2020
ANNUAL REPORT
Canada Post Corporation

FINANCIAL SECTION

For the period ended December 31, 2020

CANADA POST POSTES CANADA

Financial Performance

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) of the financial condition and results of operations is prepared for the year ended December 31, 2020, 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.

This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes. Unless otherwise indicated, all financial information in this report was prepared using International Financial Reporting Standards (IFRSs). Amounts are presented in Canadian dollars, rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand.

Management is responsible for the information presented in the Annual Report. All references to *our* or *we* mean, as the context may require, either Canada Post or, collectively, Canada Post and its subsidiaries. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the audited consolidated financial statements March 25, 2021.

Forward-looking statements

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

COVID-19

COVID-19, which was declared a pandemic in March 2020, had a significant and material impact on our 2020 financial performance. 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 impacts. Canada Post follows the direction of the Public Health Agency of Canada and public health authorities across the country.

Task Force on Climate-related Financial Disclosures (TCFD)

The Government of Canada supported recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) and committed to encouraging adoption of voluntary international disclosure standards, on a phased approach, by federal Crown corporations where appropriate and relevant to their business activities. By supporting these standards, the Government of Canada aims to raise firms' awareness of the importance of tracking, managing and disclosing material climate-related risks and opportunities in a consistent and comparable way. Canada Post strongly believes that organizations have a duty to provide users of financial information with results achieved and forward-looking information across the four themes identified in the TCFD framework of governance, strategy, risk management, and metrics and targets. We are evaluating these recommendations, which may lead to enhanced climate-related disclosures in our MD&A, Sustainability Report or other suitable publication.

1. Executive Summary

An overview of the Canada Post Group of Companies and summary of 2020 financial results

The Group of Companies is one of Canada's largest employers with almost 70,000 people. During 2020, employees delivered approximately 6.4 billion pieces of mail, parcels and messages to over 16.7 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with approximately 6,000 retail post offices across the country. Canada Post is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement.

Under 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's universal service obligation (USO) is set out in the *Canadian Postal Service Charter* established by the Government of Canada in 2009, which states the following:

- Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will provide a service for the collection, transmission and delivery of letters, parcels and publications.
- The provision of postal services to rural regions of the country is an integral part of Canada Post's universal service.
- Canada Post has an obligation to charge postage rates that are fair and reasonable and, together with other revenues, are sufficient to cover the costs incurred in its operations.

In addition to its core postal services and USO, the Corporation also delivers certain public-policy programs on behalf of the Government of Canada. In accordance with the *Canada Post Corporation Act*, members of Parliament and certain senior government officials are allowed to send mail free of charge. The Act also provides for free mailing of materials for persons who are blind. Public and academic libraries can move books and other materials between libraries and library users at reduced postage rates.

Canada Post is part of the global postal industry comprising foreign postal administrations (posts). All posts have traditionally financed their USO through a legislated exclusive privilege, or monopoly over a portion of the postal market. However, the value of the exclusive privilege has diminished. With more people shifting to the internet and smart mobile devices to communicate and transact, posts continue to experience a structural decline in mail volumes as customers shift to digital alternatives.

Our traditional mail business continues to be challenged. COVID-19 caused an even greater consumer migration to digital alternatives with Canadian households and businesses reducing their use of our Lettermail™ services even more. In 2020, we delivered 2.5 billion pieces of mail, 2.8 billion pieces (or 53%) less than we did in the peak year of 2006. This volume decline has had a profound effect on our business model, which was founded on paper-based communications. We can no longer rely on Transaction Mail as our primary source of revenue.

COVID-19 has accelerated the pace at which Canadians are adopting e-commerce, a trend which has disrupted many industries, including Canada Post's business. We are proud to deliver nearly half of all e-commerce parcels to Canadians and continue to be the country's no. 1 e-commerce parcel delivery company for online purchases. For the second time and the second consecutive year, revenue from the Parcels line of business exceeded revenue from Transaction Mail. The explosive growth in e-commerce is a dominant and driving force in our industry. It has created a highly competitive parcel delivery landscape. Competition continues to intensify from an increasing number of agile companies, which have significantly lower capital and cost structures compared to traditional carriers. Competitors are also expanding their reach to fulfillment and self-delivery. To maintain success, Canada Post is accelerating and reshaping its parcel delivery business model by pivoting operations, innovating to gain competitive advantage, partnering with retailers and focusing on providing a superior customer experience.

We continue to work on securing our long-term financial self-sustainability, while ensuring we're investing and evolving to provide the postal system Canadians need. In this context, our strategy in 2020 was focused on engaging our people, delighting our customers, reinventing the retail model and leveraging our superior network. Our number one priority has remained the health and safety of all our employees, customers and Canadians.

Financial and business highlights

For the third consecutive year, the Canada Post Group of Companies posted a loss in 2020. The loss before tax was $626 million in 2020 compared to a loss before tax of $23 million in 2019. An estimated $174 million of this consolidated loss was due to the impact of COVID-19. The 2020 results were attributable to a loss in the Canada Post segment partially offset by profit in the Purolator sector.

2020 was a challenging year for the Canada Post segment, which reported a loss before tax of $779 million, a decrease in profitability of $626 million compared to 2019. An estimated $194 million of this loss was due to COVID-19. Despite a growth in revenue of $194 million over 2019, Transaction Mail and Direct Marketing continue to erode at an accelerated pace. Cost of operations increased by $805 million in 2020, largely due to increased costs related to COVID-19. The arbitrator's decision for the new collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC) contributed $127 million toward the 2020 loss.

The Purolator segment recorded a profit before tax of $176 million in 2020, compared to a profit before tax of $152 million in 2019, an increase of $24 million or 15.4%.

Financial results for 2020 were affected by the following factors, in the Canada Post segment.

COVID-19

Our response to COVID-19 changed how we operate our post offices, plants and depots, as well as how we deliver items, to keep employees and Canadians safe. Our ability to provide an essential service was tested in 2020 and this challenge will continue through 2021. Record-high domestic parcel volumes were moving through our network and there was a significant decline in our Transaction Mail and Direct Marketing volumes. Because our ability to meet all service commitments was affected by these changes, service guarantees for all products were suspended. We communicated the likelihood of delivery delays broadly in an effort to manage customer expectations.

Our pandemic response team, made up of over 30 multi-function representatives, was quickly put to work in the first quarter to engage and collaborate on key COVID-19-related topics such as leave provisions, supplies and procurement, communications (internal and external), impacts on operations, government relations and IT. Proactive health and safety measures including dedicated operations field presence, establishment of a research and communication team and alignment with bargaining groups and external agencies were all prioritized. A research and response team was assembled to ensure accurate and concise communications, direction and guidance. Communication modes including team leader updates, job aids, posters, talk tracks and national and local notifications were all used. The response team collaborated and engaged with government resources, specifically Public Health Agency of Canada (PHAC) and Employment and Skills Development Canada (ESDC), on key topics and impacts to the *Canada Labour Code*.

COVID-19 had a significant impact on our financial results in 2020. Parcels revenue growth exceeded declines in Transaction Mail and Direct Marketing. However, COVID-19 caused significant cost increases, with higher labour costs related to special leaves put in place to support employees who were at high risk if they contracted the disease and employees who provided child and elder care, as well as increased overtime expenses. Additional collection, processing and delivery costs were incurred due to increasing parcel volumes. Of Canada Post segment's $779 million loss before tax, we estimated that COVID-19 contributed a net negative impact of $194 million, as follows:

Estimated financial impact of COVID-19 for the Canada Post segment (in millions of dollars)	**2020**
Revenue	
Parcels	471
Transaction Mail	(146)
Direct Marketing	(236)
Other	4
Estimated impact on revenue	**93**
Cost of operations	(292)
Investing and financing expense, net	5
Estimated impact on loss before tax	**(194)**

Parcels growth

In 2020, we experienced a record year of growth in our Parcels line of business, which exceeded $3.4 billion in revenue. COVID-19 resulted in Canadians fast-tracking their online shopping habits by a few years and our record growth demonstrates the continued success of our strategy to be a leader in the business-to-consumer e-commerce delivery market. We set new records in just about every possible category, including most parcels on a single day (2.4 million on Monday, December 21), the most consecutive million-plus parcel delivery days (181 days from mid-April through the end of the year) and total parcel volume for the year (389 million pieces or 21.0%[1] increase over 2019). We achieved these results while maintaining proactive measures to protect the health and safety of our employees and customers. Domestic Parcels revenue, the largest product category, increased over 2019 by $613 million or 29.1%,[1] while volumes increased by 70 million pieces or 30.9%.[1] An estimated $471 million of this growth was attributed to COVID-19.

Commitment to service

Our vast retail network of post offices and dealer outlets across the country provides convenient locations and service, with many of them offering evening and weekend hours to meet the changing needs of Canadians. Parcel lockers provide a convenient and secure delivery experience for Canadians, while reducing the carbon footprint related to delivery. In 2020, we added nearly 3,700 additional parcel lockers in apartment buildings and condominiums across Canada for a total that now approaches 13,000 across the country.

Ongoing decline in Transaction Mail volumes

In 2020, Transaction Mail revenue decreased by $230 million or 8.9%[1] compared to 2019, and volumes declined by 286 million pieces or 10.5%[1] compared to 2019, as consumers and mailers continued to migrate to digital alternatives, a trend that accelerated compared to previous years due to COVID-19. It is estimated that $146 million of this decline is attributed to COVID-19. Canadian points of delivery have also increased by approximately 203,000 in 2020, contributing to higher costs due to the obligation to provide delivery service to more addresses.

Capital investment

Focused on implementing solutions to address operational capacity to support e-commerce growth and modernize our retail network, we invested $336 million in 2020. For example, we invested to increase capacity in Montréal, the Greater Toronto Area, Regina and Calgary. We continued to deploy hybrid electric vehicles to our fleet, expanding our investment in clean energy to vehicle classes with higher fuel consumption such as step vans. In 2021, we aim to accelerate the deployment of new solutions to address immediate capacity opportunities and will continue to pursue investments guided by our focus on engaging our people, delighting our customers, reinventing our retail model and leveraging our superior network.

Labour matters

Labour negotiations

The arbitrator for the expired collective agreements with the CUPW-UPO and CUPW-RSMC released her decision in the second quarter of 2020. The new agreements include annual wage increases for employees represented by both bargaining units, as well as changes to other provisions. This decision resulted in additional labour and benefits costs of $127 million, mostly related to a plan amendment loss due to expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC.

Canada Post and the Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC / UPCE) reached a four-year collective agreement before the previous one expired August 31, 2020. The new agreement extends to August 31, 2024.

Health and safety

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

Canada Post aims for zero harm. We believe that injuries, illnesses and incidents in all facets of our operation can be prevented. Creating a safe and healthy workplace for our employees is our top priority and we achieved progress in this area in 2020, but there is still more work to do. Compared to 2019, our total injury frequency rate and lost-time injury rate each improved by 31%. We want to be recognized as an industry leader in safety, and we are committed to making further improvements in this area in 2021.

Size and volatility of pension, other post-employment and other long-term benefits

Significant obligations of the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment and long-term benefits continued to be a concern for the Corporation. The large size and volatility of these obligations compared to our cash position and incurred loss can put substantial pressure on cash flows and our ability to fund needed investments in modernization and growth. Volatility from one quarter to the next is caused by fluctuations in discount rates, investment returns and other actuarial assumptions, resulting in sizeable financial and long-term liquidity risks to the Corporation.

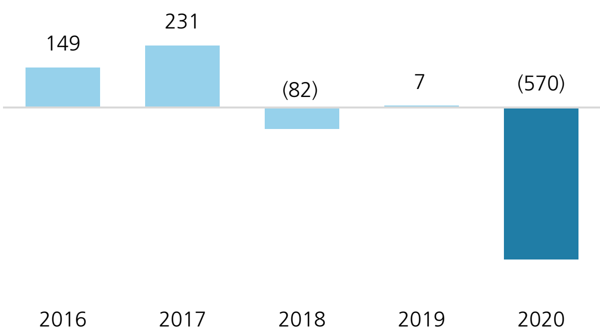
At the end of 2020, market-driven volatility continued to have an impact on the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment and long-term benefits. Remeasurement losses of $357 million, net of tax, were recorded in other comprehensive loss on the Group of Companies' defined benefit plans, contributing to the Group of Companies' negative equity balance of $878 million as at December 31, 2020. The losses were mostly the result of a decrease in discount rates partially offset by gains on investments and experience adjustments. The solvency deficit to be funded for the RPP deteriorated during the year and was estimated at $6.3 billion (using the three-year average solvency ratio basis) and at $7.1 billion (using market value of plan assets) as at December 31, 2020.

Due to the impact of COVID-19 on the economy, a moratorium on solvency special payments relieved the Corporation of making payments for 2020. Under current regulations, Canada Post does not expect to make solvency special payments in 2021, however, market volatility could have a significant effect on solvency payments for 2022 and thereafter. Canada Post continues to work with its single shareholder, the Government of Canada, and has requested temporary relief from making future payments.

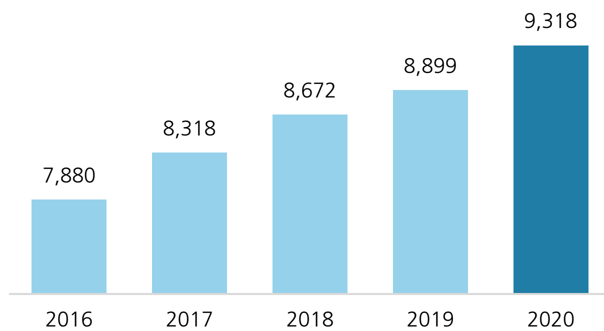
Canada Post Group of Companies – 2020

The charts below present a summary of the 2020 consolidated results for the Canada Post Group of Companies.

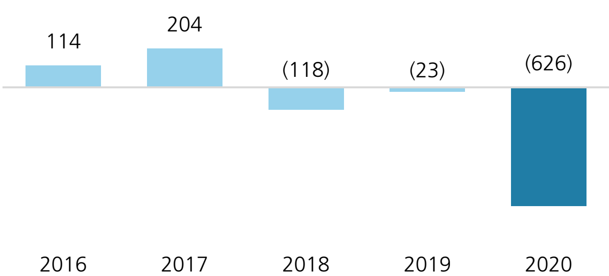
Consolidated profit (loss) from operations
(in millions of dollars)



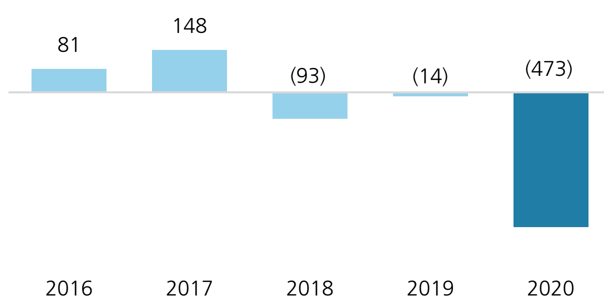
Consolidated revenue from operations
(in millions of dollars)



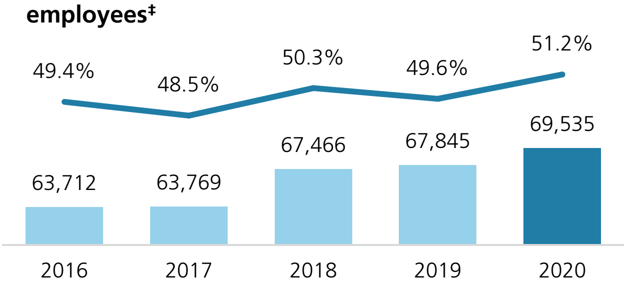
Consolidated profit (loss) before tax
(in millions of dollars)



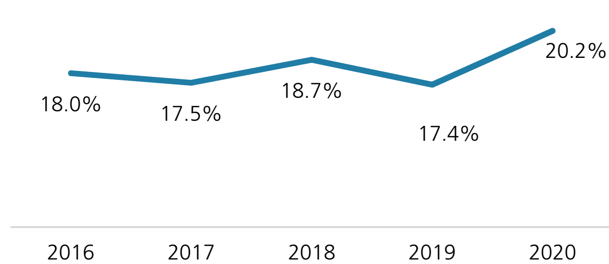
Consolidated net profit (loss)
(in millions of dollars)



Labour as a percentage of revenue from operations combined with number of employees‡



Employee benefits as a percentage of revenue from operations‡



‡ Includes paid full-time and part-time employees and excludes temporary, casual and term employees. Labour as a percentage of revenue from operations excludes employee benefits.

The following table presents the Group of Companies consolidated performance for the 2020 fiscal year compared to 2019.

(in millions of dollars)	Year ended December 31				
	2020	2019	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	9,318	8,899	419	4.3[1]	Growth in the Purolator and SCI segments, and Parcels growth in the Canada Post segment, offset by declines due to continued erosion of Transaction Mail and Direct Marketing in the Canada Post segment.
Cost of operations	9,888	8,892	996	10.8[1]	Higher expenses in the Canada Post segment due to increased labour and employee benefits costs related to COVID-19 and the arbitrator's decision. Also a result of Parcels volume growth in the Canada Post and Purolator segments.
Profit (loss) from operations	(570)	7	(577)	*	Mainly due to results in the Canada Post segment.
Loss before tax	(626)	(23)	(603)	†	
Tax recovery	(153)	(9)	(144)	†	Mainly due to a higher loss before tax in the Group of Companies.
Net loss	(473)	(14)	(459)	†	
Comprehensive income (loss)	(802)	106	(908)	*	Partially due to remeasurement losses on pension and other post-employment plans from a decrease in discount rates, partially offset by remeasurement gains related to positive investment returns and experience adjustments.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	694	529	165	31.2	Primarily due to CUPW-RSMC pay equity payments in 2019, lower benefit payments in 2020 due to COVID-19 related closures of healthcare providers, and changes in non-cash operating working capital, partially offset by higher labour costs and benefit expenses.
Cash used in investing activities	(585)	(360)	(225)	(62.2)	Primarily due to lower proceeds from sales of securities, partially offset by lower acquisitions of capital assets and lower purchases of securities.
Cash used in financing activities	(118)	(113)	(5)	(3.8)	No material change

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

2. Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

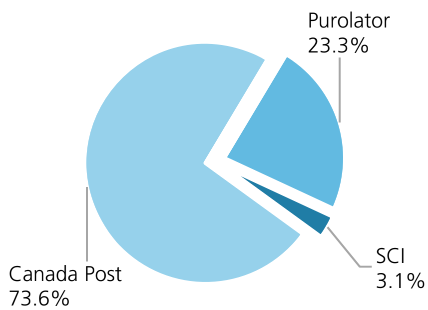
2.1 Our business

The Canada Post Group of Companies is a leader in providing innovative e-commerce, marketing and logistics solutions. Its unrivalled networks and capabilities enable remote communications and commerce across Canada and between Canada and the world. Proud to serve individual Canadians and every address, it also works with Canadian businesses, large and small, to help them compete and succeed. Its activities strengthen Canadian enterprises, local communities and the economy.

The Canada Post Group of Companies provides a full range of delivery, logistics and fulfillment services to customers and, combined, has annual revenue of over $9.3 billion. 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. Significant fixed costs do not vary in the short term. The Group of Companies has the largest retail network in Canada with over 7,600 retail locations, operates a fleet of over 18,000 vehicles and employs almost 70,000 people.

In 2020, our employees delivered approximately 6.4 billion pieces of mail, parcels and messages to over 16.7 million addresses in urban, rural and remote locations across Canada.

Revenue by segment – 2020



Canada Post is the largest segment of the Group of Companies, with revenue of over $6.9 billion in 2020. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, direct marketing products and periodicals.

Revenue by segment	2020	2019	2018
Canada Post	73.6%	75.1%	75.7%
Purolator	23.3%	21.4%	21.1%
SCI	3.1%	3.5%	3.2%

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider whose revenue exceeded $2.2 billion in 2020.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions. Its 2020 revenue was $329 million.

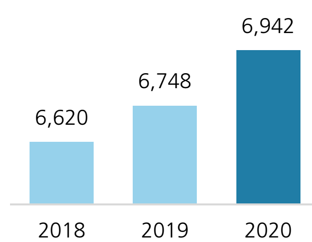
Innovapost Inc., 100% owned by the Group of Companies, is a shared services organization, providing company-specific information systems and information technology services exclusively to the Canada Post Group of Companies.

To ensure oversight of the subsidiaries, Canada Post executives sit on their boards and committees.

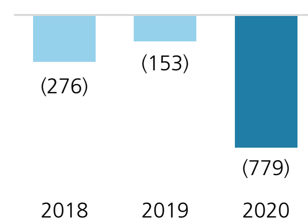
Canada Post segment

Canada Post operates Canada's largest retail network with over 6,000 retail post offices and a fleet of over 13,000 vehicles that delivered 6.3 billion pieces of mail and parcels in 2020. With nearly 54,000 employees, Canada Post provides service to over 16.7 million addresses. The Canada Post segment generated revenue of $6.9 billion, which, after excluding intersegment revenue, represented 73.6% of the Group of Companies' 2020 consolidated revenue of $9.3 billion.

