loss) before tax	$ (378)	$ 39	$ 4	$ 2	$ (333)
Tax expense (recovery)	(96)	10	1	1	(84)
Net profit (loss)	$ (282)	$ 29	$ 3	$ 1	$ (249)
Total assets	$ 9,745	$ 1,566	$ 283	$ (319)	$ 11,275
Total liabilities	$ 11,673	$ 971	$ 172	$ (27)	$ 12,789

As at and for the 13 weeks ended June 29, 2019
(in millions)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,628	$ 479	$ 76	$ –	$ 2,183
Intersegment revenue	16	6	9	(31)	–
Revenue from operations	$ 1,644	$ 485	$ 85	$ (31)	$ 2,183
Labour and employee benefits	$ 1,196	$ 217	$ 41	$ 29	$ 1,483
Other operating costs	418	193	27	(62)	576
Depreciation and amortization	77	20	9	–	106
Cost of operations	$ 1,691	$ 430	$ 77	$ (33)	$ 2,165
Profit (loss) from operations	$ (47)	$ 55	$ 8	$ 2	$ 18
Investment and other income	$ 15	$ 2	$ –	$ –	$ 17
Finance costs and other expense	(18)	(5)	(1)	–	(24)
Profit (loss) before tax	$ (50)	$ 52	$ 7	$ 2	$ 11
Tax expense (recovery)	(13)	14	1	–	2
Net profit (loss)	$ (37)	$ 38	$ 6	$ 2	$ 9
Total assets	$ 9,450	$ 1,293	$ 268	$ (307)	$ 10,704
Total liabilities	$ 11,725	$ 710	$ 169	$ (13)	$ 12,591

As at and for the 26 weeks ended June 27, 2020
(in millions)

	Canada Post	**Purolator**	**Logistics**	**Other**	**Total**
Revenue from external customers	$ 3,273	$ 948	$ 139	$ –	$ 4,360
Intersegment revenue	39	13	18	(70)	–
Revenue from operations	$ 3,312	$ 961	$ 157	$ (70)	$ 4,360
Labour and employee benefits	$ 2,654	$ 466	$ 80	$ 58	$ 3,258
Other operating costs	929	400	49	(130)	1,248
Depreciation and amortization	157	38	20	–	215
Cost of operations	$ 3,740	$ 904	$ 149	$ (72)	$ 4,721
Profit (loss) from operations	$ (428)	$ 57	$ 8	$ 2	$ (361)
Investment and other income	$ 21	$ 2	$ –	$ –	$ 23
Finance costs and other expense	(37)	(10)	(2)	1	(48)
Profit (loss) before tax	$ (444)	$ 49	$ 6	$ 3	$ (386)
Tax expense (recovery)	(112)	12	2	–	(98)
Net profit (loss)	$ (332)	$ 37	$ 4	$ 3	$ (288)
Total assets	$ 9,745	$ 1,566	$ 283	$ (319)	$ 11,275
Total liabilities	$ 11,673	$ 971	$ 172	$ (27)	$ 12,789

As at and for the 26 weeks ended June 29, 2019
(in millions)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 3,286	$ 913	$ 148	$ –	$ 4,347
Intersegment revenue	30	13	17	(60)	–
Revenue from operations	$ 3,316	$ 926	$ 165	$ (60)	$ 4,347
Labour and employee benefits	$ 2,337	$ 438	$ 83	$ 57	$ 2,915
Other operating costs	847	378	54	(121)	1,158
Depreciation and amortization	153	40	18	–	211
Cost of operations	$ 3,337	$ 856	$ 155	$ (64)	$ 4,284
Profit (loss) from operations	$ (21)	$ 70	$ 10	$ 4	$ 63
Investment and other income	$ 30	$ 3	$ 1	$ –	$ 34
Finance costs and other expense	(36)	(9)	(2)	–	(47)
Profit (loss) before tax	$ (27)	$ 64	$ 9	$ 4	$ 50
Tax expense (recovery)	(7)	17	2	–	12
Net profit (loss)	$ (20)	$ 47	$ 7	$ 4	$ 38
Total assets	$ 9,450	$ 1,293	$ 268	$ (307)	$ 10,704
Total liabilities	$ 11,725	$ 710	$ 169	$ (13)	$ 12,591

