
# 2021

## Canada Post Corporation

# FIRST QUARTER FINANCIAL REPORT

For the period ended April 3, 2021

# Contents

## Management's Discussion and Analysis



## Interim Condensed Consolidated Financial Statements

# 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 (first quarter or Q1) ended April 3, 2021, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. 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 (IFRSs) 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. Percentages are adjusted for business or paid days, where applicable. In the first quarter of 2021, there were two additional business days (which resulted in increased revenue) and three additional paid days (which resulted in increased cost of operations) compared to the first quarter in 2020.

This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements (interim financial statements) for the first quarter of 2021, 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, 2020.

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 May 20, 2021.

## 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 May 20, 2021, 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, which was declared a pandemic in March 2020, had a significant and material impact on our 2020 financial performance and continues to have an impact on our business in 2021. The impact on the Canadian and global economies, including our business, in 2021 and thereafter remains uncertain. Canadian businesses and consumers have used Canada Post differently, and its suppliers and partners have faced their own challenges. Canada Post follows the direction of the Public Health Agency of Canada and public 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 $2.0 billion for the first quarter (73.6% 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 approximately 6,000 retail post offices in the country.

## 1.1 Significant changes and business developments

### Canada Post segment

Throughout the first quarter of 2021, we continued our work to develop strategic plans in consultation with our shareholder, the Government of Canada. COVID-19 has accelerated the need for transformation for us to keep up with the changing needs of Canadians and Canadian businesses. We continue to maintain modifications we made last year in response to COVID-19, including 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. Given our many challenges and as a continuation from 2020, guarantees for all services were suspended through the first quarter of 2021.

COVID-19 began to have an impact on our revenue at the end of Q1 2020. Some of the changes we saw to our volumes and product mix in 2020 are part of a sustained shift to e-commerce, as consumers accelerated their adoption and frequency of online shopping by several years, while businesses continued to migrate to digital communication instead of Lettermail™. In Q1 2021, revenue growth of our Parcels line of business exceeded declines in Transaction Mail and Direct Marketing lines. However, our capacity continued to be overwhelmed by heavy parcel volumes.

Higher labour costs were incurred due to special employee leave and increased overtime expenses. Higher costs persist to ensure that best practices for health and safety are followed for our employees and Canadians.

***Labour matters***

#### Labour relations

Bargaining between the Association of Postal Officials of Canada (APOC) and Canada Post commenced in December 2020 to replace the collective agreement that expired March 31, 2021. A new agreement extending to March 31, 2025, is subject to ratification by members. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

#### Health and safety

We aim for zero harm based on our belief that occupational injuries, illnesses and incidents in all facets of our operation can be prevented. For the first quarter of 2021, our total injury frequency and lost-time injury frequency were lower than the same period in 2020. In 2021, COVID-19 continues to have a significant impact on the lives of all Canadians, including our employees, customers and suppliers. Our top priority during this challenging time remains the health and safety of our employees and Canadians.

## 1.2 Financial highlights

### Segment results – Profit (loss) before tax

| (in millions of dollars) | First quarter ended April 3, 2021 | March 28, 2020 | Change | % |
|---|---|---|---|---|
| Canada Post | (77) | (66) | (11) | (16.0) |
| Purolator | 51 | 10 | 41 | 406.7 |
| SCI | 6 | 2 | 4 | 199.5 |
| Other | 1 | 1 | – | (30.1) |
| **Canada Post Group of Companies** | **(19)** | **(53)** | **34** | **64.1** |

In the first quarter of 2021, the Canada Post Group of Companies loss before tax was $19 million. This result was $34 million better than Q1 2020. The Canada Post segment's loss before tax of $77 million was partly offset by Purolator's profit before tax of $51 million. The factors causing the Canada Post segment's financial results are recurring and a loss would have been incurred regardless of the impact of COVID-19.

### Canada Post segment

**Revenue by line of business**

| (in millions of dollars) | First quarter ended April 3, 2021 | March 28, 2020 | Change | %[1] |
|---|---|---|---|---|
| Parcels | 952 | 666 | 286 | 38.4 |
| Transaction Mail | 719 | 729 | (10) | (4.4) |
| Direct Marketing | 216 | 230 | (14) | (8.8) |
| Other | 68 | 54 | 14 | 21.2 |
| **Total** | **1,955** | **1,679** | **276** | **12.8** |

For the first quarter of 2021, revenue in the Canada Post segment was $276 million higher than in the same period of 2020, with growth in Parcels exceeding declines in Transaction Mail and Direct Marketing.

Parcels revenue grew by $286 million, or 38.4%,[1] in the first quarter, compared to the same period in 2020. Our capacity was strained in January and February and we worked hard to clear backlogs of trailers that were waiting at our facilities for processing. We believe that a significant portion of this growth was attributed to COVID-19, and part of a sustained change in consumer behaviour.

Transaction Mail revenue declined by $10 million, or 4.4%,[1] in Q1 2021 compared to Q1 2020, as consumers and mailers continued to migrate to digital alternatives. Unlike previous years, due to COVID-19, the Corporation decided to maintain stamp prices at 2020 levels through 2021, while minimizing the impact of other price changes.

Direct Marketing revenue saw a decrease of $14 million, or 8.8%,[1] in the first quarter compared to Q1 of the prior year. Similar to 2020, COVID-19 continued to result in delay or cancellation of marketing campaigns as well as an acceleration of digital substitution.

The cost of operations in the Canada Post segment increased by $287 million in the first quarter of 2021 compared to Q1 2020, partly due to the negative impact of three more paid days in Q1 2021. The increases in Q1 were caused by the same factors experienced in 2020, resulting mostly from higher parcel volumes and related labour costs, including special employee leave, annual wage increases, health and safety costs and increased collection, processing and delivery costs resulting from required operational changes due to COVID-19. The accelerated shift in our business from mail to parcels continues to put pressure on processing and delivery costs.

At the end of the first 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, resulting in a significant increase in discount rates used to measure solvency status of the RPP, and record remeasurements in other comprehensive income and profit and loss. The solvency deficit (using market value of plan assets) was estimated at $4.3 billion at the end of the first quarter compared to the 2020 year-end estimate of $7.1 billion, primarily due to a discount rate increase slightly offset by lower than expected asset returns. On an accounting basis, remeasurement gains primarily due to higher discount rates slightly offset by lower than expected asset returns were recorded in other comprehensive income for the Group of Companies’ defined benefit plans of $3,015 million, net of tax. A remeasurement gain of $12 million due to a higher discount rate was recorded in loss before tax for the Group of Companies’ other long-term benefit plans.

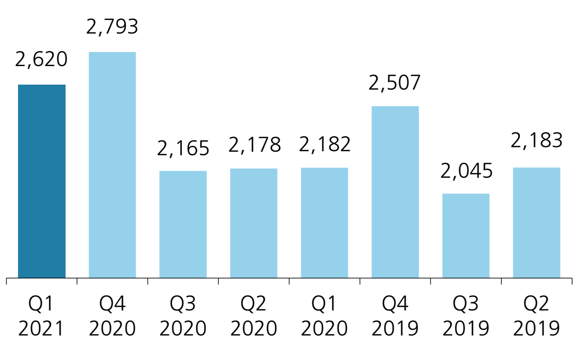
Canada Post does not expect to make solvency special payments for 2021; however, market volatility could have a significant effect on solvency payments for 2022 and thereafter. Canada Post continues to work with its shareholder, the Government of Canada, and has requested temporary relief from making future payments.

## Canada Post Group of Companies – 2021

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.

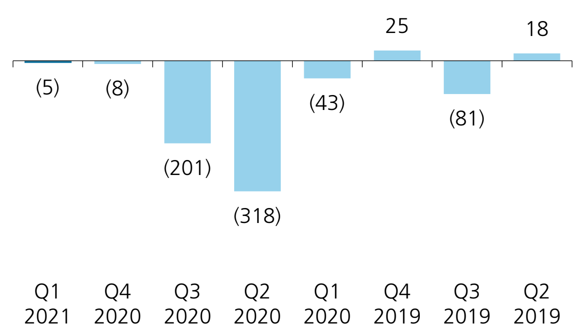
**Quarterly consolidated revenue from operations**

(in millions of dollars)



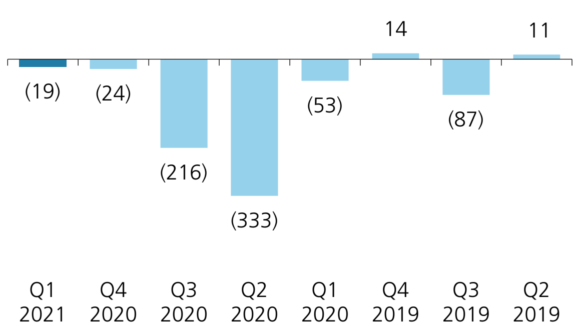

**Quarterly consolidated profit (loss) from operations**

(in millions of dollars)



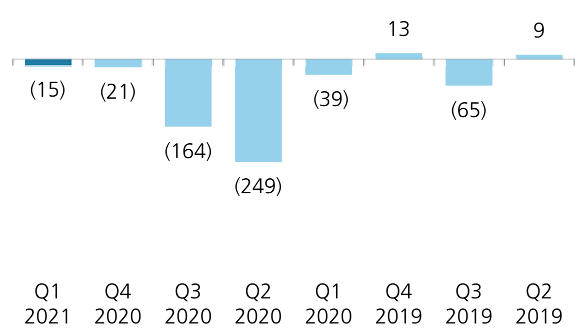

**Quarterly consolidated profit (loss) before tax**

(in millions of dollars)




**Quarterly consolidated net profit (loss)**

(in millions of dollars)



The following table presents the Group of Companies consolidated performance for the first quarter of 2021, compared to the same period in the prior year.