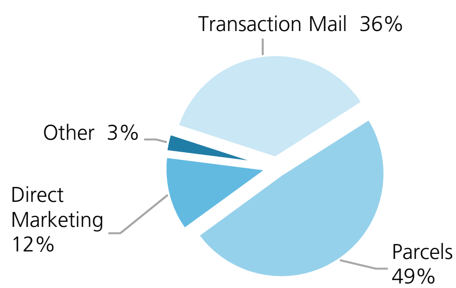
Revenue
(in millions of dollars)



Profit (loss) before tax
(in millions of dollars)



Revenue by line of business – 2020



Revenue by line of business	2020	2019	2018
Parcels	49%	41%	38%
Transaction Mail	36%	40%	42%
Direct Marketing	12%	16%	17%
Other	3%	3%	3%

Parcels

The Parcels line of business offers Canadians a wide range of delivery services to every domestic address in Canada and international destinations through other posts and collaborative efforts with global integrators. Services are differentiated by the delivery destination and speed, ranging from urgent-next-day to non-urgent delivery, where transit time is determined by the transportation mode of ground, air or both. We are relying on our processing, delivery and retail network in our effort to compete in a fierce market. Customers include private consumers, businesses, retailers, governments, posts and other delivery companies and consolidators.

Transaction Mail

Transaction Mail is our portfolio of services for the delivery and response to letters, bills, statements, invoices and other forms of communications. It includes three product categories, Domestic Lettermail, Outbound Letter-post and Inbound Letter-post with revenue derived from traditional physical mail delivery services. Volumes are declining rapidly as Canadians are adopting digital alternatives, having a profound effect on a business model founded on paper-based communications. Customers include private consumers, but most are businesses in the financial, telecommunications, government and utilities sectors.

Direct Marketing

The Direct Marketing, Advertising and Publishing (collectively called Direct Marketing) line of business includes three primary services. The Canada Post Personalized Mail™ service allows customers to personalize mailings and promotional messages to specific consumers or prospects. With the Canada Post Neighbourhood Mail™ service, customers can reach specific neighbourhoods or regions across Canada. Together, these services make up the Canada Post Smartmail Marketing™ solution. Publications Mail™ includes the distribution of periodicals, such as newspapers, magazines and newsletters. Growth in this competitive sector is challenging due to experimentation in the marketing industry as businesses have allocated more of their marketing budget to less costly but potentially less effective digital alternatives. Customers include businesses of all sizes and governments. Canada Post also works with marketers, influencers and partners to provide Direct Marketing products and services.

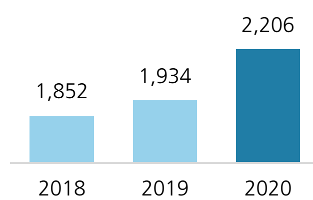
Other

The Other category consists of a broad array of products and services, including mail redirection, data products, commemorative stamps, gifts and coins, and the epost™ service that allows users to receive, pay and manage bills in one place online. Customers include businesses, governments and private consumers.

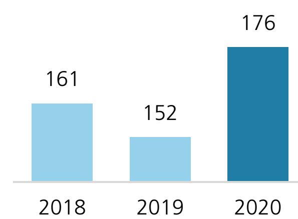
Purolator segment

Purolator is a market leader in Canada's premium courier segment. It is a highly recognized North American brand that proudly delivers best-in-class shipping speed and services to business customers and the growing e-commerce market. Celebrating 60 years of service, Purolator has more than 175 operations facilities, in excess of 5,200 vehicles, over 1,600 shipping locations, almost 30 U.S. branches and almost 13,000 employees.

Revenue
(in millions of dollars)



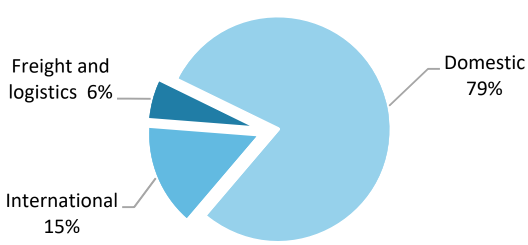
Profit before tax
(in millions of dollars)



The company has experienced growth in the past few years through a balanced approach to volume growth and yield optimization domestically, supported by investments across its national network and the expansion of its international global supply chain solutions businesses to accelerate its movement of parcels to and from Canada. Purolator maintains a strong standing in the community with a demonstrated history of philanthropic efforts highlighted by its Tackle Hunger® program, which has delivered more than 16 million pounds of food to families across Canada since 2003.

Purolator rapidly responded to the significant challenges because of COVID-19 by establishing a cross-functional task force that monitored the effectiveness of key measures put in place to protect the health and safety of its employees, customers and the communities it serves. Purolator also follows guidelines and advice from the Public Health Agency of Canada (PHAC), the United States Centers for Disease Control and Prevention (CDC) and medical experts to guide its response to COVID-19.

Revenue by line of business – 2020

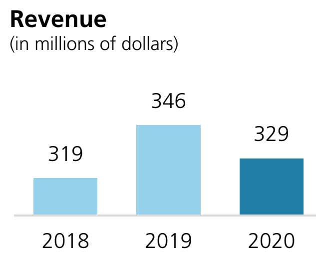


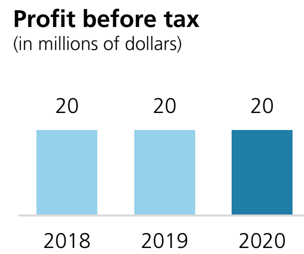
In 2020, Purolator generated revenue of over $2.2 billion, which, after excluding intersegment revenue, represented 23.3% of the 2020 Group of Companies' consolidated revenue.

Revenue by market	2020	2019	2018
Domestic	79%	80%	81%
International	15%	14%	13%
Freight and logistics	6%	6%	6%

SCI segment

SCI is one of Canada's leading providers of supply chain solutions. Through its operating entities SCI Logistics, Progistix and First Team Transport (operating as SCI White Glove Services), SCI operates the most extensive national distribution and transportation network in Canada, consisting of over 30 distribution centres coast to coast along with over 40 critical parts stocking locations and specialized transportation hubs.





With over 2,100 employees, SCI manages over $1 billion in inventory every day, offering its clients expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada. SCI's broad scope of services allows the Group of Companies to offer end-to-end supply chain services to Canadian businesses in the retail, technology and healthcare sectors.

In 2020, SCI generated revenue of $329 million, which, after excluding intersegment revenue, represented 3.1% of the 2020 Group of Companies' consolidated revenue.

Innovapost segment

Innovapost's revenue of $311 million was generated from services provided to the other segments in the Group of Companies. All intercompany revenue and corresponding costs were eliminated on consolidation.

2.2 Our business environment

Global trends

The spread of COVID-19 caused many countries to implement periodic nationwide restrictions and persistent public health controls that have significantly hampered global economic activity and supply chains. The widespread impact of COVID-19 has been managed through government interventions. Although global economic activity was significantly reduced in 2020, these interventions have helped mitigate the economic impact of COVID-19 across many countries.

The International Monetary Fund reported that the global economy shrunk by 4.4% in 2020. Unemployment, worldwide trade and foreign direct investments also suffered significantly. A partial economic recovery is expected in 2021, however, the recovery will be uneven across the globe due to local COVID-19 outbreaks and a vaccine rollout that is likely to be faster for developed nations. Variants of concern of the virus that causes COVID-19 have emerged that threaten to drive an acceleration of COVID-19 and further strain healthcare systems and challenge the global economy.

COVID-19 has disrupted many consumer behaviours and nearly all industries. Mail erosion has accelerated and most traditional ad media have been heavily affected. National restrictions, public health controls and consumer concerns led to a rapid increase in online shopping. Reduced retail foot traffic brought less advertising and more store closures. Many foreign postal administrations (posts) have reported double-digit declines in direct marketing in 2020. Digital media was the only medium to experience a net increase in ad spending in 2020.

In many countries, COVID-19 has accelerated e-commerce adoption by multiple years. As demand for e-commerce parcel delivery services increased, many posts struggled with capacity constraints. They implemented multiple tactics including additional hiring of delivery and sortation staff, increased delivery frequency and investments to expand parcel capacity. These mitigation strategies enabled some posts to accommodate drastic increases of parcel delivery volumes. There has also been an acceleration of longer-term investments to increase parcel capacity, improve operational efficiency and meet growth in e-commerce demand. These investments have included automating parcel hubs and upgrading IT systems.

The protracted duration of COVID-19 is expected to result in permanent changes in consumer e-commerce shopping behaviour. Large retailers are accelerating shifts in their logistics strategy to adapt. For instance, there has been a significant acceleration in adopting local and omni-channel fulfillment models and crowdsourced local delivery services. The result has been a higher level of e-commerce delivery competition and rising consumer expectations for local and same-day fulfillment.

The Canada-United States-Mexico Agreement came into effect on July 1, 2020, with changes to several sectors. There are no longer duty charges for Canadians purchasing items online worth less than $150 from the U.S. which may lead to more cross-border shopping for Canadians, increased inbound parcel volumes and stronger competition for cross border shipping.

The global postal sector also faces instability from the modernization of the Universal Postal Union (UPU) remuneration system. This system (known as Terminal Dues) ensures that posts are compensated for the cost of handling, transporting and delivering letters and small packets across borders. Under an agreement reached in 2019, the United States implemented full self-declared rates on packets starting in July 2020, while the rest of the world is to phase in market rates from 2021 to 2025. While these changes are expected to have a net positive incremental financial impact for Canada Post, remuneration for inbound items will remain below equivalent domestic tariffs.

Canada

During the first few months of COVID-19, it is estimated that domestic e-commerce nearly doubled as Canadians followed stay-at-home orders. Retailers that were mandated to close their physical stores pivoted to e-commerce and these sales accelerated across retail segments including furniture and home furnishings, general merchandise, books, music, food and beverage, clothing and personal care. Shopify has extended its Fulfillment Network services to Canada to better enable fulfillment and delivery for their customers as postal and courier capacity is strained. Canadian retailers quickly adopted local and omni-channel fulfillment and many have turned to crowdsourced local delivery models to meet their needs. With rapidly increasing e-commerce delivery density, crowdsourced delivery models have proven to be a compelling and scalable solution that uses low-cost labour. Multi-carrier shipping is now the norm for large e-commerce retailers in Canada. Despite incredible levels of e-commerce growth, increased competition for local fulfillment and delivery poses a risk to the long-term growth and profitability of Canada Post.

The focus on climate-related issues has grown quickly in Canada and globally and a transition to a low-carbon economy is unfolding. As high emitters of greenhouse gas emissions, global postal leaders have a responsibility to review their business model and commit to addressing these risks for economic and ethical reasons. The Government of Canada announced its plan A Healthy Environment and a Healthy Economy, which includes reducing energy and waste and increasing clean transportation. Moving forward, zero-emission and low emission vehicles are expected to play a greater role in delivery services to help address climate-related issues.

Since 2006, declining mail volumes have resulted in a reduction of 60% in the annual number of pieces of mail delivered per address. This decline accelerated in 2020 due to COVID-19. Declining volumes and increases in the number of addresses in 2020 and the preceding four years were as follows:

Transaction Mail (excluding outbound)	**2020**	2019	2018	2017	2016
Delivered volume change	(10.4)%	(6.3)%	(6.1)%*	(5.4)%*	(7.7)%
Delivery address change	1.2%	1.0%	1.2%	1.1%	1.2%
Mail volume decline per address	(11.5)%	(7.3)%	(7.2)%*	(6.5)%*	(8.8)%

* Adjusted for trading days.

2.3 Our strategy and strategic priorities

Canada Post segment

Our role in connecting Canadians and businesses to deliver a stronger Canada has never been more visible than during COVID-19. During this challenging time, Canada Post was ranked as the Most Trusted Brand in Canada during COVID-19 and our employees were recognized as a critical part of the communities they serve. Keeping employees safe so they can deliver exceptional service is core to our strategy.

We partnered with global experts in the postal and logistics industry to identify trends and their implications for the future of our business, in order to ensure we have plans in place to meet the emerging and future needs of Canadians. We estimate COVID-19 has accelerated Canadians' adoption of e-commerce by at least three years, adding to the sense of urgency to make significant changes in our business model. As we develop these plans in consultation with our shareholder, we continue to focus on:

Engaging our people

At Canada Post, the very nature of our work poses risks to our employees, whether it be operating equipment safely in our plants, driving defensively or avoiding slips, trips and falls while carrying mail and parcels. As a result, health and safety remain our number one priority and our strategy is designed to achieve the highest safety standards. We placed mental health on an equal footing with physical health and safety by raising the profile of our *Keep wellness in mind* program to complement our *Make it safe, Make it home* program. We are working toward operational excellence as a leader in health and safety and embedding this goal firmly in our culture where health and safety are integrated into all our processes, equipment, technology, tools, behaviours and decisions. To this end, we engaged the services of a world-renowned consulting firm to assist us with developing a comprehensive and sustainable health and safety strategy, which would set five- and ten-year ranking goals.

Our bargaining agents represent the vast majority of our people and collectively are an essential component in achieving long-term financial self-sustainability. We strive for a healthy collaborative relationship with our bargaining agents to help us remain competitive.

Our employees are our most valuable resource. However, over the next five years, more than 15,000 employees will leave the organization, largely through retirement. With a competitive labour market, we will focus our efforts on creating a workplace of choice that will attract and retain talent, actively support diversity and inclusion and continue the legacy of trust and reliability that Canadians have come to expect from our trusted brand.

Delighting our customers

Canada Post has the ambition to secure a leadership position in consumer delivery by centralizing its delivery points. Parcel lockers complement our existing community mailbox network to provide a convenient and secure delivery experience. They and other types of consolidated delivery points reduce our carbon footprint as multiple delivery attempts or trips to a post office are eliminated if recipients are not home at the time of delivery. This convenience offers improved service to Canadians; it also provides a greener and more economical means to fully integrate the mail and parcel business. Canada Post will continue to deploy parcel lockers in apartments and condominiums. We will also embark on implementation of automated lockers in high parcel volume areas to increase our first-time delivery success rate, reduce costs and help achieve our environmental targets.

With a focus on the customer experience, we will better integrate our systems with the advanced technologies of our commercial customers and invest in innovation to provide Canadians with the ability to customize their physical delivery experience.

While use of the Lettermail™ service has steadily eroded for 14 years, it remains a significant service for the Canadian economy and Canadian businesses. We are investing in new digital solutions to modernize Lettermail and integrate Direct Marketing products with media platforms and channels that will improve their relevance and value to marketers, advertisers, enablers and influencers.

Reinventing our retail model

Our retail network of over 6,000 locations truly sets us apart from our competition; however, it is becoming increasing costly to sustain them, with almost half of the sites unprofitable. We must innovate to find solutions that will strengthen our retail model, while maintaining an effective community presence that provides all Canadians with access to important products and services for consumers and businesses. In 2020, Canada Post approved a strategy aimed at providing better access to Indigenous, northern and rural communities and another strategy to ensure accessibility through an accommodation program.

Canada Post is piloting community hub concepts for a wide range of services in rural Canada, including improved financial services and potentially new government and community services. We are hoping to launch two pilot locations in Indigenous communities while we explore new partnerships to help create valuable community services.

Leveraging our superior network

Canada Post's superior network provides a strong competitive advantage and enables Canada's economic growth and social well-being. Our business is becoming more and more parcel-centric, and as such, we will continue to develop our network to provide the right capacity that fits customer demand and better serves Canadians. Enhancements include maximizing our existing infrastructure, adding incremental capacity, using new technologies, delivering in a more sustainable way, and improving accessibility.

Our IT strategy is based on underlying market changes and the opportunities that have risen from significant shifts in technology affecting all parts of our business, from frontline to back-office operations. We will evolve quickly to meet customers' expectations, creating agile platforms and relying on technologies that will improve the safety, efficiency and productivity of our operations. We will modernize our core back-office business processes to remove redundant and manual approaches and we will invest in new technologies that are clearly focused on providing a better service and experience for Canadians.

To demonstrate our commitment to Canadian values, our strategy is to be a leader in environmental and accessibility practices. We have set ambitious greenhouse gas reduction targets as well as goals to divert waste from landfill and reduce the use of non-essential single-use plastics. Canada Post will seek opportunities to provide an equitable and inclusive environment for all Canadians by enhancing accessibility across all facilities, especially our post offices. Accessibility, inclusion and reconciliation strategies will be embedded in our hiring, procurement and workplace culture.

Purolator segment

Purolator's strategy is to differentiate itself from competitors and win business through service excellence, using its premium and expansive Canadian network and customer-first mindset. Strong customer service ratings, a track record of industry leading on-time performance and consistent business growth reinforce the effectiveness of this approach. In addition, Purolator maintains a concerted focus on employee health and safety, long-term sustainable growth and the strengthening of the organization's corporate stewardship.

Purolator remains focused on being a leader in the Canadian courier space across business-to-business and business-to-consumer segments, with broad coverage across industry verticals. By offering domestic courier express services with day and time guarantees, ground service for less urgent shipments, international inbound and outbound operations, and global logistics solutions, Purolator can effectively satisfy customer needs on parcels moving to, from and within Canada. Though the growth of e-commerce volumes in Canada and globally, accelerated by the impact of COVID-19, significantly amplifies risk to service, health and safety, and profitability, it also creates new opportunities for Purolator to strengthen and expand its network and diversify its product and service offering to the marketplace.

Purolator is executing the second year of its five-year *Delivering the Future* investment strategy, which is focused on enhancing network capacity and flexibility, enriching the digital experience for shippers and receivers, elevating the company's safety culture and employee engagement, and expanding its global supply chain capabilities. The new National Super Hub in Toronto, Ontario, is scheduled to open in 2021 and will be fully operational in 2022. This facility will triple existing capacity of its current Ontario hub operations, while transforming the network with world-class capabilities to move packages to their destinations even faster, more safely and more reliably. Purolator continues to invest in strengthening its fleet, improving customer access, creating jobs, increasing training and enhancing technology to grow the business.

SCI segment

SCI strives to make its customers' businesses even better, helping them reduce costs and improve services by offering integrated and customized supply chain solutions across Canada. With its competitive differentiation in breadth of end-to-end supply chain capabilities and its Canadian expertise, SCI's strategy is to broaden its service offerings and improve efficiency through improvement initiatives and technology enhancements. In addition, SCI will focus on growing revenue in key customer market verticals of retail, healthcare and technology.

3. Key Performance Drivers

The year 2020 brought a significant acceleration in Canadians' adoption of e-commerce, which Canada Post and industry observers expect will increase online shopping permanently. The rapid growth in parcel volumes strained and, during peak season, exceeded our capacity. We are therefore increasing initiatives that focus on building capacity and improving service for our customers. It is also our top priority to keep our employees safe. We are making more investments and progress in areas related to environmental, social and governance (ESG) principles. Accordingly, investing in environmental sustainability and making progress on accessibility and diversity have been incorporated into our strategy. As we develop plans in consultation with our shareholder, we continue to focus on engaging our people, delighting our customers, reinventing our retail model and leveraging our superior network. The Canada Post segment uses senior executive scorecards to monitor performance and progress against strategic priorities. Regular reporting gives management and the Board of Directors a comprehensive view of the segment's performance.

Here is a summary of Canada Post's progress and achievements in 2020, and plans for 2021.

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.

2020 results	2021 plans
Conducted and used independent safety leadership assessments (SLAs) in multiple facilities across the company to create health and safety improvement plans for 2021 execution. Reduced total injury frequency (TIF) and lost-time injury frequency (LTIF) by 31% each, over 2019. The number of grievances filed decreased by 17%, and we reduced pending grievances by 14% compared to 2019. Developed and implemented action plans with a focus on increased communication and employee well-being in response to results of the 2019 employee engagement survey. Conducted an employee engagement survey for the second year in a row.	Embed health and safety into our culture: • Attain and sustain TIF, LTIF and total injury severity declines with focus on injury prevention, road safety and mental health and wellness prevention and awareness campaigns. • Sustain safety improvements in high injury frequency sites. • Research and plan to use telematics beyond 2021 to reduce road safety risks. Develop and facilitate collaborative and streamlined processes to build alignment and strengthen the relationships with our unions. Create a workplace of choice for our employees:

Held 13 meetings of the Joint National Equity and Diversity Committee with all bargaining units in 2020 to create the equity and diversity strategy.	• Increase engagement index from 72% (2020 result) to 74% in 2021. • Decrease risk in succession plans for critical executive roles while attracting top talent and meeting 2021 peak staffing requirements. • Achieve Canadian Labour Market Availability (CLMA) targets for 2021 and achieve CLMA at 80% over five years for Indigenous peoples and over 10 years for persons with disabilities.

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.

2020 results	2021 plans
Deployed nearly 3,700 parcel lockers in high-density residential units. Expanded the ability to provide four-hour parcel delivery windows to 53% of eligible postal codes. Piloted additional customer delivery preferences such as automated parcel lockers. Enhancements enabled commercial customers to change the destination of a parcel while in transit, allowing retailers to redirect packages to alternate locations. Added enhancements to better estimate delivery dates and service standards during the peak holiday season. Launched Think Small campaign to support small businesses during the first wave of COVID-19. Launched new and enhanced data tools to help our business customers integrate Canada Post Smartmail Marketing™ solutions into their overall marketing strategies.	Deploy additional parcel lockers, design and test automated parcel lockers. Enhance interaction and customization of the delivery experience including functionality for customers to set delivery preferences. Enhance parcel tracking and visibility. Expand parcel pickups to more service areas. Increase the value and relevance of commercial mail by marketing new and existing products. Invest in accessibility and improve interaction through our website and app to make it easy for customers to learn about mail, parcels and Smartmail Marketing solutions. Better integrate our systems with the advanced technologies of commercial customers. Work with Canada Border Services Agency to modernize our IT and physical infrastructure for sending and receiving international parcels.