(b) Geographic area revenue information

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

For the (in millions)	**13 weeks ended**		**26 weeks ended**	
	June 27, 2020	June 29, 2019	**June 27, 2020**	June 29, 2019
Canada	$ 2,075	$ 2,054	$ 4,127	$ 4,105
United States	54	62	120	122
Rest of the world	49	67	113	120
Total revenue	**$ 2,178**	$ 2,183	**$ 4,360**	$ 4,347

(c) Products and services revenue information

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

For the 13 weeks ended
(in millions)

	June 27, 2020			June 29, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Transaction Mail	$ 428	$ (1)	$ 427	$ 487	$ (1)	$ 486
Parcels	1,428	(37)	1,391	1,191	(27)	1,164
Direct Marketing	146	–	146	273	–	273
Other revenue	121	(77)	44	118	(69)	49
	$ 2,123	**$ (115)**	**$ 2,008**	$ 2,069	$ (97)	$ 1,972
Unattributed revenue						
Stamp postage	$ 79	$ –	$ 79	$ 76	$ –	$ 76
Meter postage	91	–	91	135	–	135
	$ 170	**$ –**	**$ 170**	$ 211	$ –	$ 211
Total	**$ 2,293**	**$ (115)**	**$ 2,178**	$ 2,280	$ (97)	$ 2,183

For the 26 weeks ended
(in millions)

	June 27, 2020			June 29, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Transaction Mail	$ 965	$ (1)	$ 964	$ 1,031	$ (1)	$ 1,030
Parcels	2,602	(62)	2,540	2,310	(52)	2,258
Direct Marketing	376	(1)	375	528	–	528
Other revenue	243	(149)	94	233	(135)	98
	$ 4,186	**$ (213)**	**$ 3,973**	$ 4,102	$ (188)	$ 3,914
Unattributed revenue						
Stamp postage	$ 167	$ –	$ 167	$ 156	$ –	$ 156
Meter postage	220	–	220	277	–	277
	$ 387	**$ –**	**$ 387**	$ 433	$ –	$ 433
Total	**$ 4,573**	**$ (213)**	**$ 4,360**	$ 4,535	$ (188)	$ 4,347

(d) Sales channel revenue information

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

For the 13 weeks ended
(in millions)

	June 27, 2020			June 29, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	$ 1,504	$ (38)	$ 1,466	$ 1,580	$ (27)	$ 1,553
Retail	613	–	613	505	–	505
	$ 2,117	$ (38)	$ 2,079	$ 2,085	$ (27)	$ 2,058
International	$ 104	$ –	$ 104	$ 129	$ –	$ 129
Other	$ 72	$ (77)	$ (5)	$ 66	$ (70)	$ (4)
Total	**$ 2,293**	**$ (115)**	**$ 2,178**	$ 2,280	$ (97)	$ 2,183

For the 26 weeks ended
(in millions)

	June 27, 2020			June 29, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	$ 3,046	$ (64)	$ 2,982	$ 3,127	$ (53)	$ 3,074
Retail	1,149	–	1,149	1,038	–	1,038
	$ 4,195	$ (64)	$ 4,131	$ 4,165	$ (53)	$ 4,112
International	$ 234	$ –	$ 234	$ 242	$ –	$ 242
Other	$ 144	$ (149)	$ (5)	$ 128	$ (135)	$ (7)
Total	**$ 4,573**	**$ (213)**	**$ 4,360**	$ 4,535	$ (188)	$ 4,347

CANADA POST
2701 RIVERSIDE DR SUITE N1200
OTTAWA ON K1A 0B1

General inquiries: 1-866-607-6301

For more contact information, visit our website at **canadapost.ca**.

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