(in millions of dollars)

| | First quarter ended | | | | |
|---|---|---|---|---|---|
| | April 3, 2021 | March 28, 2020 | Change | % | Explanation of change |
| Consolidated statement of comprehensive income | | | | | Highlights, as discussed in Section 5 Discussion of Operations. |
| Revenue from operations | 2,620 | 2,182 | 438 | 16.3[1] | Growth in the Purolator and SCI segments, and Parcels growth offset by declines due to continued erosion from Transaction Mail and Direct Marketing in the Canada Post segment. |
| Cost of operations | 2,625 | 2,225 | 400 | 12.6[1] | Higher expenses in the Canada Post and Purolator segments due to labour and employee benefits, and Parcels volume growth. |
| Loss from operations | (5) | (43) | 38 | 87.7 | Mainly due to a loss in the Canada Post segment, partially offset by profit in the Purolator segment. |
| Loss before tax | (19) | (53) | 34 | 64.1 | |
| Net loss | (15) | (39) | 24 | 61.7 | |
| Comprehensive income | 2,963 | 2,313 | 650 | 28.1 | Mainly due to remeasurement gains on pension and other post-employment plans from stronger asset returns partially offset by smaller discount rate gains compared to Q1 2020. |
| Consolidated statement of cash flows | | | | | Highlights, as discussed in Section 6 Liquidity and Capital Resources. |
| Cash (used in) provided by operating activities | (37) | 144 | (181) | * | Primarily driven by changes in non-cash working capital and higher pension payments. |
| Cash used in investing activities | (238) | (46) | (192) | (416.3) | Mainly due to higher acquisitions of securities and capital assets partially offset by higher proceeds from the sale of capital assets. |
| Cash used in financing activities | (28) | (28) | – | (0.4) | No material change |

* The calculation is not mathematically meaningful.

## 2. Core Businesses and Strategy

*A discussion of Canada Post's business and strategy*

### Canada Post segment

There were no significant changes to our strategy during the first quarter of 2021. The company is focused on serving the rapidly changing needs of Canadians through transformation. Additional details will be provided in our second quarter financial report.

COVID-19 continues to bring an acceleration in Canadians' adoption of e-commerce, which we expect will increase online shopping well beyond the pandemic. This continued parcel growth has strained our operations and we are focused on implementing initiatives to build capacity and improve service for our customers through innovation, especially over the physical delivery experience. It is also our top priority to keep our employees safe.

Our comprehensive plan is anchored in our role of providing an essential service that all Canadians can count on. In order to do so, we continue to expand capacity, improve service and tracking, modernize our network, renew our fleet and green our operations. We are also building a safe and welcoming workplace that embraces and celebrates our differences by working toward equity, diversity and inclusion. As well, we are investing to reduce our environmental impact and taking concrete action to renew our relationships with Indigenous and northern communities.

# 3. Key Performance Drivers

*A discussion of our key achievements in 2021*

Performance scorecards monitoring progress against strategic priorities are reported monthly to senior management of the Canada Post segment. While detailed performance results for 2021 will be reported as part of the 2021 Annual MD&A, a summary of our progress toward achieving our 2021 plans during the first quarter is included below.

### Engaging our people

*Become an employer of choice 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 19% and 13%, respectively, over Q1 2020.

Reached a tentative four-year collective agreement with the Association of Postal Officials of Canada (APOC), prior to the expiry on March 31, 2021. The new collective agreement, which extends to March 31, 2025, is subject to ratification by members.

The number of grievances filed decreased by 7.8%, and we reduced pending grievances by 10.1%, compared to Q1 2020.

Equity, diversity and inclusion:

- Set and communicated equity targets to all functional leaders aligned with our 2021 targets: women 48.6%, Indigenous peoples 2.7%, persons with disabilities 4.4%, and members of visible minorities 19.8%.
- Signed the Special Measures Memorandum of Agreement with APOC to address the current under-representation of Indigenous peoples and persons with disabilities within our workforce by allowing us to introduce temporary measures to mitigate employment barriers.
- Held two Joint National and Diversity Committee meetings in Q1.
- Developed a joint equity census campaign with our four bargaining agents to be launched in Q2.
- Awarded 25 grants to Indigenous students.
- Launched three Indigenous Peoples Employee Resource Group (ERG) pilots with regional and local union representatives to amplify the voice of under-represented employees and identify barriers to attraction and retention.

### 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.*

Deployed 152 additional parcel lockers in apartment and condominium buildings.

Expanded automated parcel lockers to seven locations across Canada. Automated lockers can be found and accessed through the Canada Post website and app using the FlexDelivery™ feature, shown as blue icons. Users can also text "Locker" to 55555 to receive a link to the Canada Post website with steps on how to select an automated locker and have parcels shipped to that location.

Expanded parcel pickups for our commercial customers to more service areas, covering over 500 new postal codes.

Delivered 13.5 million postcards (one to every residential address in the country), to help Canadians stay in touch through the *Write Here, Write Now* program. These postcards were free to mail anywhere in Canada with no stamps needed.

Improved user experience for customers when logging into their Canada Post dashboard at canadapost.ca, including how to manage communications preferences.

Launched a presort option for Postal Code Targeting mailings, which provide commercial customers with more flexibility in the weight, size and shape of their mailings.

Presented the first Canada Post Smartmail Marketing™ Environmental Partner Award, which recognizes the implementation of a new or innovative practice that has a direct positive impact on the environmental sustainability of commercial mail.

### 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.*

Completed market assessments to identify retail locations where parcel drop boxes could be best used.

Progressed with building selection and architectural designs for the Indigenous community hub pilot, with a target launch in Q3.

Identified second community hub site location, with planned launch in Q4. Market assessments are under way for two additional sites.

Tested updated retail equipment and technology with a focus on performance-related issues in a new cloud infrastructure. Finalized training guides and communication sessions to support deployment.

Completed market assessments, identifying 23 parcel pickup pilot sites to improve service gaps for locations in rural Canada.

**Leveraging our superior network**

*By building capacity, improving service and creating flexibility in our unrivalled delivery network, respond to changing needs of Canadians and help Canadian businesses of all sizes compete locally and globally.*

***Infrastructure***

Nearly completed phase one of three in the construction of the new Ontario East Processing Centre.

Commenced operational performance improvement to increase utilization of existing sort capacity in Calgary, expanding to other sites through 2021.

Completed design of new parcel sorter in Kitchener, with installation to commence in Q2.

Signed lease on a warehouse in Vancouver for additional parcel capacity, which will be available for use in the 2021 peak holiday season.

Approved contracts and completed designs for customs modernization solution in Toronto exchange office to improve security of the mail, increase speed of processing and enhance revenue protection, with installation to commence in Q2.

***Technology and digital platform***

Received approval from the Board of Directors for a national telematics solution that includes deployment to the remainder of our fleet.

Progressed with pilot of dynamic routing capability in collaboration with the Canadian Union of Postal Workers.

Completed the request for information (RFI) phase for potential use of flexible robotic solutions to add automation in sortation processes in smaller sites with space limitations and began testing of low capacity flex-sort robots.

***Greening Canada Post and enhancing its accessibility***

Published internal documents on waste management practice and single-use plastic practice for events, meetings and cafeterias to guide our work toward achieving our zero-waste goal.

Piloted new waste diversion equipment at five plants and depots across the network.

Initiated phase-out of non-essential single-use plastics in meetings, events and cafeterias.

Added 319 hybrid vehicles to our fleet.

Continued investment in accessibility for employees and customers:

- Implemented icons and tactile features to enhance accessibility (wayfinding) in one community hub scheduled to open in Q3.
- Completed design of an accessibility website for employees to increase their awareness about disability and accessibility and help create a more inclusive workplace, with launch of site early in Q2.
- Developed the Canada Post National Accessible Design Standards and audit tool for assessing the level of accessibility in the built environment.
- Achieved a measure of 81.5% on digital accessibility across all active digital products in Q1, up from 77.3% in 2020.

# 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 2021 health and safety, and collective bargaining activities by segment is provided below.

### Health and safety

#### Canada Post segment

Our highest priority is injury reduction and the prevention of incidents. We aim for zero harm and remain committed to identifying, preventing and controlling hazards and risks that affect our employees, contractors, visitors and members of the public. The total injury frequency rate improved 19% and the lost-time injury frequency rate improved 13% compared to the first quarter of 2020. The severity of lost-time injuries, counted as the rate of days lost due to injuries per working hours, improved 7% year over year. We attribute overall improvements of safety results to the enhanced vigilance on safety by all employees across the country.

In the first quarter of 2021, we launched our 10-year continuous improvement mental health strategy with the following initiatives that support the psychological health of Canada Post employees:

- Stress and anxiety communications coupled with launch of a mandatory training module for employee mental health awareness.
- *Awake, Alert, Aware* – Four national initiatives developed by Local Joint Health and Safety committees across the country to address well-being and positive mental health. They include local ideas on self-care, gratitude, positivity and physical activity.
- Wellness Challenge – A five-week program focusing on physical activity, nutrition, psychological well-being, intellectual wellness and social connections.
- Domestic violence – Information for employees and team leaders to raise awareness and understanding of how to respond, and the support that is available for domestic violence.
- Expanding the *Not Myself Today* program.
- Union collaboration on peer support programs.