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.

2020 results	2021 plans
Surveyed and completed market research on rural Canadian community hub for health, legal and government services resulting in selection of the first community hub location (Indigenous community). Completed research in urban and rural Canada to determine whether there are substantive unmet financial service needs for Canadians that we could address. Completed a pilot in Toronto for ATM services and a national pilot for enhanced government cheque cashing in communities with populations of less than 1,000. Continued the retail technology modernization project, with 94% of the retail point-of-sale scope (hardware and software) developed.	Provide contactless transactions by installing parcel drop boxes and creating new setups to ensure physical distancing in lines. Work with an Indigenous community in rural Canada to establish one community hub pilot in a location with service gaps. Introduce new or expanded retail financial products and services to provide better access to Canadians in urban and rural Canada. Deploy updated retail equipment and technology to the majority of full-serve retail. Add induction capabilities at select parcel pickup locations to improve service for customers and small businesses.

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.

2020 results	2021 plans
Infrastructure	
Installed parcel sorters in Moncton and Montréal. Broke ground of the new Ontario East Processing Centre in Toronto. When completed in September 2022, it will be able to process more than one million packages a day, which is 50 per cent more than any other facility in our current network. Opened new delivery facilities in Kitchener and Regina and made sizeable retrofits in Montréal and Calgary, along with modifications to 46 other facilities across the country. With Canada Border Services Agency, developed a solution to modernize the processing of items through customs in Toronto and Montréal exchange offices.	Increase utilization of existing sort capacity. Implement new parcel sorters in Kitchener and add incremental space in Vancouver. Open new delivery facilities in Alliston, Trois-Rivières, Ottawa and two in the greater Montréal area. Deploy the customs modernization solution in Toronto to improve security of the mail, speed of processing and revenue protection.

Technology and digital platform	
Deployed telematics in over 1,200 vehicles and piloted telematics on motorized material handling equipment within the sort facilities. Piloted automated guided vehicles (AGVs) in our plants. Piloted drone delivery.	Deploy telematics in vehicles of other facilities. Deploy next generation of portable data terminals (PDTs). Pilot dynamic routing. Continue to test drones and robotics.
Greening Canada Post and enhancing its accessibility	
Developed an Environmental Action Plan to be published in 2021. Deployed 353 new hybrid electric delivery vehicles in 2020, expanding to include vehicle classes that have higher fuel consumption such as step vans. Became a signatory of the Principles for Responsible Investment (PRI) and a member of Canada's Responsible Investment Association (RIA). Rolled out new products and improved materials, such as poly and prepaid bubble mailers with 23% recycled content. Removed single-use plastic shrink wrap on existing shipping boxes, replacing it with 100% recyclable paper bands. Finalized an agreement with a supplier to launch a "packaging as a service" pilot with Canadian e-commerce companies and reduce single-use packaging through returnable shipping envelopes. Achieved a measure of 77% on digital accessibility across all active digital products in 2020, exceeding our target of 70%. Implemented over 1,800 solutions to enhance accessible delivery of mail and parcels for Canadians who have applied for the Accessible Delivery Program. Established a $10,000 scholarship and two summer internships for students with disabilities in partnership with the National Educational Association of Disabled Students (NEADS).	Publish a climate strategy and 2030 greenhouse gas reduction target to deliver our goal of net zero emissions by 2050. Strive for zero waste in our operations (including for construction and demolition) by 2030. Phase out non-essential single-use plastics in our operations and corporate offices by 2022. Continue investment in accessibility for employees and customers: • Achieve greater accessibility in our network of buildings • Launch and promote the corporate accessibility strategy to Canadians and employees • Enhance accessibility in our digital services. • Execute enhancements to the delivery accommodation program.

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

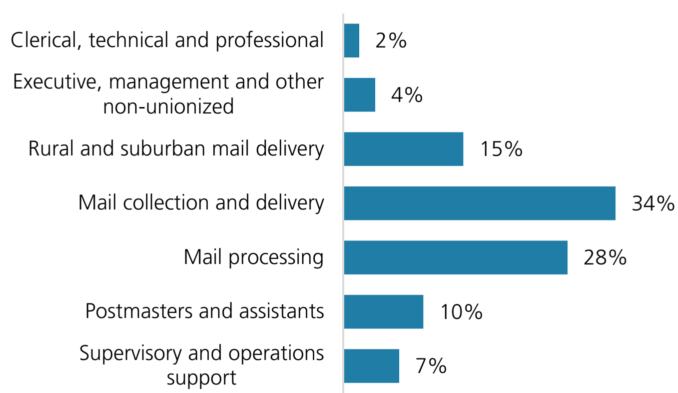
The Canada Post Group of Companies is one of Canada's largest workforces with almost 70,000 people, the majority of them employed by Canada Post. Our workforce is diverse and is found in every urban, rural and remote community across Canada.

Talent management, learning and development

Canada Post segment

Canada Post hired over 7,000 employees in 2020, a combination of annual peak recruiting and additional hiring required to address staffing shortages and leaves due to COVID-19 and to address increased parcel volumes we experienced this year. Recruitment, onboarding and training processes were adjusted to align with Public Health Agency of Canada (PHAC) regulations. Recruitment advertising strategies coupled with the economic impact of COVID-19 resulted in a 38% increase to overall application volumes throughout peak period. A new peak reporting dashboard was developed to improve reporting insights, risk mitigation and executive visibility on peak staffing activities.

Workforce by type of work – 2020



The Joint National Equity and Diversity Committee was launched in January 2020 with representation from all four unions and management, facilitated by the Canadian Centre for Diversity and Inclusion (CCDI). The Committee agreed to use CCDI methodology to co-create a five-year strategy. Canada Post continued efforts on equity, diversity and inclusion despite challenges caused by COVID-19, holding 13 committee meetings to co-create the Equity and

Diversity Strategy and the Anti-Racism Action Plan. We deployed unconscious bias training to 300 senior leaders (directors and above). Training for leaders in operations is scheduled for 2021. We continued to expand talent searches to under-represented groups and in 2020 saw improvements in the number of Indigenous peoples and persons with disabilities working at Canada Post, which increased by 4.2% and 8.3%, respectively.

Ensuring the right people are working in the right roles, safely and productively, is the focus of our talent management processes. To differentiate us compared to other employers in a tight labour market, we increased our concentration on talent development and believe that growing our people will help grow the business.

As part of our evolving leadership curriculum, we launched New Manager Fundamentals, an orientation for people new to the manager role or new to Canada Post. This program focuses on basic accountabilities for managers, tools and support networks for processes including safety, disability management, staffing, performance and talent management. We have more sessions planned for 2021 and are exploring tailored designs for different audiences, such as executives or human resources personnel supporting other business functions.

Our management development program, LEAD, was paused in Q1 due to COVID-19. In 2020, the first cohort of 30 managers successfully completed the educational module and presented their action learning projects in early March, while the second cohort completed the program using virtual delivery methods. The executive version of the LEAD program was not delivered in 2020. The Corporation continues to contemplate what this program will look like going forward.

In 2020, our employees received almost 680,000 hours of training, over half of which was delivered digitally.

With the declaration of COVID-19 as a pandemic in early 2020, training for health and safety took on a whole new meaning. New protocols to deliver training safely became a critical focus in March and evolved on a regular basis until June. Ensuring safe training where physical distancing was impossible, such as with peer mentoring and driver training, proved to be a particular challenge, but with guidance from the Public Health Agency of Canada, our national Health and Safety team and our National Joint Health and Safety Committee, we created guidelines to keep our employees safe. All programs critical to the safety of new hires continued to be delivered in 2020, and new programs to be deployed in 2021 were created, including the new Workplace Violence and Harassment program in response to amendments to Bill C-65 *An Act to amend the Canada Labour Code (harassment and violence)* and *Work Place Harassment and Violence Prevention Regulations* that came into effect January 1, 2021. As COVID-19 and related increases in parcel volumes had an impact on time available for training, safety training remained a critical focus and more than 127,000 hours were completed. As an example, over 7,600 employees completed basic driver training and almost 4,600 employees completed conveyor safety training. Resources for our *Make it safe, Make it home* program were updated with over 70 new training videos, guides and job aids added to the website.

Early in 2020, investments in learning for sales employees focused on enhanced communication skills and tools aimed at improving customer business reviews. As a result of COVID-19, a comprehensive series of virtual sessions were developed and delivered, refreshing and reinforcing Canada Post sales tools and processes. Later in the year, an innovative virtual selling series was created, covering topics designed to better equip the sales force to perform in a world of virtual selling.

In response to the 2019 employee engagement survey, teams focused in 2020 on making improvements in communication and employee well-being. These areas continue to be part of an important strategy to ensure employees feel supported and engaged during COVID-19. Further in the year, we asked again about employees' level of engagement. The survey was managed by an independent organization and conducted anonymously with all active employees across the organization. The 2020 response rate was 25%, up from 18% in the prior year, but we still have a long way to go. We were pleased to see a significant increase in the employee engagement index, from 64% in 2019 to 72% in 2020. Employee responses indicated that two key areas identified for focus in 2020 have improved over 2019, with communication improving by 8% to 50% favourable, and employee well-being, which touches on areas like stress and tension, harassment and physical work conditions, improving by 5% to 69% favourable. However, communication is still one of the areas we need to improve the most. Employees also asked us to focus on workload and the environment. Significant improvements of over 5% in scores were in pride and willingness to recommend Canada Post as a place to work. Early in 2021, we will introduce action planning activities across the company, including in areas that are specific to teams.

We continued to work on talent management and succession planning. We made progress in mitigating succession risks by identifying successors for key roles and continuing to focus on development plans for talent throughout the organization. The senior executive team reviewed and discussed detailed development plans for a number of individuals every quarter throughout 2020, an indication of the importance of talent management and succession. As part of our broader focus on engagement, we continued to invest significantly in career management and development programs, tools and workshops. We delivered three more virtual career fairs in 2020, helping over 200 employees sharpen their career aspirations and, in some cases, facilitating cross-functional development opportunities. More internal career fairs are planned for 2021.

Purolator segment

Purolator augmented its talent management efforts by launching a new talent development program, *Diverse Talent Matters*. This program, which is aligned with our diversity and inclusion strategy, focuses on removing systemic barriers, and creating opportunities for visible minorities within the Purolator employee population.

2020 has also been strong from a learning and development perspective, with a focus on virtual instructor-led training. Conversion of all frontline in-person skills-based training to a virtual environment, along with the introduction of driving simulators, enabled our organization to successfully bring on board and train more than 3,700 full-time employees virtually in 2020.

Health and safety

Canada Post segment

Injury reduction and the prevention of incidents continue to be our highest priority and we remain committed to identifying, preventing and controlling hazards and risks that affect our employees, contractors, visitors and members of the public as we aim for zero harm. Focus throughout 2020 was on changing mindset, improving how we interact with our unions, reducing injuries and illnesses, minimizing incidents of workplace harassment and violence, and remodeling the road safety program.

COVID-19 proactive measures that were implemented in March were put to the test in the fourth quarter as the second wave of the disease increased the weekly average of employee cases from five in Q2, to 47 in Q4. Resources were shifted to manage the influx of cases, face coverings were made mandatory at all Canada Post facilities to supplement established protocols, and a COVID-19 audit protocol was implemented to assist in identifying areas to improve physical distancing, wearing of face coverings, signage, communications and adherence to all other prevention protocols.

The total injury frequency rate and lost-time injury frequency rate for 2020 each improved 31% compared to 2019. 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.

We saw an improvement in motor vehicle collision frequency of 11% in 2020 compared to the prior year, which was partly due to less traffic being on the road. A new internal organization, Driver Safety and Compliance, was approved, budgeted and partially staffed in the final quarter of 2020. This organization is responsible for implementing road safety standards and processes nationally, developing additional reporting tools and training protocols, and establishing audit and compliance practices identified in the health and safety strategy.

Supporting the psychological health of Canada Post employees began with the launch of *Keep wellness in mind* in 2019. The importance of practices that support mental well-being, such as work-life balance, physical fitness, stress reduction and ergonomics when working from home, has been woven into many of the communications shared with employees and team leaders throughout the year. In 2021, the first year of a 10-year continuous improvement mental health strategy will include several initiatives:

- 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.

In November 2020, Canada Post launched its new Workplace Harassment and Violence Policy, which conforms to the *Canada Labour Code* amendments to Bill C-65 *Work Place Harassment and Violence Prevention Regulations* for federal employers. Our updated policy includes new processes, documentation, training, monitoring, and overall policy changes to ensure Canada Post is compliant with this new legislation, moving the focus to prevention and early resolution of situations that can lead to harassment and violence in the workplace. All employees and team leaders will be required to complete e-learning training on workplace harassment and violence by December 2021. The resolution process and training modules were launched in January 2021.

Labour relations

Canada Post segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
CUPW-UPO[b]	36,018	January 31, 2022
CUPW-RSMC[c]	8,577	December 31, 2021
CPAA[d]	5,251	December 31, 2023
APOC[e]	3,844	March 31, 2021
PSAC/UPCE[f]	1,252	August 31, 2024
Total	**54,942**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2020; excludes 17,756 temporary, casual and term employees.
b. CUPW-UPO: Canadian Union of Postal Workers – Urban Postal Operations, which represents plant and retail employees as well as letter carriers and mail service couriers.
c. CUPW-RSMC: Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada.
d. CPAA: Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants.
e. APOC: Association of Postal Officials of Canada, which represents supervisors as well as supervisory support groups, such as trainers, route measurement officers and sales employees.
f. PSAC/UPCE: Public Service Alliance of Canada / Union of Postal Communications Employees, which 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.

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

Arbitration to replace expired collective agreements for CUPW-UPO and CUPW-RSMC ended in June with the arbitrator's release of her decision. The duration of the new collective agreements is four years, with expiry dates on December 31, 2021 (RSMC) and January 31, 2022 (UPO). The arbitrator's decision included wage increases for employees represented by both bargaining units of 2% in the first two years, 2.5% in the third year, and 2.9% in the fourth and final year, together with changes to a number of other provisions. The decision resulted in additional labour and benefits costs of $127 million, mostly related to a plan amendment loss due to expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC.

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)

The current collective agreement with APOC expires March 31, 2021. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees. Collective bargaining between APOC and Canada Post commenced in December 2020. In March 2021, a tentative agreement was reached and remains subject to a ratification vote. The new collective agreement will extend to March 31, 2025.

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

In May 2020, well in advance of the expiry of the collective agreement on August 31, 2020, PSAC/UPCE ratified a new four-year collective agreement that extends to 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 (CIRB), 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.

Purolator segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Teamsters[b]	10,057	December 31, 2021
Teamsters[c]	537	December 31, 2022
PSAC[d]	160	December 31, 2022
Unifor[e]	128	December 31, 2022
Total	**10,882**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2020; excludes 188 temporary, casual and term employees.
b. Teamsters represent employees in operations.
c. Teamsters represent clerical and administrative employees.
d. Public Service Alliance of Canada, in British Columbia the Union of Postal Communication Employees, represents clerical and administrative employees.
e. Unifor represents clerical and administrative employees.

SCI segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Unifor – Toronto	248	December 31, 2023
Unifor – Laval	25	November 30, 2021
Total	**273**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2020.

4.2 Our network and infrastructure

Canada Post segment

The Canada Post segment delivers to over 16.7 million addresses and its vast operating network requires significant investment and coordination between the collection, processing, transportation links and delivery activities. Canada Post has the largest delivery network in Canada and one of Canada's largest transportation networks. In 2020, 6.3 billion pieces of mail and parcels were processed in our plants, which represents on average 25 million items sorted and delivered daily. To process and deliver all the mail and parcels, our network includes the following:

21 processing plants

474 letter carrier depots

1.7 million post office boxes (including general delivery)

6,026 post offices, corporately owned or managed by authorized dealers

13,384 letter carrier routes
1,238 mail service carrier routes
7,947 rural and suburban mail carrier routes
16.7 million points of delivery

12,961 parcel lockers

228,784 community mailbox sites

21,713 street letter boxes

Canada Post continues to solidify its footprint and leadership position in consumer delivery by investing in customer-centric solutions, capacity across the network, first- and last-mile attributes. Responding to the growth in online shopping, our innovation and investment are targeted at ensuring we remain the provider of choice for Canadians, offering market leading service levels, the most convenience and choice, the highest levels of security and clean-and-green delivery.

Investment in additional parcel sorting capability continues to progress. In 2020 new pieces of automated sorting equipment became operational in Moncton and Montréal. In Moncton, the new sorter, the first of its kind for Canada Post in Atlantic Canada, can sort almost 60,000 packages per day and has more than doubled the capacity in the region, while the new state-of-the-art sorter in Montréal has increased capability there by almost 400,000 packages per day.

A project in our Kitchener sorting plant is on track to be completed in 2021, which will increase capacity by double the current amount to 120,000 packages per day and also improve service levels for southwestern Ontario and connecting areas.

We are also upgrading much of our delivery network. We opened new delivery facilities in Regina and Kitchener, completed a depot expansion in Calgary and made modifications in 40 other offices to create more space for parcels. In 2021, we will open facilities in Trois-Rivières, Ottawa, Alliston and Montréal (two), expand a depot in Edmonton and make minor modifications to additional sites for the peak period.

We installed nearly 3,700 additional residential parcel lockers across Canada in 2020 to bring the total number to approximately 13,000, and we introduced a pilot program to test parcel lockers in select communities around the country. These lockers will significantly increase our first-time delivery success rate which would improve service and customer satisfaction. In 2021 we will add a further 5,500 parcel lockers across Canada.

Canada Post and the Canada Border Services Agency continue their close collaboration to modernize the inbound customs clearance process. In 2020, our efforts focused on improving data quality from foreign posts to facilitate identification and removal of illicit and prohibited goods from the mail stream.

Capital investments

Capital asset expenditures in the Canada Post segment of $336 million in 2020 focused on implementing solutions that address operational capacity challenges to support e-commerce growth, modernizing the retail network, replacing aging vehicles and street furniture, investing in health and safety initiatives, exploring clean energy alternatives and expanding the accessible delivery program.

Compared to 2019, our investment spending was lower by $121 million, largely driven by the effects of COVID-19. Our ability to invest and secure physical assets at the anticipated pace was impaired, the bulk of which was related to replacing aging vehicles in our fleet. As we work with our shareholder to define and obtain alignment on key strategic initiatives beyond 2020, we progressed with the following more notable capital investments:

- Invested to increase network capacity in Montréal, Kitchener, Hamilton, Moncton, Calgary and Regina, and approved plans for new delivery facilities in greater Montréal and Kelowna.
- Continued to develop our new Ontario East Processing Centre in the Greater Toronto Area, which represents our most significant in-year investment.
- Continued to modernize the retail network to support our growing Parcels business and meet changing business and consumer needs, with 94% of the retail point-of-sale scope (hardware and software) developed.
- Deployed an additional 3,689 parcel lockers in high-density residential units providing increased convenience and delivery success in residential areas where we have a high volume of parcel delivery. We're striving to be the most convenient, secure and environmentally conscious carrier for Canadians to receive their e-commerce purchases.
- Replaced a significant amount of outdated street furniture modules, and vehicles of all types.
- Deployed 353 hybrid electric delivery vehicles in 2020, expanding to include vehicle classes that have higher fuel consumption such as step vans, to help reduce greenhouse gas emissions of our national fleet for last-mile deliveries and solidify our position as the largest alternate propulsion delivery fleet in the country. We also further invested in energy-saving measures in our buildings to reduce operating costs and greenhouse gas emissions.

In 2021, we will continue and accelerate the deployment of new solutions to address immediate capacity opportunities and make changes in our network to meet parcel growth projections. We will continue to standardize equipment across our network and increase parcel automation initiatives that keep our employees safe and better serve our customers. We will also enhance the efficiency of our fleet by continuing to explore clean energy alternatives, expand the accessible delivery program and start modernizing our back office through the upgrade of our enterprise resource planning (ERP) system. All investment decisions will be guided by our focus on engaging our people, delighting our customers, reinventing our retail model and leveraging our superior network.

Accessibility

Canada Post aims to provide convenient access to all Canadians, which includes increased accessibility in our facilities and our programs and services. The *Accessible Canada Act* came into force in 2019 to ensure a progressively barrier-free Canada. This legislation ensures that facilities in Canada are accessible to persons with a range of disabilities and that programs and services to the public are barrier-free.

To create a welcoming experience for Canadians, including persons with disabilities, our spaces are designed with accessibility in mind, and we have started proactively conducting site audits to identify accessibility gaps in our network and make enhancements.

We are also in the process of developing, together with an expert, Canada Post-specific accessibility standards for the built environment and additional tools to help us achieve greater accessibility in our various types of facilities.