*Canada Labour Code – Amendments to Bill C-65 (Work Place Harassment and Violence Prevention Regulations)*

On January 31, 2021, changes to the *Canada Labour Code* that expand the existing Prevention of Violence framework came into effect. These amendments strengthen existing provisions with one comprehensive approach for all forms of harassment and violence in the federal public sector.

Canada Post's updated Workplace Harassment and Violence Policy launched in 2020 conforms to the *Canada Labour Code* amendments to Bill C-65 *Work Place Harassment and Violence Prevention Regulations* for federal employers. Updates include moving the focus to prevention and early resolution of situations that can lead to harassment and violence in the workplace, as well as new processes, documentation, training, monitoring and overall policy changes to ensure Canada Post is compliant with this new legislation. Mandatory e-learning training on workplace harassment and violence is required for all employees and team leaders by December 2021. In January 2021, we added a resolution process and training modules.

## Labour relations

### Canada Post segment

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

The current collective agreements for CUPW-UPO and CUPW-RSMC expire on December 31, 2021 (RSMC) and January 31, 2022 (UPO).

The major components of the arbitrator's May 2018 pay equity decision were implemented by Canada Post and CUPW in 2019. However, CUPW forwarded one unresolved issue to the binding arbitration process. In addition, there are a few other outstanding issues, which are still being discussed.

*Canadian Postmasters and Assistants Association (CPAA)*

The collective agreement with the CPAA expires December 31, 2023. The CPAA represents rural post office postmasters and assistants.

An implementation committee with representatives from the CPAA and Canada Post is implementing the settlement approved by the Canadian Human Rights Commission regarding the CPAA's complaint under the *Canadian Human Rights Act* alleging gender-based pay discrimination for the period 1992-97.

*Association of Postal Officials of Canada (APOC)*

Collective bargaining between APOC and Canada Post commenced in December 2020 to replace the collective agreement that expired March 31, 2021. Prior to the expiration, a tentative agreement was reached and is in the process of ratification by APOC membership. The new collective agreement extends to March 31, 2025. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

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

The collective agreement with PSAC/UPCE expires August 31, 2024. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees in areas such as finance and engineering.

As part of the mediated settlement reached after PSAC's application to the Canada Industrial Relations Board, PSAC, APOC and Canada Post continued their joint evaluation of certain jobs that the unions contend should have been included in their bargaining units. The initial phase of mediation concluded in early October, with the parties reaching agreement on the original set of 44 jobs submitted for consideration. The process to transition certain jobs into the agreed upon bargaining unit was commenced in Q1.

### 4.2 Internal controls and procedures

During the first quarter of 2021, 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 Consolidated trends

**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 days result in increased revenue, while additional paid days result in increased cost of operations. In the first quarter of 2021, there were two additional business days and three additional paid days compared to the first quarter in 2020.

| (in millions of dollars) | Q1 2021 | Q4 2020 | Q3 2020 | Q2 2020 | Q1 2020 | Q4 2019 | Q3 2019 | Q2 2019 |
|---|---|---|---|---|---|---|---|---|
| Revenue from operations | 2,620 | 2,793 | 2,165 | 2,178 | 2,182 | 2,507 | 2,045 | 2,183 |
| Cost of operations | 2,625 | 2,801 | 2,366 | 2,496 | 2,225 | 2,482 | 2,126 | 2,165 |
| **Profit (loss) from operations** | **(5)** | **(8)** | **(201)** | **(318)** | **(43)** | **25** | **(81)** | **18** |
| Investing and financing income (expense), net | (14) | (16) | (15) | (15) | (10) | (11) | (6) | (7) |
| **Profit (loss) before tax** | **(19)** | **(24)** | **(216)** | **(333)** | **(53)** | **14** | **(87)** | **11** |
| Tax expense (recovery) | (4) | (3) | (52) | (84) | (14) | 1 | (22) | 2 |
| **Net profit (loss)** | **(15)** | **(21)** | **(164)** | **(249)** | **(39)** | **13** | **(65)** | **9** |

### 5.2 Consolidated results from operations

#### Consolidated results for the first quarter

| | | | **First quarter ended** | |
|---|---|---|---|---|
| (in millions of dollars) | April 3, 2021 | March 28, 2020 | Change | % |
| Revenue from operations | 2,620 | 2,182 | 438 | 16.3[1] |
| Cost of operations | 2,625 | 2,225 | 400 | 12.6[1] |
| **Loss from operations** | **(5)** | **(43)** | **38** | **87.7** |
| Investing and financing income (expense), net | (14) | (10) | (4) | (30.8) |
| **Loss before tax** | **(19)** | **(53)** | **34** | **64.1** |
| Tax recovery | (4) | (14) | 10 | 70.6 |
| **Net loss** | **(15)** | **(39)** | **24** | **61.7** |
| Other comprehensive income | 2,978 | 2,352 | 626 | 26.6 |
| **Comprehensive income** | **2,963** | **2,313** | **650** | **28.1** |

The Canada Post Group of Companies' loss before tax of $19 million in the first quarter of 2021 was $34 million better than the loss before tax in the same period of 2020. A detailed discussion by segment is provided in sections 5.4 to 5.6.

## Consolidated revenue from operations

Revenue from operations increased by $438 million in the first quarter of 2021, compared to the first quarter of 2020, as a result of growth in Canada Post's Parcels line of business, which exceeded ongoing erosion in the Transaction Mail and Direct Marketing lines of business, as well as revenue growth in the Purolator and SCI segments. COVID-19 contributed to parcel growth and mail erosion. Two additional business days in Q1 2021 compared to Q1 2020 also resulted in additional revenue.

## Consolidated cost of operations

In the first quarter of 2021, the cost of operations increased by $400 million compared to the same period in the prior year, due to cost increases in labour, employee benefits and transportation related to growth, as well as increased costs related to COVID-19 in the Canada Post, Purolator and SCI segments. Three additional paid days in the first quarter of 2021 compared to the same period in 2020 also contributed to increased costs.

## Consolidated other comprehensive income

The consolidated other comprehensive income of $2,978 million was mainly due to remeasurement gains on pension and other post-employment plans, primarily due to an increase in discount rates slightly offset by lower than expected asset returns. Fluctuations in the various factors and assumptions used to remeasure these plans causes volatility and have a significant impact on the Group of Companies' other comprehensive income.

# 5.3 Operating results by segment

## Segmented results – Profit (loss) before tax

| | **First quarter ended** | | | |
|---|---|---|---|---|
| (in millions of dollars) | April 3, 2021 | March 28, 2020 | Change | % |
| Canada Post | (77) | (66) | (11) | (16.0) |
| Purolator | 51 | 10 | 41 | 406.7 |
| SCI | 6 | 2 | 4 | 199.5 |
| Other | 1 | 1 | – | (30.1) |
| **Canada Post Group of Companies** | **(19)** | **(53)** | **34** | **64.1** |

# 5.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $77 million in the first quarter compared to a loss before tax of $66 million for the same period in 2020. Growth in Parcels revenue more than offset declines in Transaction Mail and Direct Marketing revenue; however, labour costs increased as a result of Parcels growth and operational changes due to COVID-19.

## Summary of results for the first quarter

| | **First quarter ended** | | | |
|---|---|---|---|---|
| (in millions of dollars) | April 3, 2021 | March 28, 2020 | Change | % |
| Revenue from operations | 1,955 | 1,679 | 276 | 12.8[1] |
| Cost of operations | 2,026 | 1,739 | 287 | 11.2[1] |
| **Loss from operations** | **(71)** | **(60)** | **(11)** | **(18.3)** |
| Investing and financing income (expense), net | (6) | (6) | – | 4.9 |
| **Loss before tax** | **(77)** | **(66)** | **(11)** | **(16.0)** |

## Revenue from operations

Growth in Parcels revenue of $286 million more than offset declines in Transaction Mail and Direct Marketing revenue, of $10 million and $14 million, respectively, as consumers increased their online shopping when in-person shopping was restricted during COVID-19. Revenue for all lines of business increased as a result of two additional business days in Q1 2021 compared to Q1 in the prior year.

## Revenue and volumes by line of business for the first quarter

| | Revenue (in millions of dollars) | | | | Volume (in millions of pieces) | | | |
|---|---|---|---|---|---|---|---|---|
| | April 3, 2021 | March 28, 2020 | Change | %[1] | April 3, 2021 | March 28, 2020 | Change | %[1] |
| **Parcels** | | | | | | | | |
| Domestic Parcels | 742 | 505 | 237 | 42.4 | 77 | 53 | 24 | 39.5 |
| Outbound Parcels | 86 | 62 | 24 | 34.1 | 4 | 3 | 1 | 41.1 |
| Inbound Parcels | 118 | 94 | 24 | 21.5 | 17 | 19 | (2) | (9.6) |
| Other | 6 | 5 | 1 | 6.7 | – | – | – | – |
| **Total Parcels** | **952** | **666** | **286** | **38.4** | **98** | **75** | **23** | **27.3** |
| **Transaction Mail** | | | | | | | | |
| Domestic Lettermail | 683 | 679 | 4 | (2.6) | 696 | 716 | (20) | (5.8) |
| Outbound Letter-post | 22 | 24 | (2) | (12.5) | 10 | 12 | (2) | (18.3) |
| Inbound Letter-post | 14 | 26 | (12) | (46.3) | 15 | 22 | (7) | (34.5) |
| **Total Transaction Mail** | **719** | **729** | **(10)** | **(4.4)** | **721** | **750** | **(29)** | **(6.9)** |
| **Direct Marketing** | | | | | | | | |
| Canada Post Personalized Mail™ | 103 | 109 | (6) | (8.0) | 181 | 195 | (14) | (9.9) |
| Canada Post Neighbourhood Mail™ | 75 | 80 | (5) | (9.9) | 637 | 681 | (44) | (9.4) |
| **Total Canada Post Smartmail Marketing™** | **178** | **189** | **(11)** | **(8.8)** | **818** | **876** | **(58)** | **(9.5)** |
| Publications Mail™ | 30 | 33 | (3) | (12.4) | 42 | 47 | (5) | (12.7) |
| Business Reply Mail™ and Other Mail | 5 | 5 | – | (1.7) | 4 | 3 | 1 | (3.1) |
| Other | 3 | 3 | – | 19.8 | – | – | – | – |
| **Total Direct Marketing** | **216** | **230** | **(14)** | **(8.8)** | **864** | **926** | **(62)** | **(9.7)** |
| Other Revenue | 68 | 54 | 14 | 21.1 | – | – | – | – |
| **Total** | **1,955** | **1,679** | **276** | **12.8** | **1,683** | **1,751** | **(68)** | **(6.9)** |

*Parcels*

Parcels revenue in Q1 2021 increased by $286 million, or 38.4%,[1] compared to Q1 2020. We believe a significant portion of this growth was attributed to COVID-19; however, some changes in consumer behaviour are likely part of a sustained shift to e-commerce. Capacity constraints throughout our network required that we manage volumes and re-route parcels, causing backlogs of items in our network. Capacity will remain a challenge into Q2 as provinces impose additional restrictions on retail businesses, affecting people’s ability to shop in stores.

*Transaction Mail*

Transaction Mail revenue decreased by $10 million, or 4.4%,[1] in the first quarter compared to the same period in 2020. Businesses increasingly used digital communication rather than Lettermail™ and some of this trend was driven by COVID-19. In some cases, Canada Post’s customers are proactively working to convert their customers to e-solutions and digital alternatives. Unlike previous years, the Corporation decided, due to COVID-19, to maintain stamp prices at 2020 levels through 2021, while minimizing the impact of other price changes.

*Direct Marketing*

Direct Marketing revenue decreased by $14 million, or 8.8%,[1] compared to Q1 2020. Declines in Personalized Mail™ and Neighbourhood Mail™ revenue and volumes were caused by customers delaying or cancelling marketing campaigns. Additional provincial restrictions across Canada into Q2 may continue to affect many businesses that rely on customer traffic in store. Outside of the effects of COVID-19, results for this product are affected by the dynamic and competitive nature of this business.

*Other Revenue*

Other Revenue increased by $14 million, or 21.1%,[1] in the first quarter compared to the same period in the prior year, mainly due to an increase in digital and consumer products and services.

## Cost of operations

In Q1 2021, the Canada Post segment's cost of operations increased by $287 million compared to 2020. The increase was partly due to the negative impact of three more paid days during the first quarter of 2021, but also due to higher labour costs, special employee leave, health and safety, as well as increased collection, processing and delivery costs resulting from required operational changes and additional parcel volumes.

| | First quarter ended | | | |
|---|---|---|---|---|
| (in millions of dollars) | April 3, 2021 | March 28, 2020 | Change | %[1] |
| Labour | 980 | 853 | 127 | 9.7 |
| Employee benefits | 412 | 353 | 59 | 11.3 |
| **Total labour and employee benefits** | **1,392** | **1,206** | **186** | **10.2** |
| Non-labour collection, processing and delivery | 350 | 273 | 77 | 22.5 |
| Property, facilities and maintenance | 63 | 54 | 9 | 10.7 |
| Selling, administrative and other | 143 | 128 | 15 | 6.5 |
| **Total other operating costs** | **556** | **455** | **101** | **16.6** |
| Depreciation and amortization | 78 | 78 | – | (4.8) |
| **Total** | **2,026** | **1,739** | **287** | **11.2** |

### *Labour*

Labour costs increased by $127 million compared to Q1 2020, partly due to the negative impact of three more paid days during the first quarter of 2021, as well as the impact of COVID-19, which resulted in significant parcel volume growth alongside physical distancing measures, increase in employee special leave and annual wage increases.

### *Employee benefits*

Benefit costs were $59 million higher in the first quarter of 2021, compared to Q1 2020 primarily due to three more paid days in the quarter, higher labour costs and a decrease in the discount rate which increased the non-cash pension expense in 2021 compared to 2020.

### *Other operating costs*

Changes in these costs in Q1 2021 were as follows:

- Contracted collection, processing and delivery costs increased by $77 million in the first quarter of 2021 compared to 2020, mainly due to Parcels volume growth that resulted in higher spending on transportation, international settlements and dealer fees. Higher costs due to health and safety supplies were also incurred.
- The cost of facilities increased by $9 million for Q1 2021 compared to 2020, mainly due to cleaning and maintenance costs related to COVID-19.
- Selling, administrative and other expenses increased by $15 million for the first quarter of 2021 compared to 2020, mainly due to increased non-capital investments to sustain our network and support ongoing parcel growth, partly offset by travel savings due to COVID-19.

# 5.5 Purolator segment

The Purolator segment's profit before tax in the first quarter of 2021 increased by $41 million compared to the first quarter of 2020.

## Summary of results for the first quarter

| | First quarter ended | | | |
|---|---|---|---|---|
| (in millions of dollars) | April 3, 2021 | March 28, 2020 | Change | % |
| Revenue from operations | 626 | 457 | 169 | 32.9[1] |
| Cost of operations | 568 | 444 | 124 | 22.4[1] |
| **Profit from operations** | **58** | **13** | **45** | **336.4** |
| Investing and financing income (expense), net | (7) | (3) | (4) | (113.9) |
| **Profit before tax** | **51** | **10** | **41** | **406.7** |

Revenue from operations increased by $169 million in the first quarter of 2021, compared to the same period in the prior year, mainly due to continuing volume growth in business to consumer market in both domestic and cross border as a result of COVID-19 and company's plan to grow market share in this segment. Annual wage increases and business growth caused a significant increase in labour costs of $54 million. Non-labour cost increases of $70 million in Q1 2021, compared to Q1 2020, were driven by volume growth in high cost to service business to consumer market, additional health and safety measures and increased employee benefits including pension.

### 5.6 SCI segment

SCI's profit before tax increased by $4 million for the first quarter of 2021, compared to the same period in the prior year.

#### Summary of results for the first quarter

| | First quarter ended | | | |
|---|---|---|---|---|
| (in millions of dollars) | April 3, 2021 | March 28, 2020 | Change | % |
| Revenue from operations | 84 | 76 | 8 | 12.4[1] |
| Cost of operations | 77 | 73 | 4 | 7.2[1] |
| **Profit from operations** | **7** | **3** | **4** | **140.2** |
| Investing and financing income (expense), net | (1) | (1) | – | 8.6 |
| **Profit before tax** | **6** | **2** | **4** | **199.5** |

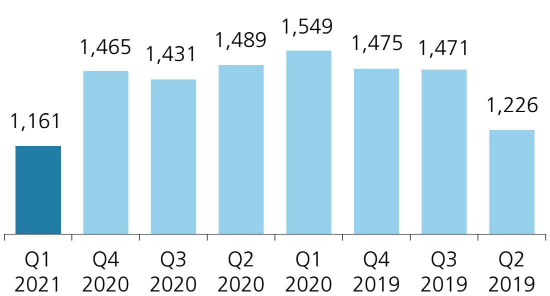
Revenue from operations increased by $8 million compared to the first quarter of 2020, primarily due to growth in volumes from existing customers as well as new business. As a result of these higher volumes, cost of operations was higher by $4 million compared to the same period in 2020 due to cost increases for salaries and transportation.

## 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 $1,161 million as at April 3, 2021, compared to $1,465 million as at December 31, 2020. The cash decrease of $304 million was due to lower cash from working capital (mainly due to timing) as well as acquisitions of securities and capital assets.

### 6.2 Operating activities

| | First quarter ended | | |
|---|---|---|---|
| (in millions of dollars) | April 3, 2021 | March 28, 2020 | Change |
| Cash (used in) provided by operating activities | (37) | 144 | (181) |

Cash used in operating activities was $37 million in the first quarter of 2021, compared to cash provided by operating activities of $144 million in the same period in 2020. The negative change in cash flow was primarily due to changes in working capital and higher pension payments, partially offset by higher net income in the Purolator segment due to strong parcel growth.

## 6.3 Investing activities

| (in millions of dollars) | First quarter ended April 3, 2021 | March 28, 2020 | Change |
|---|---|---|---|
| Cash used in investing activities | (238) | (46) | (192) |

Cash used in investing activities increased by $192 million in the first quarter of 2021, compared to the same period in 2020. The negative change in cash flow was mainly due to higher acquisitions of securities and capital assets combined with lower proceeds from the sale of securities, partially offset by higher proceeds from the sale of capital assets.

### Capital expenditures

| (in millions of dollars) | First quarter ended April 3, 2021 | March 28, 2020 | Change |
|---|---|---|---|
| Canada Post | 81 | 61 | 20 |
| Purolator | 60 | 23 | 37 |
| SCI | 1 | 2 | (1) |
| Innovapost and intersegment | 1 | – | 1 |
| **Canada Post Group of Companies** | **143** | **86** | **57** |

Capital expenditures for the Group of Companies increased by $57 million in the first quarter, mainly due to increased spending on infrastructure capacity in the Canada Post and Purolator segments.