In line with our goal to provide accessible programs and services to Canadians and remove barriers for persons with disabilities, all new public-facing digital products must be built to meet the Web Content Accessibility Guidelines (WCAG) 2.1 at level AA. To ensure these standards are met, in 2020, we established a dedicated digital accessibility team, trained 100 digital employees and contractors, and implemented a thorough accessibility testing approach. We achieved a measure of 77% on digital accessibility across all active digital products in 2020, exceeding our target of 70%.

Purolator segment

In 2020, Purolator overcame COVID-19 related challenges while delivering on its network and infrastructure priorities focusing on the following areas:

- Executed its network evolution strategy that included the opening of three facilities in Alberta and Ontario, purchased land in Kanata, Ontario for a new facility, and invested in new processing equipment for several locations across Canada. This created additional capacity to support business growth, rebalanced capacity in neighbouring terminals, improved customer experience through closer proximity to customers, and improved ease of access for shipment induction and pickup.
- Evolved its city logistics final-mile delivery and customer-access solutions that tackle logistics challenges in major city centres across Canada by coupling its e-cargo bikes with low-speed electric vehicles. City logistics is currently available at urban distribution centres in Montréal and Toronto.
- Expanded retail store operating hours and customer access points to increase customer convenience.
- Mitigated COVID-19 related health and safety concerns by increasing customer access points, including contactless parcel lockers and self-serve kiosks.
- Progressed in the development of the new Ontario hub, with scalable design, automated sorting and integrated process management solutions that will support long-term sustained growth with capabilities to meet the needs of an evolving marketplace.

4.3 Sales channels

Canada Post segment

Retail

While our retail outlets have always been a vital point of contact for customers, they proved essential in 2020 to many Canadians. Our Knock, Drop, and Go policy reduced the volume of parcels sent to a post office for pickup, but this decrease was more than offset by the substantial increase in parcels sent from post offices. COVID-19 accelerated the e-commerce plans of many companies, significantly increasing the number of shippers. As with commercial parcels, there was a significant increase in packages shipped between families and friends. Our post office network was equipped to meet the challenge. With over 6,000 post offices across the country, we have more retail locations than any other business in Canada. Of these, almost 3,700 of our locations are corporately owned and over 2,300 are operated by private dealers. In addition to a well-established network in urban centres, over half of our locations are in diverse and remote areas. Our post offices provide a suite of products and services to meet the needs of our customers, including mail forwarding options, packaging solutions, prepaid reloadable credit cards for travel or everyday use, and remittance services.

Beyond full-service post offices, which are the backbone of our network, we continue to focus on meeting the changing needs of Canadians, especially during COVID-19. Our focus is not only on providing customer convenience but also in finding efficiencies during delivery and mailing to ensure we keep employees and customers safe. We are working toward contactless transactions where possible, installing parcel drop boxes and shelving areas where labelled packages can be mailed without interacting with the clerk. We are also creating new setups to ensure physical distancing in lineups, and where possible, allow customers a separate lineup area to complete their contactless drop-off. In our three concept stores we tested self-serve offerings for customers, including parcel payment and induction kiosks, postage supply vending machines and drive-thru parcel pickup. In addition to new models and concepts, we continue to evolve the design of our full-service locations. Our parcel pickup model has improved customer convenience by allowing us to increase the number of locations in our network as needed. These locations are quick to set up and require less space than a post office, which allows us to temporarily expand our network to accommodate peak volumes. In 2021, we plan to improve this model by adding capabilities for customers to mail their items in a pick-up-drop-off model that will help manage the increase in mail and parcels we have seen during COVID-19. We also continue to improve our backroom space, adding shelving and optimizing the overall layout to increase parcel capacity.

Canada Post is focused on improving service and providing more convenient access to Canadians in rural and remote locations, beginning with the creation of a community hub, to open in 2021. We are working with a selected Indigenous community to identify areas that are underserved. This partnership will provide information on how to better serve rural and Indigenous communities, which we'll incorporate into design considerations across our network.

We are modernizing the retail technology point-of-sale systems to enable our evolving retail business. Our multi-year project to replace the point-of-sale hardware and software in all our approximately 5,700 automated sites will begin in 2021, with 3,650 sites implemented in 2021 and the remaining 2,050 in 2022. We've greatly improved accessibility for our customers with separate screens for clerk and customer, as well as a handheld device to receive payment and capture signatures, providing ergonomic and accessibility benefits for people who can't reach the customer facing screen. Where possible, transactions have been streamlined to simplify the interaction between the clerk and the customer. Also, the system is designed with future adaptability in mind, allowing us to easily roll out improvements and new functionality to meet customer needs in years to come. Improving the customer experience is a key part of our strategy and we are incorporating a new way to obtain customer feedback within the new point-of-sale system. This new solution will not only increase customer response rate, it will allow us to collect real-time customer satisfaction data at the point of purchase, giving us greater insight into how to better serve our customers.

Flat rate shipping boxes are similar to prepaid envelopes, in that they are purchased in advance by the customer, then packaged and mailed at the customer's convenience. These products remove weighing and measuring from the parcel transaction – anything under 5 kg that fits into the box can be shipped. The ease of this product was especially popular in 2020, with nearly 17 million flat rate boxes purchased throughout the year.

We're increasing our focus on the environment and sustainability, working to eliminate single-use plastics from the products sold through our post offices. We successfully removed shrink wrap from shipping boxes in 2020, replacing it with 100% recyclable paper bands, and increased the recycled content in our bubble mailers from 15% to 23%. Incorporating environmentally improved alternatives in our retail network design process will ensure lower emissions and less downstream waste. Design changes include using modular fixtures that allow us to replace broken pieces rather than the entire unit, and changing retail signage specifications from fluorescent to LED.

From the onset of COVID-19, it was extremely important for us to balance access to our services with the safety of our customers and employees. Our store hours were adjusted, providing priority service to elderly and immunocompromised individuals early in the day, while also giving additional time for staff to clean and sanitize equipment at the end of the day. Physical distancing was promoted through floor markers, door signage, protective shields at the counter, and protective covers for payment and signing devices. Where possible, non-essential contact points between our clerks and customers were removed and personal protective equipment was supplied to employees and steadily restocked throughout the year. As Canadians shopped online in record numbers and our corporate post offices and franchises experienced significant increases in parcel volume, our frontline clerks continued to provide an essential service with patience, resilience and grace.

Online services

We continually improve the digital channel to reduce customer irritants and simplify the user experience online. In 2020, we upgraded tools in Shipping Manager for consumers and mid-market customers, and in Request a pickup for commercial customers, making both of these tools accessible. Customers also use our website and app to find a postal code, a post office, a rate or to track a package. Our commercial customers can use our order entry systems including online store, Canada Post Snap Ship™, Electronic Shipping Tools and Express Order Entry as well as our business solutions for pickup and return services, AddressComplete™, epost™ or direct marketing tools such as Precision Targeter™.

4.4 Internal controls and procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Corporation's President and Chief Executive Officer (CEO) and the Interim Chief Financial Officer (CFO), so that appropriate decisions can be made regarding public disclosure for the Group of Companies.

The President and CEO and the Interim CFO have evaluated the effectiveness of the Group of Companies' disclosure controls and procedures related to the preparation of the Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2020.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards (IFRSs).

The President and CEO and the Interim CFO have assessed the effectiveness of the Group of Companies' internal control over financial reporting as at December 31, 2020, in accordance with the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the President and CEO and the Interim CFO have determined that the Group of Companies' internal control over financial reporting was effective as at December 31, 2020. This process follows the best-practice requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA). As a Crown corporation, Canada Post voluntarily complies with certain rules and regulations of the CSA.

Changes in internal control over financial reporting

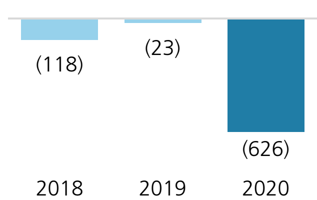
There were no changes in internal control over financial reporting during the year ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

5. Discussion of Operations

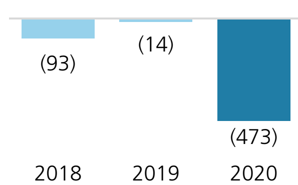
A detailed discussion of our financial performance in 2020

5.1 Consolidated trends

Loss before tax
(in millions of dollars)



Net Loss
(in millions of dollars)



5.2 Consolidated results from operations

Consolidated results

(in millions of dollars)	2020	2019	Change	%
Revenue from operations	9,318	8,899	419	4.3[1]
Cost of operations	9,888	8,892	996	10.8[1]
Profit (loss) from operations	**(570)**	**7**	**(577)**	*
Investing and financing income (expense), net	(56)	(30)	(26)	†
Loss before tax	**(626)**	**(23)**	**(603)**	†
Tax recovery	(153)	(9)	(144)	†
Net loss	**(473)**	**(14)**	**(459)**	†
Other comprehensive income (loss)	(329)	120	(449)	*
Comprehensive income (loss)	**(802)**	**106**	**(908)**	*

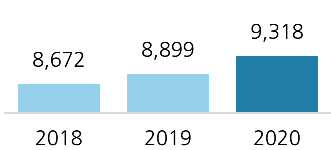
* The calculation is not mathematically meaningful.
† Large percentage change.

The Canada Post Group of Companies' 2020 loss before tax of $626 million was $603 million worse than the loss before tax in 2019. A detailed discussion by segment is provided in sections 5.4 to 5.6.

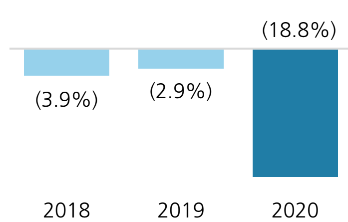
Additional business days result in increased revenue, while additional paid days result in an increase in the cost of operations. In 2020, there was one additional business day and one additional paid day compared to 2019.

Consolidated revenue from operations

Consolidated revenue from operations
(in millions of dollars)



Total volume decline



Revenue from operations increased by $419 million in 2020, compared to 2019. Parcels revenue growth in the Canada Post and Purolator segments exceeded ongoing Transaction Mail and Direct Marketing erosion and revenue declines in the SCI segment. COVID-19 contributed to parcel growth and mail erosion.

Consolidated cost of operations

The cost of operations increased by $996 million in 2020 compared to 2019, due to cost increases in labour and transportation related to growth, employee benefits costs related to the arbitrator's decision, as well as increased costs related to COVID-19 in the Canada Post, Purolator and SCI segments.

Consolidated investing and financing income (expense), net

Net investing and financing expenses increased by $26 million in 2020, due to a decrease in interest income.

Consolidated tax expense (recovery)

The consolidated tax recovery for 2020 increased by $144 million compared to 2019, as a result of a significant loss in the Group of Companies.

Consolidated other comprehensive income

The consolidated other comprehensive loss of $329 million was mainly due to remeasurement losses on pension and other post-employment plans, primarily due to a decrease in discount rates partially offset by gains on investments and experience adjustments. 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 in 2020.

5.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)	**2020**	2019	2018	2017	2016
Canada Post	(798)	(187)	(281)	84	63
Purolator	200	164	177	127	69
SCI	24	23	22	21	20
Other	4	7	–	(1)	(3)
Canada Post Group of Companies	**(570)**	**7**	**(82)**	**231**	**149**

Segmented results – Profit (loss) before tax

(in millions of dollars)	**2020**	2019	2018	2017	2016
Canada Post	(779)	(153)	(276)	76	55
Purolator	176	152	161	123	67
SCI	20	20	20	21	20
Other	(43)	(42)	(23)	(16)	(28)
Canada Post Group of Companies	**(626)**	**(23)**	**(118)**	**204**	**114**

5.4 Canada Post segment

The Canada Post segment's loss before tax of $779 million in 2020 was $626 million higher than the loss before tax in 2019. An estimated $194 million of this loss is due to COVID-19. While COVID-19 has resulted in unprecedented growth in Domestic Parcels, we have seen higher erosion in Transaction Mail and Direct Marketing. The growth in Domestic Parcels and required operational changes due to health and safety considerations resulted in increased labour costs, including employee special leave, and higher collection, processing and delivery costs. Similarly, the arbitrator's decision in the second quarter resulted in additional costs due to expanded eligibility for post-employment healthcare coverage to employees represented by Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC). However, some of the factors contributing to the segment's 2020 financial performance, amplified by COVID-19, are recurring, as erosion in our Transaction Mail and Direct Marketing lines of business continues due to digital substitution. While future parcel growth in a highly competitive market holds promise, our overall costs are increasing as our business shifts from mail to parcels.

Summary of results

(in millions of dollars)	2020	2019	Change	%
Revenue from operations	6,942	6,748	194	2.5[1]
Cost of operations	7,740	6,935	805	11.2[1]
Loss from operations	**(798)**	**(187)**	**(611)**	**(326.5)**
Investing and financing income (expense), net	19	34	(15)	(44.4)
Loss before tax	**(779)**	**(153)**	**(626)**	**(409.2)**

Revenue from operations

Growth in Parcels revenue more than offset the declines in Transaction Mail and Direct Marketing revenue, in part because consumers increased their online shopping when in-person shopping was restricted during COVID-19. Significant revenue declines of $230 million in Transaction Mail and $257 million in Direct Marketing, compared to 2019, occurred as mailers increasingly turned to digital alternatives or cancelled or delayed mailings due to COVID-19. It is estimated that $382 million of that $487 million decline in Transaction Mail and Direct Marketing revenue is due to COVID-19. In 2020, total revenue from operations increased by $194 million compared to 2019. The estimated total revenue increase attributed to COVID-19 for 2020 was $93 million.

Revenue and volumes by line of business

	Revenue (in millions of dollars)				**Volume** (in millions of pieces)			
	2020	2019	Change	%[1]	**2020**	2019	Change	%[1]
Parcels								
Domestic Parcels	2,681	2,068	613	29.1	292	222	70	30.9
Outbound Parcels	302	243	59	24.2	13	10	3	31.2
Inbound Parcels	432	401	31	7.2	84	88	(4)	(5.0)
Other	19	23	(4)	(17.0)	–	–	–	–
Total Parcels	**3,434**	**2,735**	**699**	**25.0**	**389**	**320**	**69**	**21.0**
Transaction Mail								
Domestic Lettermail	2,335	2,540	(205)	(8.5)	2,432	2,683	(251)	(9.7)
Outbound Letter-post	83	96	(13)	(13.8)	39	45	(6)	(15.2)
Inbound Letter-post	66	78	(12)	(16.2)	69	98	(29)	(29.6)
Total Transaction Mail	**2,484**	**2,714**	**(230)**	**(8.9)**	**2,540**	**2,826**	**(286)**	**(10.5)**
Direct Marketing								
Personalized Mail™	365	485	(120)	(25.1)	648	886	(238)	(27.1)
Neighbourhood Mail™	283	401	(118)	(29.7)	2,474	3,461	(987)	(28.8)
Total Smartmail Marketing™	**648**	**886**	**(238)**	**(27.2)**	**3,122**	**4,347**	**(1,225)**	**(28.5)**
Publications Mail™	129	146	(17)	(12.0)	187	215	(28)	(13.5)
Business Reply Mail™ and Other Mail	19	20	(1)	(5.9)	14	16	(2)	(9.3)
Other	13	14	(1)	0.4	–	–	–	–
Total Direct Marketing	**809**	**1,066**	**(257)**	**(24.3)**	**3,323**	**4,578**	**(1,255)**	**(27.7)**
Other Revenue	215	233	(18)	(8.2)	–	–	–	–
Total	**6,942**	**6,748**	**194**	**2.5**	**6,252**	**7,724**	**(1,472)**	**(19.4)**

Parcels

Parcels revenue increased by $699 million compared to 2019. It is estimated that $471 million of this increase was due to COVID-19. Details by product category were as follows:

- Domestic Parcels revenue and volume increases resulted mostly from more Canadians shopping from home during the second, third and fourth quarters of the year due to COVID-19. However, during this time we were forced to manage volumes because of capacity constraints and resulting backlogs of items in our network. Capacity remains a challenge as provinces imposed restrictions toward the end of 2020 and early in 2021. Canada Post's share of domestic e-commerce delivery also faces pressure from labour instability and increasing competition. In 2021, we will continue to invest in capacity improvements and collaborate with our customers to meet their growing needs and maintain our leading position in this highly competitive market.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) increased over the prior year as Canadians sent more packages, mostly to the United

States but also internationally where available air capacity was permitted, as a result of travel restrictions and the worldwide surge in e-commerce driven by COVID-19 restrictions.

- Inbound Parcels revenue (fees paid to Canada Post by other postal administrations for delivering mail originating outside of Canada) was affected by COVID-19, with declines during the second quarter of the year that were more than offset by increases during the last two quarters. These increases in the second half of the year were from the U.S., partially offset by declines for the rest of the world, which resulted from limited air capacity out of China and Europe.
- Other Parcels revenue, which mostly comprises fees from the Customs Postal Program, decreased due to lower volumes of inbound postal items to be rated for duties and taxes.

Transaction Mail

Transaction Mail revenue decreased by $230 million compared to 2019. COVID-19 was estimated to have contributed $146 million to this decline, primarily due to accelerated volume erosion. Details by product category were as follows:

- Domestic Lettermail revenue and volume were higher in the fourth quarter compared to the second and third quarters due to holiday mailings, similar to prior years. However, for the full year revenue and volume declined compared to the prior year as households and businesses continued to increase their use of digital communication instead of Lettermail™. COVID-19 accelerated this trend and Canada Post's customers continue efforts to proactively convert their customers to e-solutions and digital alternatives, which contribute to Lettermail erosion.
- Outbound Letter-post revenue and volumes were at their highest levels in the fourth quarter, also the result of holiday mailings. However, Inbound Letter-post revenue and volume declined in the fourth quarter. For the full year, revenue and volume declined compared to 2019, due to COVID-19 restrictions throughout the world, limited air capacity, as well as increased use of digital alternatives. Outbound Letter-post revenue is collected from domestic customers for mail destined to other postal administrations and Inbound Letter-post revenue is collected by other postal administrations and shared with Canada Post for delivering mail in Canada.

Direct Marketing

Direct Marketing revenue decreased by $257 million compared to 2019. An estimated $236 million of this decline is attributed to COVID-19. Details by product category were as follows:

- Personalized Mail revenue and volumes declined mostly due to COVID-19 as many customers delayed or cancelled marketing campaigns. A continued increase in digital substitution still exists in this product outside of the effects of COVID-19.
- Neighbourhood Mail revenue and volumes decreased as a result of COVID-19 as many customers delayed or cancelled marketing campaigns throughout the pandemic.
- Publications Mail revenue and volume declines were due to a drop in paper subscriptions as digital subscriptions are increasingly becoming the preferred method of delivery, which was accelerated by COVID-19 throughout the year.
- Business Reply Mail continued to decline while and Other Mail and Other products were relatively flat.

Other Revenue

Other Revenue declined mainly due to a decrease in digital and consumer products and services and a loss in foreign exchange. It is estimated that this decline would have been $5 million worse had it not been for COVID-19.

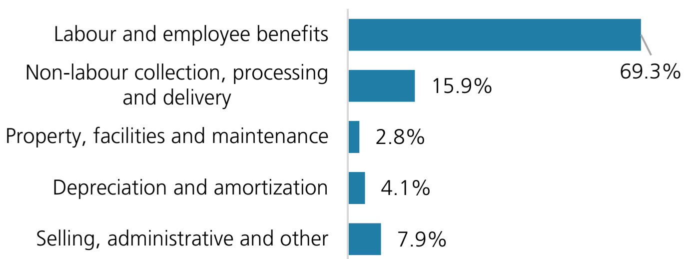
Cost of operations

In 2020, the Canada Post segment's cost of operations increased by $805 million compared to 2019. COVID-19 is estimated to have contributed $292 million to these costs due to higher labour costs, special employee leave, as well as increased collection, processing and delivery costs resulting from required operational changes. The arbitrator's decision for the new collective agreements with CUPW resulted in additional labour and benefits costs of $127 million, mostly related to expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC.

(in millions of dollars)	2020	2019	Change	%[1]	Cost as % of revenue from operations 2020	2019
Labour	3,718	3,453	265	7.3	53.6	51.2
Employee benefits	1,647	1,345	302	22.0	23.7	19.9
Total labour and employee benefits	**5,365**	**4,798**	**567**	**11.4**	**77.3**	**71.1**
Non-labour collection, processing and delivery	1,231	1,062	169	15.4	17.7	15.7
Property, facilities and maintenance	218	202	16	8.0	3.2	3.0
Selling, administrative and other	612	564	48	8.0	8.8	8.4
Total other operating costs	**2,061**	**1,828**	**233**	**12.3**	**29.7**	**27.1**
Depreciation and amortization	314	309	5	1.0	4.5	4.6
Total	**7,740**	**6,935**	**805**	**11.2**	**111.5**	**102.8**

The chart and table below show the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 69.3% of the total cost of operations in 2020, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2020



Cost of operations	2020	2019	2018
Labour and employee benefits	69.3%	69.2%	70.7%
Non-labour collection, processing and delivery	15.9%	15.3%	14.8%
Property, facilities and maintenance	2.8%	2.9%	2.8%
Depreciation and amortization	4.1%	4.5%	4.4%
Selling, administrative and other	7.9%	8.1%	7.3%

Labour

Labour costs increased by $265 million compared to 2019, in large part due to COVID-19, which resulted in significant parcels volume growth alongside physical distancing measures and an increase in employee special leave. The remaining increase was due to wage inflation and ongoing network growth.

Employee benefits

(in millions of dollars)	2020	2019	Change	%[1]
Pension expense	764	603	161	26.3
Post-employment health benefits	267	156	111	70.1
Other post-employment and other long-term benefits	125	125	–	(0.8)
Interest on segregated assets	(16)	(23)	7	(32.3)
Total post-employment and other long-term benefits	**1,140**	**861**	**279**	**31.9**
Active employee benefits and other	507	484	23	4.3
Employee benefits	**1,647**	**1,345**	**302**	**22.0**

Employee benefits increased by $302 million compared to 2019, as detailed below:

- The pension expense increased by $161 million in 2020, mostly the result of a decrease in the discount rate used to measure the expense.
- The post-employment health benefits expense increased by $111 million mainly due to the 2020 plan amendment loss related to expanded eligibility for post-retirement healthcare benefits to employees represented by the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers as a result of the arbitration ruling.
- The interest on segregated assets decreased by $7 million, mostly from a non-recurring realized gain recognized in 2019 and lower interest rates.
- The benefits expense for active employees and other increased by $23 million mainly due to increased statutory deductions, cost of benefit increases as a result of wage increases awarded from the arbitration ruling and COVID-19, partially offset by a decrease in claim costs due to COVID-19 related closures.

Other operating costs, and depreciation and amortization

Changes in these costs in 2020 were as follows:

- Contracted collection, processing and delivery costs increased by $169 million in 2020 compared to 2019, mainly due to Parcels volume growth that resulted in higher spending on transportation, maintenance, repairs and operating supplies. Higher costs due to health and safety supplies, and international settlements were also incurred.
- The cost of facilities increased by $16 million for 2020 when compared to 2019, mainly due to cleaning and maintenance costs related to COVID-19.
- Selling, administrative and other expenses increased by $48 million for 2020 compared to 2019, mainly due to increased information technology and non-capital investments, partly offset by travel savings due to COVID-19.
- The depreciation and amortization expense increased by $5 million in 2020 compared to 2019 as a result of higher investment in capital assets.

5.5 Purolator segment

The Purolator segment's profit before tax increased by $24 million compared to 2019.

Summary of results

(in millions of dollars)	**2020**	2019	Change	%
Revenue from operations	2,206	1,934	272	13.7[1]
Cost of operations	2,006	1,770	236	13.0[1]
Profit from operations	**200**	**164**	**36**	**21.6**
Investing and financing income (expense), net	(24)	(12)	(12)	(100.6)
Profit before tax	**176**	**152**	**24**	**15.4**

Revenue from operations increased by $272 million in 2020, compared to 2019, mainly due to increased volumes driven by a rapid shift in consumer behaviour to online purchases as a result of COVID-19, including a record peak season in the fourth quarter with 84% volume growth and improved revenue per piece realization through effective yield management initiatives. However, this shift put significant pressure on margins as the domestic business-to-consumer market has lower margins. Annual wage increases and business growth in the high cost consumer market caused a significant increase in labour costs of $122 million in 2020, over 2019. Non-labour cost increases of $114 million in 2020, compared to 2019, were driven by volume growth, additional health and safety measures and absenteeism due to COVID-19, and increased employee benefits including pension.

5.6 SCI segment

In 2020, SCI's financial performance was consistent with the prior year, with profit before tax of $20 million.

Summary of results

(in millions of dollars)	**2020**	2019	Change	%
Revenue from operations	329	346	(17)	(5.2)[1]
Cost of operations	305	323	(18)	(5.7)[1]
Profit from operations	**24**	**23**	**1**	**1.3**
Investing and financing income (expense), net	(4)	(3)	(1)	(2.9)
Profit before tax	**20**	**20**	**–**	**1.1**

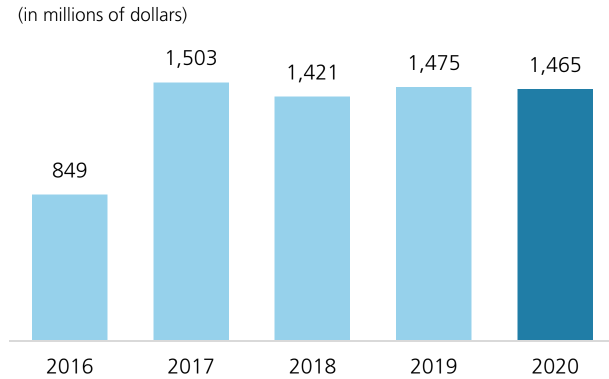
Revenue from operations and cost of operations decreased by $17 million and $18 million, respectively, compared to 2019, primarily as a result of customer attrition and decreases in certain customer volumes, a portion of which related to COVID-19.

6. Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

Cash and cash equivalents held by the Group of Companies at December 31, 2020, was $1,465 million, a decrease of $10 million compared to December 31, 2019. Cash used in investing and financing activities was mainly offset by cash provided by operating activities, which was the result of pension expenses exceeding payments. Pension payments were significantly lower than expenses in part because of the special payment relief afforded to the Canada Post Corporation Registered Pension Plan (RPP) under the *Pension Benefits Standards Act, 1985*.



6.2 Operating activities

(in millions of dollars)	2020	2019	Change
Cash provided by operating activities	694	529	165

Cash generated from operating activities increased by $165 million compared to 2019. The positive change in 2020 cash flow was primarily due to pay equity payments made to Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) in 2019, lower benefit payments in 2020 due to COVID-19 related closures of healthcare providers and changes in non-cash operating working capital. This change was partially offset by higher labour costs and benefit expenses.

6.3 Investing activities

(in millions of dollars)	2020	2019	Change
Cash used in investing activities	(585)	(360)	(225)

Cash used in investing activities increased by $225 million in 2020 compared to 2019, primarily due to lower proceeds from the sale of securities, partially offset by lower acquisitions of capital assets and lower purchases of securities.

Capital expenditures

(in millions of dollars)	2020	2019	Change
Canada Post	337	457	(120)
Purolator	205	106	99
SCI	7	24	(17)
Innovapost and intersegment	1	2	(1)
Canada Post Group of Companies	550	589	(39)

Capital expenditures for the Group of Companies decreased by $39 million in 2020, compared to 2019, as a result of decreased spending in the Canada Post and SCI segments, partially offset by an increase in the Purolator segment.

6.4 Financing activities

(in millions of dollars)	2020	2019	Change
Cash used in financing activities	(118)	(113)	(5)

Cash used in financing activities increased by $5 million in 2020, mainly due to higher lease repayments in the Canada Post and SCI segments.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $29.6 billion as at December 31, 2020, making it one of the largest single-employer sponsored pension plans in Canada. It is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions (OSFI) to establish its funded status on a going-concern basis and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act*, *1985,* (the Act) requires Canada Post, as plan sponsor, to make special payments to the RPP to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which the Act requires the plan sponsor to make special payments to the RPP to eliminate the shortfall over five years.

Under regulations of the Act, Canada Post would have had to make $368 million of solvency special payments for 2020 beyond the relief limit. However, due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into force in the second quarter of 2020, establishing a moratorium on solvency special payments for the remainder of the year for federally regulated, defined benefit pension plans. As a result, Canada Post did not have to make special payments for 2020, which would have totalled $1.1 billion (including special payments made to cover transfer deficiencies) without this relief. For 2021, Canada Post has notified the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce solvency special contributions for 2021; it has received no objection from either minister. Under current regulations of the Act, 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. Beyond the current relief level of 15% in the regulations of the Act, the Corporation may require incremental borrowing or additional pension relief as these payments pose a risk to its cash flow in coming years. The Corporation has requested temporary relief from making future payments, and is working with relevant stakeholders including its only shareholder, the Government of Canada, to explore options.

The actuarial valuation for the RPP as at December 31, 2019, filed in May 2020, disclosed a going-concern surplus of $3.9 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $5.6 billion (using the three-year average solvency ratio basis), or $4.9 billion (using market value of plan assets).

The current estimate of the financial position of the RPP as at December 31, 2020, is a going-concern surplus of approximately $3.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.3 billion (using the three-year average solvency ratio basis), or $7.1 billion (using market value of plan assets). These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2020, will be filed by the end of June 2021, and results may differ significantly from these estimates.

The going-concern funded status deteriorated slightly during the year, mainly due to a decrease in the discount rate partially offset by the recognition of investment gains from previous years as well as the 2020 return on investments of 9.4% (gross of administrative and management fees) in the smoothed value of assets. The solvency deficit worsened during the year mainly due to a decrease in the discount rate, partially offset by investment gains.

In 2020, the employer's current service contributions and special payments to the defined benefit pension plan amounted to $296 million and $24 million (including retroactive contributions of $12 million related to new collective agreements) compared to $284 million and $43 million (including retroactive contributions of $25 million and solvency payments of $11 million related to the CUPW-RSMC pay equity ruling), respectively, in 2019. The employer's current service contributions for 2021 are estimated at $340 million, which is an increase over the prior year primarily due to a decrease in discount rates.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2020, a remeasurement loss, net of tax, for the RPP amounted to $117 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

6.6 Liquidity and capital resources

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

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

Liquidity

As at December 31, 2020, and during 2020, the liquidity required by the Canada Post Group of Companies to support financial obligations, fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $2,377 million of unrestricted liquid investments on hand as at December 31, 2020, and $100 million in lines of credit established under a short-term borrowing authority approved by the Minister of Finance.

Under regulations of the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. Canada Post would have had to make $368 million of solvency special payments for 2020 beyond the relief limit. However, the *Solvency Special Payment Relief Regulations* came into force in the second quarter of 2020 establishing a moratorium on solvency special payments for the remainder of the year. As a result, Canada Post did not have to make special payments for 2020. Under current regulations of the Act, Canada Post does not expect to make solvency special payments related to the obligations of the Canada Post Corporation Registered Pension Plan for 2021; however, the Corporation has requested temporary relief from making future payments from its shareholder, the Government of Canada. Market volatility could have a significant effect on solvency payments for 2022 and thereafter. 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 $344 million of unrestricted cash on hand and undrawn credit facilities of $149 million as at December 31, 2020, ensuring sufficient liquidity to support operations for at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4, 2009-10*, which received royal assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $100 million for cash management purposes in the form of short-term borrowings. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Any additional borrowings must be within the limits of the approved borrowing plan, and their terms and conditions require approval from the Minister of Finance. The Corporation believes that these arrangements provide it with sufficient and timely access to capital markets.

With $997 million of borrowings as at December 31, 2020, the Canada Post segment had $1,503 million of its $2.5 billion external borrowing limit that had not been used. The Corporation funded itself primarily through the use of cash on hand, funds generated from operations during 2020 and the pension plan funding relief permitted by legislation.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out the activities of the business, as summarized in the following table.

(in millions of dollars)	**Fair value through OCI**	**Fair value through profit or loss**	**Measured at amortized cost[a]**	**Total**
Cash and cash equivalents	162	–	1,303	1,465
Marketable securities	1,301	–	–	1,301
Trade, other receivables and contract assets	–	–	1,065	1,065
Segregated securities	537	–	–	537
Risk management financial assets	–	1	–	1
Total financial assets	**2,000**	**1**	**2,368**	**4,369**
Non-interest bearing[b]	–	–	1,304	1,304
Loans and borrowings	–	–	997	997
Total financial liabilities	**–**	**–**	**2,301**	**2,301**

a. The effective interest method is used to determine the amortized cost of these financial assets and liabilities.
b. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Financial assets are held for liquidity purposes or for longer terms in accordance with the investment policies of the Group of Companies. Financial liabilities consist mostly of trade payables (non-interest bearing) and bonds.

Market risk

Interest rate risk

The Group of Companies' investments consist of cash equivalents, marketable securities and segregated securities, and are classified as fair value through other comprehensive income (OCI).

Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment obligations to which they are externally restricted. The average duration of the segregated security portfolio was 12 years as at December 31, 2020 (2019 – 12 years).

Based on a sensitivity analysis of interest rate risk, it is expected that an increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities by $64 million (2019 – $61 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2020, and on other comprehensive income or loss. COVID-19 has led to additional interest rate risk, due to significant fluctuations in the benchmark Bank of Canada overnight rate, related to measures the Bank has taken to provide additional liquidity to the Canadian economy.

Loans and borrowings of $997 million (2019 – $997 million) include fixed-rate debt with prepayment options.

Foreign currency 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 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$), euro, British pound, Japanese yen and Chinese renminbi, whereas payment is usually denominated in US$.

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.

Commodity risk

The Group of Companies is inherently exposed to fuel-price increases but does not currently hold any financial instruments that change in value due to the prices of commodities. Using an industry-accepted practice, it partially mitigates this risk through the use of a fuel-price surcharge on some of its products.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables.

The Group of Companies does not believe that it is subject to any significant concentration of credit risk. The Corporation uses a low credit risk approach where the investment policy is restricted to investment grade debt securities. Active monitoring of aged receivables, credit utilization and risk modelling caused by continued weakness in many sectors of the Canadian economy due to COVID-19 have resulted in an increase to the Group of Companies' bad debt expense and expected credit loss allowance of our commercial accounts receivable. Additional measurement uncertainty exists given that the magnitude and duration of COVID-19 are unknown; however, increases to expected credit losses recorded to the consolidated financial statements in 2020 were not significant.

Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors. For further details on liquidity and risk associated with financial instruments, see Section 6.6 Liquidity and capital resources.

Due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* established a moratorium on solvency special payments for the remainder of 2020 for federally regulated, defined benefit pension plans. This moratorium relieved the Corporation of making $368 million of solvency special payments for 2020. Under current regulations of the *Pension Benefits Standards Act, 1985*, Canada Post does not expect to make solvency special payments for 2021; however, the Corporation has requested temporary relief from making future payments from its shareholder, the Government of Canada. Market volatility could have a significant effect on solvency payments for 2022 and thereafter. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

6.8 Contractual obligations and commitments

(in millions of dollars)	**Total**	**Less than 1 year**	**1-5 years**	**More than 5 years**
Bonds[a]	1,000	–	500	500
Interest on bonds	538	42	169	327
Lease liabilities[b]	1,881	157	527	1,197

This table represents the Group of Companies' total contractual obligations and commitments to make future payments, excluding non-interest-bearing liabilities. Amounts presented for lease liabilities are the contractual undiscounted cash flows.

a. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada. Bonds include two series issued in July 2010, with a nominal value of $500 million each, maturing in July 2025 and July 2040. Interest is paid semi-annually with coupon rates of 4.08% and 4.36%.

b. Lease liabilities include the present value of the lease payment terms associated with facilities, vehicles and plant equipment.

In addition, the Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $219 million, extending to 2024. The Canada Post Corporation Registered Pension Plan special going-concern and solvency contributions are discussed in Section 6.5.

6.9 Related party transactions

Government of Canada

The Corporation has a variety of transactions with related parties in the normal course of business and in support of the Government of Canada's public policies. Revenue earned from related parties for the year was $221 million (2019 – $255 million), the majority of which was from commercial contracts relating to postal services provided to the Government of Canada. Included in this amount was compensation from the Government of Canada for parliamentary mail services and mailing of materials for persons who are blind sent free of postage, which amounted to $22 million (2019 – $22 million).

Key management personnel

Key management personnel have authority for planning, controlling and directing the activities of the Group of Companies. Total compensation expenses for key management personnel were $11 million for the year ended December 31, 2020 (2019 – $14 million), which included compensation related to short-term benefits and post-employment benefits.

6.10 Contingent liabilities

In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees. These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

7. Changes in Financial Position

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

ASSETS (in millions of dollars)	**2020**	**2019**	**Change**	**%**	**Explanation of change**
Cash and cash equivalents	1,465	1,475	(10)	(0.6)	Refer to Section 6 Liquidity and Capital Resources.
Marketable securities	1,256	1,077	179	16.6	Due to purchase of corporate bonds.
Trade and other receivables	1,065	1,011	54	5.3	Mainly due to higher receivables in the Purolator segment from significantly higher revenues in 2020, partially offset by lower receivables in the Canada Post and SCI segments.
Other assets	217	171	46	27.0	Mainly due to higher income tax receivable balances in the Canada Post segment.
Total current assets	**4,003**	**3,734**	**269**	**7.2**	
Marketable securities	45	171	(126)	(73.9)	Due to maturity of corporate bonds.
Property, plant and equipment	3,160	2,942	218	7.4	Mainly due to acquisitions in excess of depreciation.
Intangible assets	141	124	17	13.6	Mainly due to an increase in software under development.
Right-of-use assets	1,221	1,113	108	9.7	Mainly due to acquisitions (new leases and lease renewals) exceeding depreciation in the Canada Post and Purolator segments.
Segregated securities	537	514	23	4.5	Mainly due to unrealized gains in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	25	75	(50)	(68.4)	Mainly due to remeasurement losses resulting from a decrease in discount rates and losses on plan assets.
Deferred tax assets	1,883	1,659	224	13.5	Mainly due to the increase of temporary differences related to remeasurement losses resulting from a decrease in discount rates and losses on plan assets.
Goodwill	130	130	–	–	No change.
Other assets	64	65	(1)	(1.4)	No material change.
Total non-current assets	**7,206**	**6,793**	**413**	**6.1**	
Total assets	**11,209**	**10,527**	**682**	**6.5**	

LIABILITIES (in millions of dollars)	**2020**	**2019**	**Change**	**%**	**Explanation of change**
Trade and other payables	878	676	202	29.8	Mainly due to higher trade and other payables in the Canada Post and Purolator segments due to higher expenses and timing.
Salaries and benefits payable and related provisions	812	839	(27)	(3.2)	Mainly due to lower accrued salaries in the Canada Post segment, partially offset by higher payables in the Purolator segment mainly due to timing.
Provisions	61	55	6	10.4	Mainly due to slightly higher provisions, including asset retirement obligations, in the Canada Post and Purolator segments.
Income tax payable	9	–	9	*	Primarily due to an increase in tax liability for the Purolator segment.
Deferred revenue	218	152	66	44.0	Mainly due to deferred revenue in the Canada Post segment related to mail redirection and Parcels.
Lease liabilities	122	116	6	5.7	No material change.
Other long-term benefit liabilities	65	63	2	3.0	No material change.
Total current liabilities	**2,165**	**1,901**	**264**	**14.0**	
Lease liabilities	1,292	1,183	109	9.2	Mainly due to acquisitions (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	7,601	6,498	1,103	17.0	Mainly due to remeasurement losses resulting from a decrease in discount rates partially offset by gains on investments and experience adjustments.
Other liabilities	32	20	12	49.9	Mainly due to higher employee share ownership plan liability in the Purolator segment.
Total non-current liabilities	**9,922**	**8,698**	**1,224**	**14.1**	
Total liabilities	**12,087**	**10,599**	**1,488**	**14.0**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	92	64	28	44.0	Mainly due to unrealized gains on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Accumulated deficit	(2,166)	(1,326)	(840)	(63.4)	Driven by net operating losses and remeasurement losses in the Canada Post segment.
Equity of Canada	**(919)**	**(107)**	**(812)**	†	
Non-controlling interests	41	35	6	17.4	
Total equity	**(878)**	**(72)**	**(806)**	†	
Total liabilities and equity	**11,209**	**10,527**	**682**	**6.5**	

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

8. Risks and Risk Management

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

The Canada Post segment has an enterprise risk management (ERM) framework that considers risks and opportunities at all levels of decision-making. The ERM framework helps Canada Post understand and manage the most significant risks to the business and to the brand as domestic and global postal industries continue to experience fundamental structural changes. An enterprise risk and control assessment is conducted each year and is reported to senior management, the Audit Committee of the Board of Directors and the Board of Directors on a semi-annual basis. Significant changes to risks are also highlighted in the quarterly financial reports.

Canada Post continues to reshape and improve its ERM practice to ensure completeness, high quality risk assessments, and valuable senior leader discussions. Highlights in 2020 include the adoption of a best practice ERM framework; updates to risk assessment criteria and processes; closer alignment of ERM and strategy-setting; and enhancements to the risk register, in addition to new sections for emerging risks, early warning indicators, and control effectiveness. Canada Post will continue to integrate risk management best practices throughout the organization to reduce and minimize enterprise-level risks.

8.1 Definition of risk

Canada Post defines risk as any event or condition that could have an unplanned effect on the Corporation's ability to achieve its key strategic, financial and operational goals. Enterprise risks are assessed based on their potential adverse impact and the likelihood of occurrence. The following section is a summary of the principal sources of risk and uncertainty facing the Corporation, along with associated controls and mitigation strategies.

8.2 Emerging risks

This section contains a summary of risks that may have a material impact on the Corporation but are difficult or impossible to fully and confidently assess at the present time due to their high degree of uncertainty.