## 6.4 Financing activities

| (in millions of dollars) | First quarter ended April 3, 2021 | March 28, 2020 | Change |
|---|---|---|---|
| Cash used in financing activities | (28) | (28) | – |

Cash used in financing activities was relatively unchanged in the first quarter of 2021 compared to the same period in 2020.

## 6.5 Canada Post Corporation Registered Pension Plan

At the end of the first quarter, the solvency deficit (using market value of plan assets) of the Canada Post Corporation Registered Pension Plan (RPP) was estimated at $4.3 billion, compared to the 2020 year-end estimate of $7.1 billion primarily due to a significant discount rate increase slightly offset by lower than expected asset returns. Canada Post does not expect to make solvency special payments for 2021; however, market volatility could have a significant effect on solvency payments for 2022 and thereafter. Canada Post continues to work with its shareholder, the Government of Canada, and has requested temporary relief from making future payments.

On an accounting basis, a remeasurement gain of $2.5 billion for the RPP, net of tax, was recorded in other comprehensive income for the first quarter of 2021, due to a significant discount rate increase, slightly offset by lower than expected asset returns.

Current service contributions amounted to $72 million and $59 million, respectively, in each of the first quarters of 2021 and 2020.

## 6.6 Liquidity and capital resources

### Liquidity

The Canada Post segment had $2,196 million of unrestricted liquid investments on hand as at April 3, 2021, and $100 million of lines of credit.

Canada Post does not expect to have to make solvency special payments in 2021. 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 $284 million of unrestricted cash on hand and undrawn credit facilities of $150 million as at April 3, 2021, 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 April 3, 2021, 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 2020 Annual MD&A.

## 7. Changes in Financial Position

*A discussion of significant changes in our assets and liabilities between April 3, 2021, and December 31, 2020*

| **ASSETS** (in millions of dollars) | Apr 3, 2021 | Dec 31, 2020 | Change | % | Explanation of change |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,161 | 1,465 | (304) | (20.8) | Refer to Section 6 Liquidity and Capital Resources. |
| Marketable securities | 1,319 | 1,256 | 63 | 5.1 | Due to purchase of securities. |
| Trade and other receivables | 977 | 1,065 | (88) | (8.3) | Mainly due to lower receivables in all segments due to lower revenues in Q1 2021 compared to Q4 2020. |
| Other assets | 230 | 217 | 13 | 6.4 | Mainly from higher income tax receivables in the Canada Post segment and higher prepaid expenses in the Purolator segment. |
| **Total current assets** | **3,687** | **4,003** | **(316)** | **(7.9)** | |
| Marketable securities | 82 | 45 | 37 | 84.6 | Due to purchase of corporate bonds. |
| Property, plant and equipment | 3,218 | 3,160 | 58 | 1.8 | Mainly due to acquisitions in excess of depreciation. |
| Intangible assets | 148 | 141 | 7 | 5.3 | Mainly due to an increase in software under development. |
| Right-of-use assets | 1,245 | 1,221 | 24 | 2.0 | Mainly due to new leases and lease renewals exceeding depreciation in the Canada Post and Purolator segments. |
| Segregated securities | 495 | 537 | (42) | (7.8) | Mainly due to unrealized losses in the Canada Post segment recorded in other comprehensive income. |
| Pension benefit assets | 182 | 25 | 157 | 659.8 | Mainly due to remeasurement gains resulting from an increase in discount rates slightly offset by lower than expected asset returns. |
| Deferred tax assets | 901 | 1,883 | (982) | (52.2) | Mainly due to the decrease of temporary differences related to remeasurement gains resulting from an increase in discount rates. |
| Goodwill | 130 | 130 | – | – | No change. |
| Other assets | 63 | 64 | (1) | (2.8) | No material change. |
| **Total non-current assets** | **6,464** | **7,206** | **(742)** | **(10.3)** | |
| **Total assets** | **10,151** | **11,209** | **(1,058)** | **(9.4)** | |

| **LIABILITIES** (in millions of dollars) | Apr 3, 2021 | Dec 31, 2020 | Change | % | Explanation of change |
|---|---|---|---|---|---|
| Trade and other payables | 682 | 878 | (196) | (22.3) | Mainly due to lower trade and other payables in the Canada Post and Purolator segments due to lower expenses and timing. |
| Salaries and benefits payable and related provisions | 741 | 812 | (71) | (8.8) | Mainly due to lower accrued salaries and benefits in the Canada Post segment, mainly due to timing. |
| Provisions | 59 | 61 | (2) | (2.6) | No material change. |
| Income tax payable | – | 9 | (9) | (97.4) | Due to payment of tax liabilities. |
| Deferred revenue | 181 | 218 | (37) | (17.2) | Mainly due to lower deferred revenue in the Canada Post segment related to meters, stamps and parcels. |
| Lease liabilities | 122 | 122 | – | 0.1 | No material change. |
| Other long-term benefit liabilities | 62 | 65 | (3) | (1.6) | No material change. |
| **Total current liabilities** | **1,847** | **2,165** | **(318)** | **(14.6)** | |
| Lease liabilities | 1,316 | 1,292 | 24 | 1.9 | Mainly due to new leases and lease renewals in the Canada Post and Purolator segments net of lease payments. |
| Loans and borrowings | 997 | 997 | – | – | No change. |
| Pension, other post-employment and other long-term benefit liabilities | 3,872 | 7,601 | (3,729) | (49.1) | Mainly due to remeasurement gains resulting from an increase in discount rates. |
| Other liabilities | 34 | 32 | 2 | 4.0 | No material change. |
| **Total non-current liabilities** | **6,219** | **9,922** | **(3,703)** | **(37.3)** | |
| **Total liabilities** | **8,066** | **12,087** | **(4,021)** | **(33.3)** | |
| **EQUITY** | | | | | |
| Contributed capital | 1,155 | 1,155 | – | – | No change. |
| Accumulated other comprehensive income | 55 | 92 | (37) | (39.8) | Mainly due to unrealized losses on segregated securities for dental, term life and death benefit plans in the Canada Post segment. |
| Accumulated surplus (deficit) | 825 | (2,166) | 2,991 | * | Driven by remeasurement gains in the Canada Post segment, mostly from a significant discount rate increase. |
| **Equity of Canada** | **2,035** | **(919)** | **2,954** | ***** | |
| Non-controlling interests | 50 | 41 | 9 | 23.2 | |
| **Total equity** | **2,085** | **(878)** | **2,963** | ***** | |
| **Total liabilities and equity** | **10,151** | **11,209** | **(1,058)** | **(9.4)** | |

* The calculation is not mathematically meaningful.

## 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 claims disclosed in the 2020 MD&A. 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.

As disclosed in the 2020 MD&A, uncertainties related to COVID-19 and the impact on our business and the economy remain. There were no developments in our emerging or principal risks in the first quarter of 2021.

# 9. Critical Accounting Estimates and Accounting Policy Developments

*A review of critical accounting estimates and changes in accounting policies in 2021 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 these 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 2020 Annual MD&A and Note 4 Critical Accounting Estimates and Judgments of the 2020 consolidated financial statements in addition to Note 2 Basis of Presentation in this first quarter financial report.

### COVID-19

COVID-19 has had a significant impact on the Canadian and global economies, including our business in 2020, which could have a prolonged negative impact on our financial results. 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, volatility 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, measurement of the pension benefit asset and pension, other post-employment and other long-term benefit obligations, deferred tax asset, solvency special payments, timing of revenue recognition and contract modifications.

## 9.2 Accounting pronouncements

**(a) New standards, amendments and interpretations**

There were no amendments issued by the International Accounting Standards Board (IASB) with effective dates of January 1, 2021.

**(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.

| Amendment | Effective for annual periods beginning on or after |
|---|---|
| Amendments to International Financial Reporting Standard (IFRS) 3 "Business Combinations – Reference to the Conceptual Framework" | January 1, 2022 |
| Amendments to International Accounting Standard (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 |
| Amendments to IFRS 16 "Leases – Lease Incentives" | January 1, 2022 |
| Amendments to IAS 1 "Presentation of Financial Statements" | January 1, 2023 |
| Amendments to IAS 1 "Presentation of Financial Statements – Disclosure of Accounting Policies" and IFRS Practice Statement 2 "Making Materiality Judgments" | January 1, 2023 |
| Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates" | January 1, 2023 |

**Endnote**

1. Adjusted for 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 Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and International Accounting Standard (IAS) 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 Chief Executive Officer