COVID-19

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

The net effect of COVID-19 on Canada Post's business may include the following:

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

During this difficult time, Canada Post continues to deliver important services that customers rely on while monitoring the situation and adapting operations to keep employees and Canadians safe, including delivery changes such as Knock, Drop and Go policy, and suspending the customer signature requirement for most items. Service quality and a focus on customer needs is a top priority and Canada Post continues to use business intelligence and analytics to monitor operational performance to identify issues, determine root causes and resolve service-related issues. As part of its commitment to helping customers respond, adapt and recover during COVID-19, Canada Post launched the *Think Small* campaign to help small businesses succeed by offering insights, thought leadership and resources related to e-commerce, shipping and marketing, so that small businesses can more effectively promote their offerings and engage with customers. Canada Post also supported businesses through the *Free Shipping Tuesdays* campaign, which enabled them to ship one free parcel within Canada every Tuesday in October.

Efforts to minimize the negative impact on Canada Post's mail business include increased customer account management support, engagement with industry partners and providing customers with access to data, and targeting solutions enabling Smartmail Marketing™ products. Although Smartmail Marketing experienced unprecedented volume declines in the early stages of COVID-19, customers are returning to Canada Post services as marketers cautiously return to market. For the Parcels line of business and as a short-term solution to address capacity challenges in its facilities, volume management solutions, such as modifying delivery standards and shifting volume to locations with available capacity, have been put in place to reduce backlogs and minimize delays. Also, enhanced planning efforts and promotions are ongoing to reduce volume surges and ensure that parcels can be accommodated and delivered efficiently during peak periods. Canada Post continues to work with major customers to manage demand and improve the flow of parcels within its network. Canadians were also encouraged to shop early during the holiday period. Investments in network capacity infrastructure, including plants and sortation equipment, will help ensure that Canada Post can effectively deliver customer parcel volume in the long-term.

Climate change

Climate change is a global concern that may lead to issues across Canada. There is a risk that Canada Post may experience major disruptions caused by climate-induced disasters (e.g. tornados, flooding, wildfires) or the progressive impacts of climate change (e.g. the increasing number of extreme heat days).

To help understand and mitigate potential impacts to our business, a climate risk study using recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) was completed in 2020. This study concluded that Canada Post could experience a range of financial impacts such as asset damage and operational and supply chain disruptions. The Corporation will begin to introduce control measures identified in the study and embed climate considerations into business and decision-making processes throughout the organization. As progress is made, the Corporation will be able to more effectively identify, assess and manage climate risk in the context of its enterprise risk management framework.

8.3 Principal risks

Canada Post has a mandate from the Government of Canada to fund its operations with revenue from the sale of products and services, rather than with taxpayer funding, and to conduct its operations on a financially self-sustaining basis. The overarching risk facing Canada Post is an inability to achieve long-term financial sustainability while achieving this mandate and mission.

There are inherent risks in our business model. Rapidly declining Lettermail volumes, financial commitments (e.g. funding the pension obligation), expanding the delivery network and maintaining success in a highly competitive parcel industry are challenges that may put the Corporation's long-term financial self-sustainability at risk. To reduce these risks, Canada Post is investing to support innovation and grow the business. The Corporation is also pursuing improved efficiency, productivity and cost competitiveness in its operations.

The following categories describe the principal sources of risk and uncertainty facing Canada Post. All identified risks could have a material impact on the Corporation's financial position, operations, or reputation.

Parcel network capacity

Continued growth in the parcel market presents challenges as rising parcel volumes may exceed Canada Post's sorting and delivery capacity. An inability to efficiently and effectively process planned parcel volumes may lead to widespread service performance degradation, loss of customer confidence, negative brand impacts, and may hinder the Corporation's ability to fully capitalize on the growth opportunity. The risk of insufficient capacity has been exacerbated by COVID-19, which has led to a significant, rapid and unexpected increase in e-commerce sales and associated parcel volumes. As with any large-scale undertaking, there are also risks associated with executing on initiatives and projects required to build additional infrastructure and capacity.

Risk mitigation

To support parcel volume growth, Canada Post continues to shift its network design strategy to become more parcel-centric. The Corporation has accelerated investment in parcel capacity throughout its national network, which includes investments in real estate, parcel sortation systems, equipment, automation, vehicles and process changes. Given the rapid increase in volume due to COVID-19, short-term volume management solutions have been put in place to reduce capacity shortfall and control growth. To ensure that Canada Post can deliver additional capacity on time in the long term, internal project management and procurement functions are being strengthened, significant capacity expansion planning efforts are being undertaken, unions are being engaged continuously and proactively, and forecasting capabilities are being improved.

Labour agreements

Over 95% of Canada Post employees are represented by four bargaining agents and five collective agreements. Complex collective agreements continue to constrain Canada Post's ability to compete in the marketplace and implement changes to its business model, including employee benefit plans, wages and leaves that are above what competitors offer. With collective agreements expiring almost every year, Canada Post finds itself continuously in negotiation with one or more of its unions.

The issues facing the Corporation including declining mail volumes, a growing pension obligation and a significant increase in parcel volumes, are complex. The impact or threat of labour disruption or arbitration (in the event that collective agreements are not achieved) could accelerate mail erosion and lead to loss of revenue from customers that switch to competitors for their mail and parcel delivery needs. These risks would be exacerbated by COVID-19, which has led to rising parcel volumes due to Canadian consumer and business dependence on e-commerce.

The arbitrator designated under the *Postal Services Resumption and Continuation Act* (2018), to resolve two separate collective agreements (Urban Postal Operations, UPO, and Rural and Suburban Mail Carriers, RSMC) with the Canadian Union of Postal Workers (CUPW) bargaining agent, released her decision June 11, 2020. The four-year agreements expire December 31, 2021, (RSMC) and January 31, 2022, (UPO) respectively. The Corporation is continuing to interpret and implement the awards.

Risk mitigation

Canada Post's objective during any collective bargaining process is to build a framework for growth, while protecting its financial self-sustainability, in a manner that provides fair and reasonable working conditions to its employees and service to Canadians.

Canada Post has adopted a new approach to collaboration, including a long-term labour strategy to guide successive rounds of negotiations. Proactive relationship management and communication with bargaining agents and the shareholder is imperative to reaching collective agreements and avoiding labour disruption. The approach with all bargaining agents is to work closely with them to ensure a shared understanding of the structural challenges and opportunities that face the Corporation.

Collective agreements with the Canadian Postmasters and Assistants Association (CPAA) and the Association of Postal Officials of Canada (APOC) have binding arbitration in the form of a final offer selection process instead of a strike or lockout. This process has helped mitigate risk.

Business-to-consumer parcel market competition

To offset declining volumes in the core Lettermail business, Canada Post is focused on growing its Parcels line of business in the e-commerce market. Challenges exist related to competitor actions, changing customer behaviours, and internal constraints. From a delivery perspective, traditional global competitors, which offer seamless cross-border capabilities and benefit from much lower labour costs, are intensifying the deployment of new cost-effective residential delivery capabilities. There has also been a rise in the gig economy and an increase in asset-light delivery models that can rapidly adapt to market conditions and are well suited to meet evolving consumer expectations on delivery speed, experience, preferences and visibility. Major retailers are increasingly focusing on fulfillment strategies that use existing assets to minimize delivery costs and bypass traditional delivery carriers, such as ship-from-store and in-store pickup. These retailers have been actively shaping consumer expectations for low-cost and speedy delivery, particularly in major urban centres. Small and medium-sized business customers have also been increasingly adopting e-commerce marketplace platforms, reducing their direct relationship with Canada Post.

Risk mitigation

Canada Post has undertaken significant planning activities to enhance decision-making and remain competitive in the marketplace. The Corporation continues to strengthen its value proposition for the e-commerce sector through initiatives such as Canada Post Solutions for Small Business™, the FlexDelivery™ service, parcel lockers and other efforts to provide industry-leading responsiveness and convenience for online shoppers. The Corporation has strengthened its pickup offering to better serve small and medium-sized businesses and continues to invest in consumer delivery preferences and parcel returns enhancements.

Information technology: Systems and network availability

Information technology (IT) is a strong enabler of operations and a key success factor in service delivery quality. As Canada becomes more digitally connected, Canada Post requires even greater technological agility and responsiveness to meet customer needs and remain competitive. There is an ongoing risk that IT may be challenged to support the Corporation's growth aspirations given increasing demands and rapidly changing market conditions. There is also a risk that critical IT systems and infrastructure used by employees, customers and Canadians, such as shipping and tracking systems, experience instability or failures, which may lead to operational, financial and reputational impacts.

Externally, the threat and increased occurrences of cyberattacks and data breaches due to malicious acts being reported worldwide are taken very seriously by the Corporation. A significant cyberattack may have an impact on enterprise IT systems, mail processing equipment and the network, exposing Canada Post to potential financial and reputation risks, as well as legal action in the event of a data breach.

Risk mitigation

Canada Post's IT subsidiary, Innovapost, has changed its operating model and restructured the organization to improve processes, agility, automation and monitoring, to reduce risk and accelerate completion of projects. Technology investments have been made to support an agile growth strategy. Innovapost tracks and monitors rates of major incidents affecting critical business functions. Project governance continues to be enhanced and an architecture review board is in place to ensure plans and investments align with the Corporation's vision.

As part of the information cybersecurity framework, a layered defence strategy with industry standard detection, prevention and control measures is in place to reduce the threat of cyberattacks and ensure remediation of known attacks. Business continuity plans and a best practice cybersecurity incident response plan are in place in the event of a critical systems failure or disruptive event. Investments in information and cybersecurity have been made including a self-password management solution, email threat prevention, an array of business intelligence and advanced network security tools. Employee training, simulation testing and awareness campaigns are undertaken to reduce the risk of data breaches and cyberattacks and shift the organization toward a more security-aware culture.

Security and privacy: Protection of mail, data breach and fraud

Canada Post is responsible for ensuring the security of Canadians' physical mail and protecting the privacy of customer and employee data in its custody. Data breaches could result in negative impacts for customers and employees and cause serious damage to the Corporation's financial position and brand. Fraudulent use of the Corporation's products and services could cause financial harm to Canadians. As a result of COVID-19, there has been an increase in the need for the Corporation to access employee information to manage the health and safety of employees, as well as operations. Increased frequency of accessing employee information has led to a heightened risk of privacy breaches.

Risk mitigation

Canada Post has invested heavily in physical and electronic security, the protection of employee and customer data and the avoidance of fraudulent use of its services. The Corporation adheres to multiple acts, policies and practices to ensure protection of the mail. Physical and electronic security safeguards are in place such as high-security locks, cameras, email security updates and data encryption. Security clearance is required for all employees and contractors. Data breach and incident management protocols are established. A records management process is in place and customer account data purging is conducted to reduce risks associated with data retention. Given heightened employee data risks due to COVID-19, the Corporation has put in place additional guidance and measures to respect data privacy requirements. Security and privacy language is established with third-party contractors.

Anti-fraud corporate governance, policies and procedures, as well as a dedicated security team and fraud prevention steering committee, ensure proper oversight and management of fraud risks. The Corporation regularly conducts threat-risk assessments and privacy impact assessments to ensure that its customers' and employees' security and privacy interests are protected. Canada Post has also developed partnerships with third parties and law enforcement agencies to detect, deter and disrupt threats.

Pension obligation

The Canada Post Corporation Registered Pension Plan (RPP) remains one of the largest single-employer sponsored pension plans in Canada with assets of approximately $29.6 billion in market value at December 31, 2020. The scale of the RPP – given its size relative to the Corporation's revenue and earnings, and its funding volatility – pose an ongoing financial risk to the Corporation. The RPP has two primary risk factors: low or declining long-term interest rates, which increase the pension obligation; and lower than expected returns or losses on assets due to a severe market correction, creating a shortfall in assets available to meet benefit payments. These risk factors could lead to significant going-concern or solvency deficits, which could require special pension funding contributions, posing a risk to the Corporation's cash flow and its ability to fund needed investments in modernization and growth.

As of December 31, 2020, the going-concern surplus was estimated at $3.8 billion, and the solvency deficit to be funded was estimated at $6.3 billion. The final actuarial valuations for the RPP will be filed by the end of June 2021, and results may differ significantly. Canada Post, as the RPP sponsor, is responsible for funding shortfalls in the RPP. Further information is provided in Section 6.5 Canada Post Corporation Registered Pension Plan.

COVID-19 has had a significant and unexpected negative impact on Canadian businesses and the economy. The resulting economic contraction had led to lower-than-expected interest rates, which could have an impact on pension obligations.

Risk mitigation

The Corporation continues to evaluate the pension solvency position and has implemented a pension risk management framework to identify and quantify risks. In addition, all investment decisions are made in accordance with the Canada Post Registered Pension Plan Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed annually by the Pension Committee of the Board of Directors. A pension de-risking glide path and investment strategy are in place to help lower investment volatility and minimize liability shortfall.

In response to COVID-19 and to provide temporary relief to sponsors of federally regulated, defined benefit pension plans, the Government of Canada has put in place a moratorium on solvency special payments. Under the *Solvency Special Payment Relief Regulations*, federally regulated defined benefit pension plan sponsors were not required to make solvency special payments from April 1 to December 30, 2020. As a result of the moratorium, Canada Post was not exposed to solvency deficit risk in 2020.

Under the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. The Corporation continues to work with relevant stakeholders including its sole shareholder, the Government of Canada, and has requested temporary relief from making future payments. If relief cannot be obtained, the Corporation will require incremental borrowing or additional pension relief.

Health and safety

Canada Post is committed to maintaining the highest safety standards for all employees, visitors and contractors. Canada Post aims for zero harm and believes that all occupational injuries, illnesses and incidents are preventable. Operational challenges that may contribute to health and safety risks include a lack of standard routines, core processes that have been designed for mail rather than parcels, failure to follow safety rules, turnover leading to an inexperienced workforce, and facility-related risks (e.g. structural, water quality). The physical and psychological safety of employees, visitors, contractors and the public may also be affected due to non-compliance with constantly changing statutory health and safety regulations lack of employee knowledge and competency on health and safety topics, and unexpected events (e.g. COVID-19, extreme weather).

Risk mitigation

Canada Post has a high-injury sites program, whereby the health and safety team works with management teams in locations that have a high rate of injuries. At these sites, assessments are conducted to establish site-specific prevention plans to reduce injuries. On-site occupational health and safety specialists support these plans with coaching and monitoring. To mitigate specific risks, safety tools have been introduced, including risk assessments, job hazard analysis, safe work permits and facility inspection checklists. Risks are also managed by design, as new infrastructure and processes are developed in collaboration with health and safety teams. New life safety behavioural compliance audits, piloted and introduced late in 2019, were continued throughout 2020. A third-party engagement on health and safety was completed, which provided critical tools to inform the five-year safety strategy.

Training is delivered to employees to ensure awareness of health and safety rules and standards. Canada Post continues to increase safety awareness and promote basic safety, life safety and safety leadership through the *Make it safe, Make it home* employee portal and campaign. *Keep wellness in mind*, introduced in 2019, is a new approach to mental health at Canada Post. This campaign is based on an important principle that the mental health and well-being of employees and their families are as important as their physical health and safety.

Canada Post will continue efforts to reduce health and safety risks, including execution of a strategic five-year safety plan and implementation of a health and safety management system.

Talent management

Canada Post aims to create a workplace of choice and ensure that employees are engaged, productive, and enjoy their working environment. However, Canada Post faces challenges and risks related to talent, including a high rate of employee departures. It is anticipated that approximately 15,000 employees will leave Canada Post over the next five years, largely due to retirement. Failure to attract, engage, develop and retain key talent could have an impact on Canada Post's ability to fulfill its core mandate as well as compete, grow and innovate in the marketplace. Additionally, ineffective succession planning and management of critical and vulnerable roles may lead to the loss of specialized knowledge resulting in potential operational impacts, project delays and a failure to meet business objectives.

Canada Post seeks to achieve a diverse workforce with representation from all employment equity groups including women, members of visible minorities, Indigenous peoples and persons with disabilities. As a federal entity that serves all Canadians, Canada Post has an important responsibility to ensure that it has established a culture of inclusiveness that values diversity and will combat racism and address systemic barriers. An inability to achieve diversity and inclusion targets will limit the overall strength and effectiveness of Canada Post.

Risk mitigation

To manage recruitment risk, Canada Post is using social media and integrating technology into its recruiting efforts. Realistic job previews have also been created to enhance the employee onboarding process. To better foster employee development and evolve corporate culture, a rating-less performance management framework that is anchored on coaching and development has been implemented for management employees. A greater focus on employee development planning has led to a better understanding of employee career goals and more valuable growth conversations between employees and their team leaders. To manage retention risk, Canada Post provides flexible work arrangements and is placing greater emphasis on succession planning, with strategies in development intended to mitigate areas of risk and prepare employees for critical roles. Canada Post will continue to seek opportunities to streamline and improve the efficiency of its operations to take advantage of natural attrition.

Canada Post is committed to building an inclusive workplace by identifying and eliminating employment barriers. All senior leaders completed unconscious bias training in 2020 – operations and frontline leaders are scheduled for 2021. In collaboration with its bargaining agents, Canada Post has developed special equity measures to implement preferential hiring for under-represented groups (Indigenous peoples and persons with disabilities) in geographical areas significantly below the Canadian Labour Market Availability (CLMA). These measures will assist the Corporation in meeting its employment equity targets. Canada Post is also evolving employment policies to foster greater accessibility and inclusion. An equity and diversity strategy is being developed with all unions and the Canadian Centre for Diversity and Inclusion.

Core mail volume declines

Lettermail experienced its 14th consecutive year of volume decline in 2020. This decline is a result of digital transformations, regulatory changes, and changing behaviour of mailers and consumers. Additionally, an increased focus on cost reduction has made low-cost alternatives, such as email and digital platforms, more attractive forms of communication for many businesses. Current indicators suggest Canada Post will be no exception to the trend experienced by postal administrations in most other developed countries where, after peak volume was reached, volume erosion has continued uninterrupted each following year.

Although Canada Post Smartmail Marketing™ remains a highly effective driver of marketing results for businesses of all sizes, it continues to face strong competitive pressure from digital advertising substitutes, as well as direct competitors engaged in the distribution of printed flyers. Localized public concern regarding the environmental impact of plastic and printed media may contribute to increased pressure on businesses to reduce their use of print media.

COVID-19 has exacerbated volume declines for both Lettermail and Smartmail Marketing in 2020. Customer budget constraints, cost minimization, business closures, and an accelerated shift to digital substitution have all contributed to decreased use of mail. The impact going forward is unknown as business and economic uncertainty remain.

Risk mitigation

In 2020, Canada Post launched a new consumer program, *Write Here, Write Now*, to promote the use of Lettermail as a way to connect Canadians and as part of its brand. Additionally, the Corporation has proactively engaged with commercial customers to understand their current roadmaps for Lettermail and possible substitution initiatives. Canada Post continues to evaluate new value-added solutions, such as My Mailbox, which provides consumers with a digital notification when items have been delivered to their mailbox. Scenario planning analysis has also been undertaken to help better navigate and plan for risks and impacts associated with COVID-19.

Canada Post is innovating and extending the marketing solution suite to enhance competitiveness and increase value, including implementing a multi-year transformational data roadmap to enable the market, enrich intelligence and provide the highest value to customers. Also, Canada Post continues to promote the relevance of Smartmail Marketing™ in the marketplace and is exploring ways to amplify the value of direct mail by integrating it into the overall marketing mix. Canada Post's Smartmail Marketing Partner Program is actively cultivating new partners, working with existing partners to support customer marketing campaigns, and launching new programs and tools to assist both customers and partners. There has also been a focus on recovering from COVID-19 impacts, including increased sales and customer account management efforts, partner engagement and support, and new strategic pricing offers.

Canada Post continues to educate and encourage environmental responsibility among customers, partners, and consumers, while seeking ways to integrate these practices into products and services. In 2020, Canada Post initiated the launch of the Sustainable Mail Group (SMG), an association representing the Canadian commercial mail industry. The SMG advocates for creating sustainable mail by encouraging the use of sustainable papers and inks and reducing the use of plastics. In 2021, Canada Post will also recognize industry leadership in sustainable mail by presenting the first ever Environment Award to one of its partners.

Change in government direction

As a federal Crown corporation whose sole shareholder is the Government of Canada, Canada Post is responsible for implementing the vision that the government has set for the Corporation. A change in vision or direction may lead to a sudden shift in the Corporation's priorities and strategic direction. Such a shift could lead to revenue loss, stranded assets from incomplete initiatives, operational challenges or project delays, or uncertainty for Canada Post, its employees and its customers.

Risk mitigation

Canada Post regularly meets with its shareholder to discuss strategic planning and financial results and to assess opportunities and challenges for the Corporation. Ongoing dialogue with the shareholder should prevent sudden and unexpected directional changes. Moreover, Canada Post's adoption of environmental, social and governance (ESG) principles will help to reconcile its commercial and social mandates, which could further reassure the shareholder of the Corporation's commitment to key issues such as protection of the environment, labour harmony and good governance.

Environmentally sustainable practices

In Canada, the transportation industry is the second largest and fastest growing source of greenhouse gas (GHG) emissions after the oil and gas sector. As a major delivery company operating one of Canada's largest fleets, Canada Post has an important role to play in addressing climate change and is committed to a low-carbon future. Like other delivery companies, Canada Post is no exception to the risk that its environmental practices may not meet growing expectations of customers, the Government of Canada, its unions and all Canadians. This risk may result in increased shareholder direction and guidance, customers or suppliers seeking solutions with alternate delivery agents that are more in line with their environmental sustainability expectations and policies, and negative impacts to the Canada Post brand.