Interim Chief Financial Officer

May 20, 2021

# Interim Condensed Consolidated Statement of Financial Position

| As at<br>(Unaudited – in millions of Canadian dollars) | Notes | April 3, 2021 | December 31, 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **$ 1,161** | $ 1,465 |
| Marketable securities | | **1,319** | 1,256 |
| Trade, other receivables and contract assets | | **977** | 1,065 |
| Other assets | **4** | **230** | 217 |
| Total current assets | | **3,687** | 4,003 |
| **Non-current assets** | | | |
| Marketable securities | | **82** | 45 |
| Property, plant and equipment | **5** | **3,218** | 3,160 |
| Intangible assets | **5** | **148** | 141 |
| Right-of-use assets | **5** | **1,245** | 1,221 |
| Segregated securities | | **495** | 537 |
| Pension benefit assets | **6** | **182** | 25 |
| Deferred tax assets | | **901** | 1,883 |
| Goodwill | | **130** | 130 |
| Other assets | **4** | **63** | 64 |
| Total non-current assets | | **6,464** | 7,206 |
| Total assets | | **$ 10,151** | $ 11,209 |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **$ 682** | $ 878 |
| Salaries and benefits payable and related provisions | | **741** | 812 |
| Provisions | | **59** | 61 |
| Income tax payable | | **–** | 9 |
| Deferred revenue | | **181** | 218 |
| Lease liabilities | **7** | **122** | 122 |
| Other long-term benefit liabilities | **6** | **62** | 65 |
| Total current liabilities | | **1,847** | 2,165 |
| **Non-current liabilities** | | | |
| Lease liabilities | **7** | **1,316** | 1,292 |
| Loans and borrowings | | **997** | 997 |
| Pension, other post-employment and other long-term benefit liabilities | **6** | **3,872** | 7,601 |
| Other liabilities | | **34** | 32 |
| Total non-current liabilities | | **6,219** | 9,922 |
| Total liabilities | | **8,066** | 12,087 |
| **Equity** | | | |
| Contributed capital | | **1,155** | 1,155 |
| Accumulated other comprehensive income | **8** | **55** | 92 |
| Accumulated surplus (deficit) | | **825** | (2,166) |
| Equity of Canada | | **2,035** | (919) |
| Non-controlling interests | | **50** | 41 |
| Total equity | | **2,085** | (878) |
| Total liabilities and equity | | **$ 10,151** | $ 11,209 |

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**<br>(Unaudited – in millions of Canadian dollars) | **Notes** | **April 3, 2021** | March 28, 2020 |
|---|---|---|---|
| **Revenue from operations** | **13** | **$ 2,620** | $ 2,182 |
| **Cost of operations** | | | |
| Labour | | **1,261** | 1,087 |
| Employee benefits | | **486** | 415 |
| | | **1,747** | 1,502 |
| Other operating costs | **10** | **769** | 616 |
| Depreciation and amortization | **5** | **109** | 107 |
| Total cost of operations | | **2,625** | 2,225 |
| **Loss from operations** | | **(5)** | (43) |
| **Investing and financing income (expense)** | | | |
| Investment and other income | **11** | **13** | 14 |
| Finance costs and other expense | **11** | **(27)** | (24) |
| Investing and financing expense, net | | **(14)** | (10) |
| Loss before tax | | **(19)** | (53) |
| **Tax recovery** | | **(4)** | (14) |
| **Net loss** | | **$ (15)** | $ (39) |
| **Other comprehensive income** | **8** | | |
| **Items that may subsequently be reclassified to net profit (loss)** | | | |
| Change in unrealized fair value of financial assets | | **$ (35)** | $ 7 |
| Foreign currency translation adjustment | | **(2)** | 1 |
| Reclassification adjustments for gains included in net profit (loss) | | **–** | – |
| **Item never reclassified to net profit (loss)** | | | |
| Remeasurements of defined benefit plans | | **3,015** | 2,344 |
| **Other comprehensive income** | | **2,978** | 2,352 |
| **Comprehensive income** | | **$ 2,963** | $ 2,313 |
| **Net profit (loss) attributable to** | | | |
| Government of Canada | | **$ (18)** | $ (40) |
| Non-controlling interests | | **3** | 1 |
| | | **$ (15)** | $ (39) |
| **Comprehensive income attributable to** | | | |
| Government of Canada | | **$ 2,954** | $ 2,311 |
| Non-controlling interests | | **9** | 2 |
| | | **$ 2,963** | $ 2,313 |

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 April 3, 2021**<br>(Unaudited – in millions of Canadian dollars) | Contributed capital | Accumulated other comprehensive income | Accumulated surplus (deficit) | Equity of Canada | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| **Balance at December 31, 2020** | **$ 1,155** | **$ 92** | **$ (2,166)** | **$ (919)** | **$ 41** | **$ (878)** |
| **Net profit (loss)** | **–** | **–** | **(18)** | **(18)** | **3** | **(15)** |
| **Other comprehensive income (loss) (Note 8)** | **–** | **(37)** | **3,009** | **2,972** | **6** | **2,978** |
| **Comprehensive income (loss)** | **–** | **(37)** | **2,991** | **2,954** | **9** | **2,963** |
| **Balance at April 3, 2021** | **$ 1,155** | **$ 55** | **$ 825** | **$ 2,035** | **$ 50** | **$ 2,085** |

| For the 13 weeks ended March 28, 2020<br>(Unaudited – in millions of Canadian dollars) | Contributed capital | Accumulated other comprehensive income | Accumulated surplus (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) | – | – | (40) | (40) | 1 | (39) |
| Other comprehensive income (Note 8) | – | 8 | 2,343 | 2,351 | 1 | 2,352 |
| Comprehensive income | – | 8 | 2,303 | 2,311 | 2 | 2,313 |
| Balance at March 28, 2020 | $ 1,155 | $ 72 | $ 977 | $ 2,204 | $ 37 | $ 2,241 |

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

# Interim Condensed Consolidated Statement of Cash Flows

| **For the 13 weeks ended**<br>(Unaudited – in millions of Canadian dollars) | **Notes** | **April 3, 2021** | March 28, 2020 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss | | **$ (15)** | $ (39) |
| Adjustments to reconcile net profit to cash provided by operating activities: | | | |
| Depreciation and amortization | **5** | **109** | 107 |
| Pension, other post-employment and other long-term benefit expense | **6** | **288** | 255 |
| Pension, other post-employment and other long-term benefit payments | **6** | **(154)** | (129) |
| Gain on sale of capital assets | **11** | **(8)** | – |
| Tax recovery | | **(4)** | (14) |
| Net interest expense | **11** | **16** | 7 |
| Change in non-cash operating working capital: | | | |
| Decrease in trade and other receivables | | **89** | 53 |
| Decrease in trade and other payables | | **(185)** | (56) |
| (Decrease) increase in salaries and benefits payable and related provisions | | **(73)** | 36 |
| Decrease in provisions | | **(2)** | (6) |
| Net increase in other non-cash operating working capital | | **(46)** | (29) |
| Other income not affecting cash, net | | **(3)** | (4) |
| Cash provided by operations before interest and tax | | **12** | 181 |
| Interest received | | **7** | 14 |
| Interest paid | | **(31)** | (31) |
| Tax paid | | **(25)** | (20) |
| Cash (used in) provided by operating activities | | **(37)** | 144 |
| **Cash flows from investing activities** | | | |
| Acquisition of securities | | **(366)** | (336) |
| Proceeds from sale of securities | | **261** | 375 |
| Acquisition of capital assets | | **(143)** | (86) |
| Proceeds from sale of capital assets | | **10** | – |
| Other investing activities, net | | **–** | 1 |
| Cash used in investing activities | | **(238)** | (46) |
| **Cash flows from financing activities** | | | |
| Repayments of lease liabilities, net of sublease proceeds | | **(29)** | (27) |
| Other financing activities, net | | **1** | (1) |
| Cash used in financing activities | | **(28)** | (28) |
| **Net (decrease) increase in cash and cash equivalents** | | **(303)** | 70 |
| Cash and cash equivalents, beginning of period | | **1,465** | 1,475 |
| Effect of exchange rate changes on cash and cash equivalents | | **(1)** | 4 |
| **Cash and cash equivalents, end of period** | | **$ 1,161** | $ 1,549 |

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

# Notes to Interim Condensed Consolidated Financial Statements

For the 13 weeks ended April 3, 2021
(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, 2020. 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 they should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2020. These interim financial statements have been prepared based on International Financial Reporting Standards (IFRSs) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors May 20, 2021.

**Basis of presentation •** These interim financial statements have been prepared on a historical cost basis, except as permitted by IFRSs 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, 2020. 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, 2020.

**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, into 2021, and likely going forward. 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.

The related market volatility of market-driven discount rates and returns on pension plan assets could have a negative effect on the Corporation's pension plan deficit in 2021 and solvency payments for 2022 and after, which could be significantly higher than expected. This volatility is also inherent in the pension liability, which drives the deferred tax asset. In addition, impairment of non-financial assets could be affected as they require the development of cash flow projections that are subject to the significant uncertainties noted above.

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, 2021

There were no amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2021.