Risk mitigation

In 2020, Canada Post developed a new environmental action plan. A dedicated team of subject-matter experts is now in place to lead and manage the environmental action plan and serve as a source of subject-matter expertise for enterprise-wide environmental action and investment. Foundational planning elements are being developed, including targets for GHG reduction, waste and plastic reduction, and sustainable delivery of products and services. The immediate focus is to manage direct GHG emissions, make a shift to clean electricity and work with supply-chain partners to help them reduce their carbon footprints. The long-term focus is to pursue low-carbon fuel sources by exploring alternative energy as the basis for technologies, products and services that may be more viable as Canada makes the transition to a carbon-constrained economy. Implementation of the action plan will guide environmental decisions and investments within the Corporation to align with expectations of the Government of Canada and other stakeholders. Canada Post continues to disclose its environmental performance in its annual Sustainability Report.

Legal risk

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

Class action lawsuit regarding drug plan benefits for Canada Post employees and retirees in Quebec

In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in the province of Quebec may have made, between July 2013 and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by Quebec's *Act respecting prescription drug insurance*. The plaintiff for the class is essentially asking that Canada Post abide by the "out of pocket" maximum provisions of the Act and is seeking, for all members of the class, reimbursement of the amounts paid, since July 2013, which exceeded the maximum provisions. An agreement in principle was reached on March 11, 2021 to settle the class action without payments by Canada Post. The agreement in principle is subject to Court approval.

Accelerated delivery service – Class-action lawsuit

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

Other key risks

Regulatory non-compliance

As a federal Crown Corporation, Canada Post is subject to federal and provincial regulations, such as the *Canada Labour Code*, the *Financial Administration Act*, the *Official Languages Act* and the *Competition Act*. Important strides have been made in recent years to improve corporate compliance management oversight and limit the risk of non-compliance. Overall, Canada Post has zero tolerance for regulatory non-compliance and aims to fully comply with all regulations.

Organizational resilience and business continuity

Canada Post and its customers rely on physical and electronic delivery networks that are vulnerable to disruptions of natural or human origin. The Corporation's extensive physical network is also increasingly dependent on key operating systems, equipment, a transportation network and IT infrastructure.

The Corporation has a business continuity management program in place, which provides oversight, coordination and management of the various business continuity plans. Process resumption, emergency response and disaster recovery plans are also in place to support the business in the event of a major incident. The purpose of these plans is to minimize the impact of incidents that could potentially disrupt operations by providing the tools necessary to respond and recover. Business continuity plans are regularly exercised and updated, accounting for changes and threats to the business environment.

Procurement risks related to major suppliers' transition

Failure to effectively execute the procurement process and successfully make the transition when a new provider is selected could have a significant impact on operations. A supplier's failure to fulfill its contractual obligations may also have an impact on Canada Post's ability to serve its customers.

The Corporation addresses this risk through robust procurement methodologies including, as required, guidance from a fairness commissioner, hiring of third-party and industry experts, and overlapping of contracts during ramp-up. Special attention is paid to suppliers whose execution of contractual obligations may present a material impact to the Corporation's ability to serve its customers at a national level. A procurement strategy is prepared for each major initiative and approved by the Board of Directors. Each procurement strategy includes a contract management and risk mitigation strategy to support active oversight for the duration of the contract. A centre of excellence provides oversight and guidance on contract management best practices.

9. Critical Accounting Estimates, Adoption of New Accounting Standards and Accounting Policy Developments

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

9.1 Critical accounting estimates

The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from the 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 considerable 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 in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects current and future periods. Our significant estimates and judgments are described below.

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, solvency special payments, timing of revenue recognition and contract modifications.

Capital assets

Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives, based on management's estimates of the periods of service provided by the assets, are assessed annually for continued appropriateness.

Leases

The Group of Companies is party to many contracting arrangements requiring judgment to assess at contract inception, whether such contract contains a lease or a service, and whether it conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration.

Right-of-use assets, comprising land, buildings, vehicles and plant equipment, are valued using, and depreciated over, their estimated lease term, which is based on management's best estimate of whether it is reasonably certain that renewal and termination options will be exercised in the future. This judgment is based on historical use of available options, operational requirements and strategic decisions about use.

The incremental borrowing rate used to discount lease payments represents management's best estimate of the rate obtained if the underlying asset within the lease contract was purchased and not leased.

Goodwill

Goodwill is not amortized but is tested for impairment annually, or more frequently, if events and circumstances indicate that there may be an impairment. Goodwill is tested by comparing the carrying value of a cash-generating unit to its estimated recoverable amount. The Purolator segment represents a significant portion of the goodwill balance in the consolidated statement of financial position. The estimated recoverable amount of this segment is based on its value in use, which is derived using a discounted cash flow analysis and requires making assumptions and estimates relating to future cash flows and discount rates.

The future cash flows of the Purolator segment are estimated using its approved plans. These plans reflect management's best estimates; however, they are subject to change as they involve inherent uncertainties that management may not be able to control. Growth and profitability levels are compared to other competitors in the industry and general economic conditions prevailing at the valuation date. The discount rate applied to the future cash flows of the Purolator segment is based on its estimated weighted average cost of capital at the valuation date. There were no goodwill impairment charges in 2020 or 2019.

Provisions and contingent liabilities

A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, outflow of resources to settle the obligation is probable, and the amount can be reliably estimated. A contingent liability is a possible legal or constructive obligation that arises from a past event, or a present legal or constructive obligation that arises from a past event but is not recognized because it is either not probable that an outflow of resources will be required to settle, or a reliable estimate cannot be made. Contingent liabilities are not recognized but disclosed in the notes to the consolidated financial statements.

In determining whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability in the notes, management must exercise judgment such as whether or not the obligation is a present obligation or a possible obligation, whether it is probable that an outflow of resources will be required to settle and whether a reliable estimate can be made. Furthermore, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood and timing of outflows, and the discount rate to use.

Pension, other post-employment benefits and other long-term benefit plans

The Canada Post Group of Companies sponsors plans that provide pension, other post-employment and other long-term benefits for the majority of its employees. Estimates used in the measurement of these plan obligations are based on complex actuarial calculations using several assumptions and, given their magnitude, differences in actual results or changes in assumptions could materially affect the consolidated financial statements.

Assumptions

Due to the long-term nature of these defined benefit plans, the calculation of defined benefit expenses and obligations depends on various assumptions that require significant judgment and have inherent uncertainties. Significant assumptions determined by management and reviewed by the Canada Post Group of Companies' actuaries include the following:

- **Discount rates –** Set annually at the measurement date, discount rate assumptions are used to determine the present value of the defined benefit obligations at the end of the year and the defined benefit expense for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality corporate debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for the defined benefit plans as they become due. The actuaries calculate the discount rates using a yield curve approach based on pricing and yield information for a theoretical portfolio of corporate bonds with a cash flow pattern that resembles that of the plan being valued. The selected discount rate is the yield on that theoretical portfolio. The actuaries determine future benefit payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.
- **Medical costs –** Used in the measurement of certain non-pension defined benefit plans, claims cost assumptions are derived from actual claims experience. Health trend factors or provincial coverage assumptions are supported by third-party studies.

- **Mortality assumptions –** Mortality rates used to determine the majority of the defined benefit obligations are based on the February 2014 Canadian Institute of Actuaries' Final Report on Canadian Pensioners' Mortality (CPM), more specifically the CPM 2014 Private Sector Mortality Table with the CPM improvement scale B. Mortality tables represent the probability of death within a year for plan members of various ages.
- **Consumer price index –** The consumer price index assumption is used in the measurement of the defined benefit obligations for pension benefit plans and some of the other non-pension benefit plans. This assumption is based on long-term expected rates of inflation. The consumer price index also has an impact on the long-term rates of compensation increase.

Sensitivity to assumptions – Canada Post segment

The defined benefit obligation and associated defined benefit expense are sensitive to actuarial assumptions. A lower discount rate results in a higher benefit obligation and a lower funded status. Sensitivity to changes in significant assumptions for the Corporation's principal pension plan and healthcare plan follows:

(in millions of dollars)	Annual pension expense	Defined pension obligation	Annual healthcare expense	Defined healthcare obligation
Discount rate sensitivity				
0.5% increase in discount rates	(178)	(2,519)	(14)	(241)
0.5% decrease in discount rates	172	2,857	16	274
Mortality table sensitivity				
10% increase in mortality tables	(40)	(833)	(10)	(116)
10% decrease in mortality tables	41	855	11	131
Consumer price index sensitivity				
0.25% increase in consumer price index	87	1,185	–	–
0.25% decrease in consumer price index	(83)	(1,143)	–	–
Healthcare cost trend rate sensitivity				
1% increase in healthcare cost trend rates	–	–	65	637
1% decrease in healthcare cost trend rates	–	–	(49)	(487)

Income taxes

Determining the provision for income tax requires judgment in interpreting tax legislation and regulations. There are many transactions and calculations for which the ultimate tax determination is uncertain. Our tax filings are subject to audits by relevant government authorities, the results of which could materially change the amounts recorded in our provision for income tax. Management believes that it has sufficient amounts accrued for anticipated tax exposures.

Deferred tax assets and liabilities are composed of temporary differences between the carrying values and the tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. Deferred tax assets and liabilities are calculated using the tax rate substantively enacted for the period when the asset or liability is expected to be recovered or settled. Management judgment is used to determine the amounts of deferred tax assets and liabilities to be recognized. In particular, judgment is required when estimating the amount of future taxable profit available in future periods against which deductible temporary differences may be utilized.

9.2 Adoption of new accounting standards

Amendments issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Standards (IFRSs) Interpretations Committee and adopted by the Group of Companies with effective dates of January 1, 2020, or from their date of issue, had no significant impact to the Corporation's consolidated financial statements.

9.3 Accounting policy developments

The following table presents the not-yet-effective amendments issued by the IASB that have not been early adopted at the end of the reporting period and that have been assessed as having a possible effect on the consolidated financial statements of the Group of Companies in the future. The Group of Companies is assessing the impact of these amendments.

Amendment	Effective for annual periods beginning on or after
Amendments to IFRS 3 "Business Combinations – Reference to the Conceptual Framework"	January 1, 2022
Amendments to IAS 16 "Property, Plant and Equipment – Proceeds before Intended Use"	January 1, 2022
Amendments to IAS 37 "Onerous Contracts – Cost of Fulfilling a Contract"	January 1, 2022
Amendments to IFRS 16 "Leases – Lease Incentives"	January 1, 2022
Amendments to IAS 1 "Presentation of Financial Statements"	January 1, 2023

10. Outlook for 2021

Our prospects for 2021

10.1 Economic outlook

Global economic growth decreased from 2.3% to negative 4.3% in 2020, the weakest pace since the Great Depression. Although global economic activity is growing again, it is not likely to return to business as usual for the foreseeable future. Variants of concern of the virus that causes COVID-19 have emerged, which threaten to accelerate the spread of the disease and further strain healthcare systems and affect the global economy. COVID-19 has caused a severe loss of life, is tipping millions into extreme poverty and is expected to inflict lasting scars that will push activity and income well below their pre-COVID-19 trend for a prolonged period. The global financing conditions have eased considerably; however, business investments and industrial production have slowed sharply with constrained supply-chain issues, and most emerging market and developing economies (EMDEs) have witnessed weaker-than-expected growth. Additional downside risks remain and include the lingering impact from variants of concern and vaccine rollouts, and the possibility of uncontained or broader trade conflicts, financial disruptions in EMDEs and geopolitical instability. Geopolitical risks include the U.S. administration's political-economic policies, the impacts of Brexit, rising geopolitical tensions and reversal of downward interest-rate trends due to inflation pressures emerging from loose fiscal policies in some major economies.

Canada's economic rate of growth in 2020 was negative 5.6%, down from positive growth of 1.6% in 2019. The economy was crippled during COVID-19 restrictions, shrinking by more than one third during the second quarter of 2020. Government transfers buoyed the economy and allowed the economy to start recovering in the third quarter. Consumer spending and domestic demand were affected due to various provincial restrictions. The economy is expected to rebound in 2021 and 2022 as consumption growth recovers and business investment improves due to anticipated pent-up demand. Economic growth was expected to increase to 4.6% in 2021 and 4.5% in 2022, however, the impact of COVID-19 and issues in vaccine rollouts could alter expectations for economic growth.

Inflation, as measured by the consumer price index (CPI), remained muted at 0.7% in 2020. Economists expect core and total CPI to stay close below the target level of 2% in 2021. Canada's 30-year bond rate is relatively low and is forecasted to gradually return to 1.7% by 2022. Decreasing long-term rates may put additional pressure on Canada Post's pension liability after the end of the period of relief from solvency deficit payments.

Housing starts are expected to continue, adding an average of almost 200,000 addresses per year. Address growth is a cost pressure on Canada Post's delivery operations as mail volumes continue to decline.

	2020	2021	2022	2023	2024
Economic (% change)					
Real gross domestic product (GDP)	(5.6)	4.6	4.5	1.7	1.7
Inflation (consumer price index [CPI])	0.7	1.6	1.9	2.1	2.0
Demographic (% change)					
Total population growth	1.1	1.1	1.1	1.1	1.0
Household growth	1.4	1.3	1.3	1.3	1.3

Sources: Forecasts of GDP, CPI and total points of delivery consider projections from the five major Canadian banks, the Canada Mortgage and Housing Corporation and the Bank of Canada. Population growth is per Statistics Canada's medium growth (M3) scenario projections.

10.2 Canada Post Group of Companies outlook

Canada Post segment

E-commerce parcel delivery is the dominant driving force in the delivery industry. We estimate that COVID-19 has accelerated Canadians' e-commerce adoption by at least three years. Demands for a superior customer experience have evolved just as quickly. In this increasingly competitive market, Canada Post must invest in parcels capacity and improved service. Achieving commercial excellence is critical for our long-term sustainability and we are focused on short and long-term plans that ensure we are responding to the emerging needs of Canadians while securing the long-term self-sustainability of the Corporation.

Purolator segment

Purolator is positioned for moderate growth heading into 2021, as the economy recovers and demand for transportation and logistics services remains high as a result of restrictions during COVID-19. However, there is still a great deal of uncertainty in the economy. Purolator's growth is limited to the short-term and long-term capacity that it is able to build, which requires significant investment and resources. Purolator will continue to implement strategic initiatives across its network, technology and products to strengthen its platform and strive for sustained, long-term profitable growth while navigating the risk associated with COVID-19, the impact of exponential growth in the lower-margin business-to-consumer delivery market, the pressures faced by an aging infrastructure, as well as new disruptors entering the market with more asset-light solutions for final mile delivery.

SCI segment

In 2021, SCI will continue to focus on becoming Canada's leading integrated supply chain solutions organization, growing revenue and profit. The impact of COVID-19 on SCI's revenue from operations and cost of operations is expected to continue to be significant in 2021 due to changing customer volumes, along with increased costs to operate safely in this environment. SCI is focused on maintaining strong customer service and mitigating operating profit impacts. SCI will also continue to work with Canada Post, Purolator and Innovapost on initiatives that would capitalize on existing capabilities within the Group of Companies.

Endnotes

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

®Tackle Hunger is a registered trademark of Purolator Inc.

Historical Financial Information

(unaudited, in millions of Canadian dollars unless otherwise indicated)	**2020**	2019	2018	2017	2016
OPERATIONS					
Revenue from operations	**9,318**	8,899	8,672	8,318	7,880
Total cost of operations	**9,888**	8,892	8,754	8,087	7,731
Profit (loss) from operations	**(570)**	7	(82)	231	149
Percentage of revenue from operations	**(6.1) %**	0.1 %	(0.9) %	2.8 %	1.9 %
Investing and financing income (expense), net	**(56)**	(30)	(36)	(27)	(35)
Profit (loss) before tax	**(626)**	(23)	(118)	204	114
Tax expense (recovery)	**(153)**	(9)	(25)	56	33
Net profit (loss)	**(473)**	(14)	(93)	148	81
Other comprehensive income (loss)	**(329)**	120	397	(193)	741
Comprehensive income (loss)	**(802)**	106	304	(45)	822
Net profit (loss) attributable to					
Government of Canada	**(482)**	(22)	(102)	142	78
Non-controlling interests	**9**	8	9	6	3
	(473)	(14)	(93)	148	81
Comprehensive income (loss) attributable to					
Government of Canada	**(812)**	103	294	(51)	820
Non-controlling interests	**10**	3	10	6	2
	(802)	106	304	(45)	822
STATEMENT OF FINANCIAL POSITION					
Assets					
Current	**4,003**	3,734	3,841	3,395	2,826
Segregated securities	**537**	514	495	526	523
Capital assets	**3,301**	3,066	2,793	2,708	2,789
Right-of-use assets	**1,221**	1,113	982	944	–
Pension benefit assets	**25**	75	95	116	135
Deferred tax assets	**1,883**	1,659	1,680	1,605	1,384
Other assets	**239**	366	325	141	135
Total assets	**11,209**	10,527	10,211	9,435	7,792
Liabilities and equity					
Current	**2,165**	1,901	2,035	1,598	1,307
Pension, other post-employment and other long-term benefit liabilities	**7,601**	6,498	6,277	6,297	5,726
Other liabilities	**2,321**	2,200	2,073	2,016	1,063
Non-controlling interests	**41**	35	36	28	27
Equity of Canada	**(919)**	(107)	(210)	(504)	(331)
Total liabilities and equity	**11,209**	10,527	10,211	9,435	7,792
ADDITIONS TO CAPITAL ASSETS					
Land and buildings	**74**	160	66	80	40
Other capital assets	**498**	431	321	221	215
	572	591	387	301	255

Historical Financial Information

(unaudited, in millions of Canadian dollars, unless otherwise indicated / trading day adjusted percentage)	**2020**	**% Change**	2019	% Change	2018	% Change	2017	% Change	2016
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS									
Parcels									
Domestic Parcels	**2,681**	**29.1 %**	2,068	11.0 %	1,864	15.3 %	1,610	28.8 %	1,255
Outbound Parcels (to other postal administrations)	**302**	**24.2 %**	243	0.1 %	242	(1.9) %	246	10.5 %	223
Inbound Parcels (from other postal administrations)	**432**	**7.2 %**	401	9.3 %	367	18.6 %	309	28.4 %	241
Total – Parcels	**3,415**	**25.4 %**	2,712	9.7 %	2,473	13.8 %	2,165	26.4 %	1,719
Other	**19**	**(17.0) %**	23	(23.0) %	30	(2.2) %	30	62.3 %	19
Canada Post segment	**3,434**	**25.0 %**	2,735	9.3 %	2,503	13.6 %	2,195	26.8 %	1,738
Purolator segment	**2,205**	**13.5 %**	1,936	4.8 %	1,847	12.5 %	1,634	7.5 %	1,527
SCI segment	**329**	**(5.2) %**	346	8.2 %	319	15.4 %	276	6.9 %	259
Elimination of intersegment	**(157)**		(127)		(117)		(94)		(90)
Canada Post Group of Companies	**5,811**	**18.4 %**	4,890	7.4 %	4,552	13.1 %	4,011	17.3 %	3,434
Transaction Mail									
Domestic Lettermail	**2,335**	**(8.5) %**	2,540	(2.3) %	2,601	(2.7) %	2,663	(2.9) %	2,754
Outbound Letter-post (to other postal administrations)	**83**	**(13.8) %**	96	(3.7) %	99	(14.5) %	116	(2.4) %	119
Inbound Letter-post (from other postal administrations)	**66**	**(16.2) %**	78	(5.3) %	83	(46.7) %	155	(5.8) %	164
Canada Post segment	**2,484**	**(8.9) %**	2,714	(2.5) %	2,783	(5.5) %	2,934	(3.0) %	3,037
Elimination of intersegment	**(2)**		(2)		(2)		(2)		(3)
Canada Post Group of Companies	**2,482**	**(8.9) %**	2,712	(2.5) %	2,781	(5.5) %	2,932	(3.0) %	3,034
Direct Marketing									
Canada Post Personalized Mail™	**365**	**(25.1) %**	485	(3.2) %	501	(1.8) %	508	(4.5) %	534
Canada Post Neighbourhood Mail™	**283**	**(29.7) %**	401	(1.7) %	408	(2.2) %	415	6.9 %	390
Total – Smartmail Marketing™	**648**	**(27.2) %**	886	(2.5) %	909	(2.0) %	923	0.4 %	924
Publications Mail™	**129**	**(12.0) %**	146	(5.2) %	153	(5.8) %	162	(9.3) %	180
Business Reply Mail™ and Other mail	**19**	**(5.9) %**	20	(8.3) %	22	1.8 %	22	(3.4) %	22
Total – Mail	**796**	**(24.6) %**	1,052	(3.0) %	1,084	(2.5) %	1,107	(1.3) %	1,126
Other	**13**	**0.4 %**	14	0.3 %	14	0.4 %	14	16.9 %	12
Canada Post segment / Group of Companies	**809**	**(24.3) %**	1,066	(3.0) %	1,098	(2.4) %	1,121	(1.1) %	1,138
Other revenue									
Canada Post segment	**215**	**(8.2) %**	233	(0.9) %	236	(8.7) %	256	(5.6) %	273
Purolator segment	**1**	**135.3 %**	(2)	(141.7) %	5	328.0 %	(1)	(294.7) %	1
Innovapost and elimination of intercompany	**–**		–		–		(1)		–
Canada Post Group of Companies	**216**	**(7.0) %**	231	(3.9) %	241	(5.0) %	254	(7.8) %	274
Revenue from operations									
Canada Post segment	**6,942**	**2.5 %**	6,748	1.9 %	6,620	1.3 %	6,506	5.6 %	6,186
Purolator segment	**2,206**	**13.7 %**	1,934	4.4 %	1,852	13.0 %	1,633	7.3 %	1,528
SCI segment	**329**	**(5.2) %**	346	8.2 %	319	16.4 %	276	6.9 %	259
Innovapost and elimination of intercompany	**(159)**		(129)		(119)		(97)		(93)
Canada Post Group of Companies	**9,318**	**4.3 %**	8,899	2.6 %	8,672	3.9 %	8,318	5.9 %	7,880