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

In addition to those disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2020, in February 2021, the IASB issued amendments to the following standards, which are effective for annual periods beginning on or after January 1, 2023. Early application is permitted.

| Standard | Subject matter and significance |
|---|---|
| Amendments to IAS 1, Presentation of Financial Statements – Disclosure of Accounting Policies and IFRS Practice Statement 2 – Making Materiality Judgments | Amendments require that an entity disclose its material accounting policies, instead of its significant accounting policies. IFRS Practice Statement 2 was amended to include guidance and examples to explain and demonstrate the application of the four-step materiality process. |
| Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates | Amendments replace the definition of a change in accounting estimates with a definition that accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. Amendments clarify that a change in accounting estimates resulting from new information or new developments is not the correction of an error. Further, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior-period errors. |

## 4. Other Assets

| **As at** (in millions) | **April 3, 2021** | December 31, 2020 |
|---|---|---|
| Income tax receivable | $ 102 | $ 96 |
| Prepaid expenses | 128 | 120 |
| Assets held for sale | 1 | 2 |
| Finance lease receivable | 13 | 15 |
| Other receivables | 49 | 48 |
| **Total other assets** | **$ 293** | $ 281 |
| Current other assets | **$ 230** | $ 217 |
| Non-current other assets | **63** | 64 |

As at April 3, 2021, 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**<br>(in millions) | **April 3, 2021** | December 31, 2020 |
|---|---|---|
| **Contractual undiscounted cash flows** | | |
| Less than one year | $ 5 | $ 5 |
| One to five years | 8 | 10 |
| **Total undiscounted finance lease receivable** | **$ 13** | $ 15 |

## 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, 2020 | $ 457 | $ 2,280 | $ 375 | $ 1,211 | $ 679 | $ 368 | $ 1,064 | $ 273 | $ 6,707 |
| Additions | – | 3 | 2 | 2 | 23 | 4 | 10 | 83 | 127 |
| Reclassified as held for sale | – | (1) | – | – | – | – | – | – | (1) |
| Retirements | – | – | (2) | (1) | – | – | (3) | – | (6) |
| Transfers | – | 1 | 3 | 2 | – | – | 1 | (7) | – |
| **April 3, 2021** | **$ 457** | **$ 2,283** | **$ 378** | **$ 1,214** | **$ 702** | **$ 372** | **$ 1,072** | **$ 349** | **$ 6,827** |
| **Accumulated depreciation** | | | | | | | | | |
| December 31, 2020 | $ – | $ 1,262 | $ 269 | $ 814 | $ 405 | $ 292 | $ 505 | $ – | $ 3,547 |
| Depreciation | – | 15 | 4 | 18 | 13 | 6 | 13 | – | 69 |
| Reclassified as held for sale | – | (1) | – | – | – | – | – | – | (1) |
| Retirements | – | – | (2) | (1) | – | – | (3) | – | (6) |
| **April 3, 2021** | **$ –** | **$ 1,276** | **$ 271** | **$ 831** | **$ 418** | **$ 298** | **$ 515** | **$ –** | **$ 3,609** |
| **Carrying amounts** | | | | | | | | | |
| December 31, 2020 | $ 457 | $ 1,018 | $ 106 | $ 397 | $ 274 | $ 76 | $ 559 | $ 273 | $ 3,160 |
| **April 3, 2021** | **$ 457** | **$ 1,007** | **$ 107** | **$ 383** | **$ 284** | **$ 74** | **$ 557** | **$ 349** | **$ 3,218** |

### (b) Intangible assets

| (in millions) | Software | Software under development | Customer contracts and relationships | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| December 31, 2020 | $ 856 | $ 67 | $ 22 | $ 945 |
| Additions | – | 16 | – | 16 |
| Transfers | 1 | (1) | – | – |
| **April 3, 2021** | **$ 857** | **$ 82** | **$ 22** | **$ 961** |
| **Accumulated amortization** | | | | |
| December 31, 2020 | $ 782 | $ – | $ 22 | $ 804 |
| Amortization | 9 | – | – | 9 |
| **April 3, 2021** | **$ 791** | **$ –** | **$ 22** | **$ 813** |
| **Carrying amounts** | | | | |
| December 31, 2020 | $ 74 | $ 67 | $ – | $ 141 |
| **April 3, 2021** | **$ 66** | **$ 82** | **$ –** | **$ 148** |

### (c) Right-of-use assets

| (in millions) | Land | Buildings – gross | Buildings – net | Vehicles | Plant equipment | Total |
|---|---|---|---|---|---|---|
| **Carrying amounts** | | | | | | |
| December 31, 2020 | $ 118 | $ 284 | $ 804 | $ 14 | $ 1 | $ 1,221 |
| Additions | – | 12 | 43 | – | – | 55 |
| Depreciation | (1) | (7) | (21) | (2) | – | (31) |
| **April 3, 2021** | **$ 117** | **$ 289** | **$ 826** | **$ 12** | **$ 1** | **$ 1,245** |

## 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) | **April 3, 2021** | December 31, 2020 |
|---|---|---|
| Pension benefit assets | **$ 182** | $ 25 |
| Pension benefit liabilities | $ 22 | $ 3,231 |
| Other post-employment and other long-term benefit liabilities | 3,912 | 4,435 |
| Total pension, other post-employment and other long-term benefit liabilities | $ 3,934 | $ 7,666 |
| Current other long-term benefit liabilities | **$ 62** | $ 65 |
| Non-current pension, other post-employment and other long-term benefit liabilities | **$ 3,872** | $ 7,601 |

### (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) | | **April 3, 2021** | | | March 28, 2020 | |
|---|---|---|---|---|---|---|
| | **Pension benefit plans** | **Other benefit plans** | **Total** | Pension benefit plans | Other benefit plans | Total |
| Current service cost | $ 201 | $ 34 | $ 235 | $ 176 | $ 30 | $ 206 |
| Interest cost | 232 | 31 | 263 | 237 | 30 | 267 |
| Interest income on plan assets | (210) | – | (210) | (217) | – | (217) |
| Other administration costs | 4 | – | 4 | 3 | – | 3 |
| Actuarial gains[1] | – | (12) | (12) | – | (11) | (11) |
| Loss from plan amendment[2] | – | – | – | – | 1 | 1 |
| Defined benefit expense | 227 | 53 | 280 | 199 | 50 | 249 |
| Defined contribution expense | 8 | – | 8 | 6 | – | 6 |
| Total expense | 235 | 53 | 288 | 205 | 50 | 255 |
| Return on segregated securities | – | (4) | (4) | – | (4) | (4) |
| **Component included in employee benefits expense** | **$ 235** | **$ 49** | **$ 284** | $ 205 | $ 46 | $ 251 |
| Remeasurement (gains) losses: | | | | | | |
| Return on plan assets, excluding interest income on plan assets | $ 390 | $ – | $ 390 | $ 2,292 | $ – | $ 2,292 |
| Actuarial (gains) losses | (3,878) | (535) | (4,413) | (4,810) | (607) | (5,417) |
| **Component included in other comprehensive income[3,4,5]** | **$ (3,488)** | **$ (535)** | **$ (4,023)** | $ (2,518) | $ (607) | $ (3,125) |

1. Remeasurement for other long-term benefits plans are recognized in net profit (or loss) in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at April 3, 2021, was 2.89% (December 31, 2020 – 2.09%).
2. In Q1 2020, the Corporation ratified a new collective agreement with employees represented by the Canadian Postmasters and Assistants Association (CPAA). The new terms and conditions led to modifications of the Extended Health Care Plan, resulting in a plan amendment loss of $1 million.
3. Amounts presented in this table exclude an income tax expense of $1,008 million for the 13 weeks ended April 3, 2021 ($781 million at March 28, 2020).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at April 3, 2021, were 3.41% and 3.53% compared to 2.67% and 2.74% at December 31, 2020. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at March 28, 2020, were 4.20% and 4.30%, compared to 3.10% and 3.20%, respectively, at December 31, 2019.
5. As at April 3, 2021, the discount rates use the actual plan cash flows rather than rates established for plans of similar duration, as previously used.

### (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 13 weeks ended** (in millions) | **April 3, 2021** | March 28, 2020 |
|---|---|---|
| Benefits paid directly to beneficiaries for other benefit plans | $ 42 | $ 38 |
| Employer regular contributions to pension benefit plans | 91 | 73 |
| Employer special contributions to pension benefit plans | 13 | 12 |
| Cash payments for defined benefit plans | 146 | 123 |
| Contributions to defined contribution plans | 8 | 6 |
| Total cash payments | **$ 154** | $ 129 |

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2021 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2020.

Under the *Pension Benefits Standards Act, 1985,* and associated regulations, Canada Post does not expect to make solvency special payments for 2021; however, market volatility could have a significant effect on payments for 2022 and thereafter. The Corporation has requested temporary relief from making future payments, from its shareholder, the Government of Canada.

## 7. Lease Liabilities

### (a) Lease liabilities

| **As at** (in millions) | **April 3, 2021** | December 31, 2020 |
|---|---|---|
| **Maturity analysis – contractual undiscounted cash flows[1,2]** | | |
| Less than one year | $ 157 | $ 157 |
| One to five years | 529 | 527 |
| More than five years | 1,209 | 1,197 |
| **Total undiscounted lease liabilities** | **$ 1,895** | $ 1,881 |
| **Lease liabilities in the consolidated statement of financial position** | **$ 1,438** | $ 1,414 |
| Current lease liabilities | **$ 122** | $ 122 |
| Non-current lease liabilities | **1,316** | 1,292 |

1. Included in the above table are lease payments (undiscounted cash flows) to be made to related parties in the normal course of business, in the amount of $25 million for premises used in postal operations (December 31, 2020 – $26 million).
2. Leases that have not yet commenced, but which have been committed to as at April 3, 2021, have future cash outflows of $59 million that are included in the above maturity analysis, but they are excluded from the measurement of lease liabilities (December 31, 2020 – $74 million).

### (b) Changes in liabilities arising from financing activities

| (in millions) | December 31, 2020 | Payments | Interest | Net lease additions | **April 3, 2021** |
|---|---|---|---|---|---|
| Lease liabilities | $ 1,414 | $ (41) | $ 10 | $ 55 | **$ 1,438** |

## 8. Other Comprehensive Income

| For the 13 weeks ended April 3, 2021 (in millions) | Items that may subsequently be reclassified to net profit (loss) | | | Item never reclassified to net profit (loss) | |
|---|---|---|---|---|---|
| | 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, 2020 | $ 88 | $ 4 | $ 92 | | |
| Gains (losses) arising | $ (47) | $ (2) | $ (49) | $ 4,023 | $ 3,974 |
| Income taxes | 12 | – | 12 | (1,008) | (996) |
| **Net** | **$ (35)** | **$ (2)** | **$ (37)** | **$ 3,015** | **$ 2,978** |
| **Accumulated balance as at April 3, 2021** | **$ 53** | **$ 2** | **$ 55** | | |

## 9. Fair Values and Risk 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 April 3, 2021.

### 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.

### (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; however, the mark-to-market adjustment on outstanding forward contracts held at April 3, 2021, was not significant.

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

| For the 13 weeks ended (in millions) | **April 3, 2021** | | | March 28, 2020 | | |
|---|---|---|---|---|---|---|
| | **Foreign exchange losses** | **Derivative gains** | **Total** | Foreign exchange gains | Derivative losses | Total |
| Unrealized | $ (4) | $ 5 | $ 1 | $ 17 | $ (16) | $ 1 |
| Realized | (2) | 2 | – | 5 | – | 5 |
| Total | **$ (6)** | **$ 7** | **$ 1** | $ 22 | $ (16) | $ 6 |

**(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.

**(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. There were no changes to this assessment in the first 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. Due to continued weakness in many sectors of the Canadian economy due to COVID-19, we continue to use active monitoring of aged receivables, credit utilization and risk modelling to evaluate the 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.

Market volatility due to COVID-19 could have a significant effect on solvency payments for 2021 and thereafter.

## 10. Other Operating Costs

| **For the 13 weeks ended** (in millions) | **April 3, 2021** | March 28, 2020 |
|---|---|---|
| Non-labour collection, processing and delivery | $ 532 | $ 400 |
| Property, facilities and maintenance | 86 | 75 |
| Selling, administrative and other | 151 | 141 |
| Other operating costs | **$ 769** | $ 616 |

## 11. Investing and Financing Income (Expense)

| **For the 13 weeks ended** (in millions) | **April 3, 2021** | March 28, 2020 |
|---|---|---|
| Interest income | $ 5 | $ 14 |
| Gain on sale of capital assets and assets held for sale | 8 | – |
| Investment and other income | **$ 13** | $ 14 |
| Interest expense | $ (21) | $ (21) |
| Other expense | (6) | (3) |
| Finance costs and other expense | **$ (27)** | $ (24) |
| Investing and financing expense, net | **$ (14)** | $ (10) |

## 12. 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 13 weeks ended (in millions) | April 3, 2021 | March 28, 2020 |
|---|---|---|
| **Related party revenue** | **$ 78** | $ 64[1] |
| **Compensation payments for programs** | | |
| Government mail and mailing of materials for persons who are blind | **$ 6** | $ 6 |
| **Payments from related parties for premises leased from the Corporation** | **$ 2** | $ 2 |
| **Related party expenditures** | **$ 6** | $ 6 |

1. Disclosure of related party revenue increased by $3 million due to availability of additional information in the Purolator segment.

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) | April 3, 2021 | December 31, 2020 |
|---|---|---|
| **Due to/from related parties** | | |
| Included in trade and other receivables | **$ 18** | $ 15 |
| Included in trade and other payables | **$ 8** | $ 20 |
| **Deferred revenue from related parties** | **$ 1** | $ 1 |

### (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 13 weeks ended April 3, 2021, 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 (March 28, 2020 – $3 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

### (c) Transactions with the Corporation's pension plans

During the 13 weeks ended April 3, 2021, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million (March 28, 2020 – $3 million). As at April 3, 2021, $4 million (December 31, 2020 – $11 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).

## 13. 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 April 3, 2021**
(in millions)

| | Canada Post | Purolator | SCI | Other | Total |
|---|---|---|---|---|---|
| Revenue from external customers | $ 1,929 | $ 616 | $ 75 | $ – | $ 2,620 |
| Intersegment revenue | 26 | 10 | 9 | (45) | – |
| Revenue from operations | $ 1,955 | $ 626 | $ 84 | $ (45) | $ 2,620 |
| Labour and employee benefits | $ 1,392 | $ 284 | $ 42 | $ 29 | $ 1,747 |
| Other operating costs | 556 | 263 | 25 | (75) | 769 |
| Depreciation and amortization | 78 | 21 | 10 | – | 109 |
| Cost of operations | $ 2,026 | $ 568 | $ 77 | $ (46) | $ 2,625 |
| Profit (loss) from operations | $ (71) | $ 58 | $ 7 | $ 1 | $ (5) |
| Investment and other income | $ 13 | $ – | $ – | $ – | $ 13 |
| Finance costs and other expense | (19) | (7) | (1) | – | (27) |
| Profit (loss) before tax | $ (77) | $ 51 | $ 6 | $ 1 | $ (19) |
| Tax expense (recovery) | (19) | 14 | 1 | – | (4) |
| Net profit (loss) | $ (58) | $ 37 | $ 5 | $ 1 | $ (15) |
| Total assets | $ 8,583 | $ 1,598 | $ 281 | $ (311) | $ 10,151 |
| Total liabilities | $ 7,171 | $ 748 | $ 161 | $ (14) | $ 8,066 |

As at and for the 13 weeks ended March 28, 2020
(in millions)

| | Canada Post | Purolator | SCI | Other | Total |
|---|---|---|---|---|---|
| Revenue from external customers | $ 1,665 | $ 451 | $ 67 | $ (1) | $ 2,182 |
| Intersegment revenue | 14 | 6 | 9 | (29) | – |
| Revenue from operations | $ 1,679 | $ 457 | $ 76 | $ (30) | $ 2,182 |
| Labour and employee benefits | $ 1,206 | $ 231 | $ 38 | $ 27 | $ 1,502 |
| Other operating costs | 455 | 195 | 25 | (59) | 616 |
| Depreciation and amortization | 78 | 18 | 10 | 1 | 107 |
| Cost of operations | $ 1,739 | $ 444 | $ 73 | $ (31) | $ 2,225 |
| Profit (loss) from operations | $ (60) | $ 13 | $ 3 | $ 1 | $ (43) |
| Investment and other income | $ 12 | $ 1 | $ – | $ 1 | $ 14 |
| Finance costs and other expense | (18) | (4) | (1) | (1) | (24) |
| Profit (loss) before tax | $ (66) | $ 10 | $ 2 | $ 1 | $ (53) |
| Tax expense (recovery) | (16) | 2 | 1 | (1) | (14) |
| Net profit (loss) | $ (50) | $ 8 | $ 1 | $ 2 | $ (39) |
| Total assets | $ 8,465 | $ 1,450 | $ 281 | $ (306) | $ 9,890 |
| Total liabilities | $ 6,690 | $ 799 | $ 173 | $ (13) | $ 7,649 |

**(b) Geographic area revenue information**

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

| For the 13 weeks ended (in millions) | April 3, 2021 | March 28, 2020 |
|---|---|---|
| Canada | $ 2,477 | $ 2,052 |
| United States | 85 | 66 |
| Rest of the world | 58 | 64 |
| Total revenue | **$ 2,620** | $ 2,182 |

## (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) | April 3, 2021 | | | March 28, 2020 | | |
|---|---|---|---|---|---|---|
| | **Total revenue** | **Intersegment and consolidation** | **Revenue from external customers** | Total revenue | Intersegment and consolidation | Revenue from external customers |
| **Revenue attributed to products and services** | | | | | | |
| Parcels | $ 1,643 | $ (45) | $ 1,598 | 1,174 | $ (28)[1] | $ 1,146 |
| Transaction Mail | 541 | – | 541 | $ 537 | – | 537 |
| Direct Marketing | 216 | – | 216 | 230 | (1) | 229 |
| Other revenue | 138 | (75) | 63 | 122 | (69)[1] | 53 |
| | **$ 2,538** | **$ (120)** | **$ 2,418** | $ 2,063 | $ (98) | $ 1,965 |
| **Unattributed revenue** | | | | | | |
| Stamp postage | $ 91 | $ – | $ 91 | $ 88 | $ – | $ 88 |
| Meter postage | 111 | – | 111 | 129 | – | 129 |
| | **$ 202** | **$ –** | **$ 202** | $ 217 | $ – | $ 217 |
| Total | **$ 2,740** | **$ (120)** | **$ 2,620** | $ 2,280 | $ (98) | $ 2,182 |

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $3 million was reclassified to Parcels from the Other revenue category.

## (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) | April 3, 2021 | | | March 28, 2020 | | |
|---|---|---|---|---|---|---|
| | **Total revenue** | **Intersegment and consolidation** | **Revenue from external customers** | Total revenue | Intersegment and consolidation | Revenue from external customers |
| **Domestic** | | | | | | |
| Commercial | $ 1,771 | $ (45) | $ 1,726 | $ 1,542 | $ (28)[1] | $ 1,514 |
| Retail | 750 | – | 750 | 536 | – | 536 |
| | $ 2,521 | $ (45) | $ 2,476 | $ 2,078 | $ (28) | $ 2,050 |
| **International** | $ 143 | $ – | $ 143 | $ 130 | $ – | $ 130 |
| **Other** | $ 76 | $ (75) | $ 1 | $ 72 | $ (70)[1] | $ 2 |
| Total | **$ 2,740** | **$ (120)** | **$ 2,620** | $ 2,280 | $ (98) | $ 2,182 |

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $2 million was reclassified to Commercial Domestic Parcels from the Other revenue category.

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Ce rapport est aussi publié en français.