Historical Financial Information

(unaudited, in millions of pieces unless otherwise indicated / trading day adjusted percentage)	**2020**	**% Change**	2019	% Change	2018	% Change	2017	% Change	2016
LINE OF BUSINESS DIMENSIONS									
VOLUME									
Parcels									
Domestic Parcels	**292**	**30.9 %**	222	13.2 %	196	10.9 %	176	22.3 %	144
Outbound Parcels (to other postal administrations)	**13**	**31.2 %**	10	0.9 %	10	(3.5) %	10	(3.0) %	11
Inbound Parcels (from other postal administrations)	**84**	**(5.0) %**	88	(1.5) %	90	60.8 %	56	39.8 %	40
Canada Post segment	**389**	**21.0 %**	320	8.3 %	296	21.7 %	242	24.5 %	195
Purolator segment	**162**	**14.8 %**	140	4.8 %	134	9.2 %	122	0.8 %	122
Elimination of intersegment	**(12)**		(8)		(7)		(6)		(4)
Canada Post Group of Companies	**539**	**18.7 %**	452	7.2 %	423	17.5 %	358	14.8 %	313
Transaction Mail									
Domestic Lettermail	**2,432**	**(9.7) %**	2,683	(6.3) %	2,863	(4.6) %	2,988	(5.3) %	3,169
Outbound Letter-post (to other postal administrations)	**39**	**(15.2) %**	45	(7.6) %	49	(12.1) %	56	(9.1) %	61
Inbound Letter-post (from other postal administrations)	**69**	**(29.6) %**	98	(7.8) %	106	(34.8) %	161	(7.3) %	175
Canada Post segment	**2,540**	**(10.5) %**	2,826	(6.4) %	3,018	(6.2) %	3,205	(5.5) %	3,405
Elimination of intersegment	**(2)**		(2)		(2)		(2)		(3)
Canada Post Group of Companies	**2,538**	**(10.5) %**	2,824	(6.4) %	3,016	(6.2) %	3,203	(5.5) %	3,402
Direct Marketing									
Personalized Mail	**648**	**(27.1) %**	886	(3.5) %	918	(4.2) %	954	(3.6) %	994
Neighbourhood Mail	**2,474**	**(28.8) %**	3,461	(0.7) %	3,486	(3.5) %	3,600	7.5 %	3,362
Total – Smartmail Marketing	**3,122**	**(28.5) %**	4,347	(1.3) %	4,404	(3.7) %	4,554	5.0 %	4,356
Publications Mail	**187**	**(13.5) %**	215	(6.9) %	231	(8.3) %	250	(10.6) %	281
Business Reply Mail and Other mail	**14**	**(9.3) %**	16	(13.4) %	18	(1.5) %	18	(6.0) %	19
Canada Post segment / Group of Companies	**3,323**	**(27.7) %**	4,578	(1.6) %	4,653	(3.9) %	4,822	4.0 %	4,656
Total volume									
Canada Post segment	**6,252**	**(19.4) %**	7,724	(3.1) %	7,967	(4.0) %	8,269	0.6 %	8,256
Purolator segment	**162**	**14.8 %**	140	4.8 %	134	9.2 %	122	0.8 %	122
Elimination of intersegment	**(14)**		(10)		(9)		(8)		(7)
Canada Post Group of Companies	**6,400**	**(18.8) %**	7,854	(2.9) %	8,092	(3.9) %	8,383	0.5 %	8,371
EMPLOYMENT[1]									
Canada Post segment	**53,914**	**1.1 %**	53,353	0.9 %	52,891	3.7 %	50,995	0.6 %	50,711
Purolator segment	**12,645**	**10.9 %**	11,403	0.0 %	11,403	15.1 %	9,907	(3.9) %	10,304
SCI segment	**2,152**	**(4.8) %**	2,261	(3.3) %	2,338	17.4 %	1,991	10.6 %	1,800
Innovapost business unit	**824**	**(0.5) %**	828	(0.7) %	834	(4.8) %	876	(2.3) %	897
Canada Post Group of Companies	**69,535**	**2.5 %**	67,845	0.6 %	67,466	5.8 %	63,769	0.1 %	63,712
MAIL NETWORK									
Post offices	**6,026**	**(1.0) %**	6,084	(0.9) %	6,137	(0.7) %	6,183	(0.5) %	6,217
Points of delivery (in thousands)	**16,750**	**1.2 %**	16,547	1.0 %	16,379	1.2 %	16,185	1.1 %	16,006
Pickup points (in thousands)[2,3]	**975**	**2.3 %**	953	0.1 %	952	0.0 %	952	0.3 %	949

1. Includes paid full-time and part-time employees and excludes temporary, casual and term employees.
2. Includes rural mailboxes, which are collection points for customers with this mode of delivery.
3. Pickup points for prior years have been restated to include parcel lockers, which have collection points for Transaction Mail.

Independent Auditor's Report on Annual Cost Study Contribution Analysis

To the Board of Directors of Canada Post Corporation

We have audited the accompanying Annual Cost Study Contribution Analysis (Annual Cost Study) of Canada Post Corporation (the Entity) for the year ended December 31, 2020 and of the accompanying management assertion in note 1 on whether the competitive grouping of services (Competitive services) has been cross-subsidized using revenues from the exclusive privilege grouping of services (Exclusive privilege services) based on the Annual Cost Methodology (applicable criteria) for the year ended December 31, 2020.

Management's Responsibilities

Management is responsible for the preparation of the Annual Cost Study, and the measurement and evaluation of the Annual Cost Study, both in accordance with the Annual Cost Methodology (applicable criteria). Management is responsible for evaluating the appropriateness of the applicable criteria used. Management is also responsible for such internal control as management determines necessary to enable the preparation, measurement and evaluation of the Annual Cost Study that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express a reasonable assurance opinion on the Annual Cost Study based on the evidence we have obtained.

We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the Annual Cost Study is free from material misstatement.

Reasonable assurance is a high level of assurance, but is not a guarantee that an engagement conducted in accordance with this standard will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. The nature, timing and extent of procedures performed depends on our professional judgment, including an assessment of the risks of material misstatement, whether due to fraud or error, and involves obtaining evidence about the Annual Cost Study.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence and Quality Control

We have complied with the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The Firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Opinion

In our opinion:

(a) the Annual Cost Study of the Entity for the year ended December 31, 2020 is prepared, in all material respects, in accordance with the applicable criteria as described in the notes to the Annual Cost Study; and

(b) based on the Annual Cost Methodology, management's assertion included in the notes to the Annual Cost Study that the Entity did not cross-subsidize its Competitive services with revenues from Exclusive privilege services, for the year ended December 31, 2020, is fairly stated, in all material respects.

Specific Purpose of the Annual Cost Study

The Annual Cost Study is prepared to demonstrate, in accordance with the applicable criteria, that Competitive services have not been cross-subsidized using revenues from Exclusive privilege services. The Annual Cost Study has been evaluated against the applicable criteria. As a result, the Annual Cost Study may not be suitable for another purpose.

Other Matter

We have not audited, reviewed or performed any procedures on the Entity's operational systems and special studies that yield operational data used to allocate costs to products and therefore we do not provide any assurance on such matters.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

March 25, 2021
Ottawa, Canada

Annual Cost Study Contribution Analysis

Canada Post Corporation

The Annual Cost Study Contribution Analysis calculates the long-run incremental contribution from Exclusive privilege services, Competitive services, Concessionary services and Other services. The long-run incremental contribution is defined as the revenue from such services, less their long-run incremental cost.

Annual Cost Study Contribution Analysis

Year ended December 31, 2020
(in millions of Canadian dollars, unless otherwise indicated)

Long-run incremental contribution from Exclusive privilege, Competitive, Concessionary and Other services

The following analysis is based on the assignment of 62% of the total non-consolidated costs of Canada Post Corporation to individual services or groups of services.

	Exclusive privilege services	Competitive services	Concessionary services	Other services	**Total**
Revenue from operations	$ 2,619	$ 4,065	$ 23	$ 235	$ 6,942
Long-run incremental costs	(1,539)	(3,142)	(15)	(137)	(4,833)
Long-run incremental contribution	**$ 1,080**	**$ 923**	**$ 8**	**$ 98**	**$ 2,109**
Percentage of revenue	41 %	23 %	35 %	42 %	30 %
Unallocated fixed costs					$ (2,907)
Contribution before the undernoted items					**$ (798)**
Investment and other income					84
Finance costs and other expense					(65)
Loss before tax – Canada Post segment					**$ (779)**

The accompanying notes are an integral part of the Annual Cost Study Contribution Analysis.

Notes to Annual Cost Study Contribution Analysis

Year ended December 31, 2020

1. Basis of Preparation

The Annual Cost Study Contribution Analysis provides costing data that serve as the basis for ensuring that Canada Post Corporation is not competing unfairly by cross-subsidizing its Competitive services with revenues from Exclusive privilege services.

In conjunction with external experts, Canada Post Corporation maintains a costing methodology based on the principles of long-run incremental costs, which was designed to leverage the structure of an activity-based costing system. Canada Post Corporation applies this methodology each year in its Annual Cost Study Contribution Analysis for cost attribution purposes (Annual Cost Methodology).

The Annual Cost Methodology, which is summarized in Note 2, recognizes that some costs are caused by the provision of individual services or groups of services, while others are common costs of Canada Post Corporation's infrastructure.

Under the Annual Cost Methodology, a positive long-run incremental contribution from the Competitive grouping of services (Competitive services) establishes that this grouping of services has not been cross-subsidized using revenues from the Exclusive privilege grouping of services (Exclusive privilege services). As the Annual Cost Study Contribution Analysis indicates, Competitive services generated a positive long-run incremental contribution, and therefore, Canada Post Corporation did not cross-subsidize its Competitive services using revenues protected by Exclusive privilege services for the year ended December 31, 2020.

2. Annual Cost Methodology

(a) **Long-run incremental cost** • The Annual Cost Methodology employed by Canada Post Corporation measures the long-run incremental cost of individual services and groups of services. Long-run incremental cost is the total annual cost caused by the provision of a service.

(b) **Activity-based** • Services provided by Canada Post Corporation are analyzed to determine the various activities involved in their fulfillment. Each activity is then analyzed to determine the causal relationship between the costs of the activity and the services that require the performance of that particular activity. Service volumes or other data are used to attribute those activity costs to services.

(c) **Attribution principles** • The relationship between the cost of resources and the activities performed, and the relationship between the activities performed and the services delivered are identified using the principles of causality and time horizon. Those activity costs, which are incurred because of the provision of a service, are attributed to that service. Activity costs that cannot be attributed to the provision of a service but are common to a specific group of services, are attributed at that higher level of aggregation. The remaining business-sustaining and common fixed costs are unallocated fixed costs.

(d) **Source data** • The source of the financial data used to produce the Annual Cost Study Contribution Analysis is the Canada Post Corporation general ledger revenues and costs. Operational time, volume and weight/cubage data are used to attribute general ledger costs to activities and activity costs to services. Operational volume data are used to determine revenue by services. Where operational data are not available, an appropriate proxy is used to make the attribution.

(e) **Reconciliation with financial records** • Total revenues and costs considered in the Annual Cost Study Contribution Analysis are reconciled with the total revenues and expenses forming the Canada Post segment of the audited consolidated financial statements.

(f) **Cross-subsidization test** • Under the Annual Cost Methodology in the Annual Cost Study Contribution Analysis, a positive long-run incremental contribution (revenue exceeds long-run incremental cost) from Competitive services establishes that this grouping of services has not been cross-subsidized using revenues from Exclusive privilege services.

Management’s Responsibility for Financial Reporting

Management is responsible for the consolidated financial statements and all other information presented in this Annual Report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

In support of its responsibilities, management has established and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable financial information in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Post Corporation Act* and regulations, by-laws of the Corporation, and Government of Canada directives. On a risk basis, internal audits examine and evaluate the application of the Corporation’s policies and procedures and the adequacy of the system of internal controls.

The Board of Directors’ Audit Committee acts on behalf of the Board in fulfilling its responsibilities, which are prescribed by section 148 of the *Financial Administration Act*. The Audit Committee, consisting of five members who are independent in accordance with the Corporation’s standards of independence, meets not less than four times a year, focusing on the areas of financial reporting, risk management and internal control. It is responsible for reviewing the consolidated financial statements and the Annual Report, and for meeting with management and internal and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues.

The Board of Directors, on the recommendation of the Audit Committee, approves the consolidated financial statements.

Canada Post Corporation is a Crown corporation included in Part I of Schedule III of the *Financial Administration Act*. The Auditor General of Canada and Ernst & Young LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2020, in accordance with the *Financial Administration Act*. The Auditor General of Canada and Ernst & Young LLP audit the consolidated financial statements and report to the Audit Committee of the Board of Directors, as well as to the Minister of Public Services and Procurement.

President and Chief Executive Officer

Barbara MacKenzie

Interim Chief Financial Officer

March 25, 2021

Independent Auditors' Report

To the Minister of Public Services and Procurement

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Canada Post Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2019, were jointly audited by the Auditor General of Canada and KPMG LLP who expressed an unmodified opinion on those consolidated financial statements on March 27, 2020.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Canada Post Corporation and its wholly-owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of Canada Post Corporation and its wholly-owned subsidiaries, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of Canada Post Corporation and its wholly-owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the Financial Administration Act, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Canada Post Corporation and its wholly-owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Canada Post Corporation and its wholly-owned subsidiaries to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

Etienne Matte, CPA, CA
Principal
for the Auditor General of Canada

Ottawa, Canada
March 25, 2021

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statement of Financial Position

As at (in millions of Canadian dollars)	**Notes**	**December 31, 2020**	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents	**6**	**$ 1,465**	$ 1,475
Marketable securities	**6**	**1,256**	1,077
Trade, other receivables and contract assets	**20, 22**	**1,065**	1,011
Other assets	**7**	**217**	171
Total current assets		**4,003**	3,734
Non-current assets			
Marketable securities	**6**	**45**	171
Property, plant and equipment	**8**	**3,160**	2,942
Intangible assets	**8**	**141**	124
Right-of-use assets	**8**	**1,221**	1,113
Segregated securities	**6**	**537**	514
Pension benefit assets	**10**	**25**	75
Deferred tax assets	**11**	**1,883**	1,659
Goodwill	**12**	**130**	130
Other assets	**7**	**64**	65
Total non-current assets		**7,206**	6,793
Total assets		**$ 11,209**	$ 10,527
Liabilities and equity			
Current liabilities			
Trade and other payables	**13**	**$ 878**	$ 676
Salaries and benefits payable and related provisions	**15**	**812**	839
Provisions	**14**	**61**	55
Income tax payable		**9**	–
Deferred revenue	**22**	**218**	152
Lease liabilities	**18**	**122**	116
Other long-term benefit liabilities	**10**	**65**	63
Total current liabilities		**2,165**	1,901
Non-current liabilities			
Lease liabilities	**18**	**1,292**	1,183
Loans and borrowings	**17**	**997**	997
Pension, other post-employment and other long-term benefit liabilities	**10**	**7,601**	6,498
Other liabilities		**32**	20
Total non-current liabilities		**9,922**	8,698
Total liabilities		**12,087**	10,599
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income (loss)	**25**	**92**	64
Accumulated deficit		**(2,166)**	(1,326)
Equity of Canada		**(919)**	(107)
Non-controlling interests		**41**	35
Total equity		**(878)**	(72)
Total liabilities and equity		**$ 11,209**	10,527
Contingent liabilities	**16**		
Commitments	**21**		

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

Approved on behalf of the Board of Directors:

S Saratan

Interim Chair of the Board of Directors

Chair of the Audit Committee

Consolidated Statement of Comprehensive Income

For the year ended (in millions of Canadian dollars)	Notes	December 31, 2020	December 31, 2019
Revenue from operations	**27**	**$ 9,318**	$ 8,899
Cost of operations			
Labour		**4,772**	4,417
Employee benefits	**9**	**1,878**	1,550
		6,650	5,967
Other operating costs	**23**	**2,806**	2,495
Depreciation and amortization	**8**	**432**	430
Total cost of operations		**9,888**	8,892
Profit (loss) from operations		**(570)**	7
Investing and financing income (expense)			
Investment and other income	**6, 24**	**41**	64
Finance costs and other expense	**17, 24**	**(97)**	(94)
Investing and financing expense, net		**(56)**	(30)
Loss before tax		**(626)**	(23)
Tax recovery	**11**	**(153)**	(9)
Net loss		**$ (473)**	$ (14)
Other comprehensive income	**25**		
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of financial assets		**$ 29**	$ 28
Foreign currency translation adjustment		**(1)**	–
Reclassification adjustments for gains included in net profit (loss)		**–**	(7)
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans		**(357)**	99
Other comprehensive income (loss)		**(329)**	120
Comprehensive income (loss)		**$ (802)**	$ 106
Net profit (loss) attributable to			
Government of Canada		**$ (482)**	$ (22)
Non-controlling interests		**9**	8
		$ (473)	$ (14)
Comprehensive income (loss) attributable to			
Government of Canada		**$ (812)**	$ 103
Non-controlling interests		**10**	3
		$ (802)	$ 106

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2020 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2019	**$ 1,155**	**$ 64**	**$ (1,326)**	**$ (107)**	**$ 35**	**$ (72)**
Net profit (loss)	**–**	**–**	**(482)**	**(482)**	**9**	**(473)**
Other comprehensive income (loss) (Note 25)	**–**	**28**	**(358)**	**(330)**	**1**	**(329)**
Comprehensive income (loss)	**–**	**28**	**(840)**	**(812)**	**10**	**(802)**
Transactions with shareholders – Dividend	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Balance at December 31, 2020	**$ 1,155**	**$ 92**	**$ (2,166)**	**$ (919)**	**$ 41**	**$ (878)**

For the year ended December 31, 2019 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2018	$ 1,155	$ 43	$ (1,408)	$ (210)	$ 36	$ (174)
Net profit (loss)	–	–	(22)	(22)	8	(14)
Other comprehensive income (loss) (Note 25)	–	21	104	125	(5)	120
Comprehensive income	–	21	82	103	3	106
Transactions with shareholders – Dividend	–	–	–	–	(4)	(4)
Balance at December 31, 2019	$ 1,155	$ 64	$ (1,326)	$ (107)	$ 35	$ (72)

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

Consolidated Statement of Cash Flows

For the year ended (in millions of Canadian dollars)	Notes	December 31, 2020	December 31, 2019
Cash flows from operating activities			
Net loss		**$ (473)**	$ (14)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization	**8**	**432**	430
Pension, other post-employment and other long-term benefit expense	**10**	**1,246**	951
Pension, other post-employment and other long-term benefit payments	**10**	**(567)**	(585)
(Gain) loss on sale of capital assets and assets held for sale	**24**	**(2)**	2
Tax recovery and other items affecting net income tax receivable	**11**	**(155)**	(9)
Net interest expense	**24**	**48**	20
Change in non-cash operating working capital:			
Increase in trade and other receivables		**(55)**	(31)
Increase in trade and other payables		**200**	30
Decrease in salaries and benefits payable and related provisions		**(26)**	(151)
Increase (decrease) in provisions		**3**	(3)
Net decrease (increase) in other non-cash operating working capital		**70**	(25)
Other income not affecting cash, net		**(2)**	(23)
Cash provided by operations before interest and tax		**719**	592
Interest received		**56**	82
Interest paid		**(83)**	(82)
Tax received (paid)		**2**	(63)
Cash provided by operating activities		**694**	529
Cash flows from investing activities			
Acquisition of securities		**(1,772)**	(1,892)
Proceeds from sale of securities		**1,719**	2,124
Acquisition of capital assets		**(550)**	(589)
Proceeds from sale of capital assets and assets held for sale		**5**	2
Other investing activities, net		**13**	(5)
Cash used in investing activities		**(585)**	(360)
Cash flows from financing activities			
Repayments of lease liabilities, net of sublease proceeds		**(114)**	(109)
Dividend paid to non-controlling interests		**(4)**	(4)
Cash used in financing activities		**(118)**	(113)
Net (decrease) increase in cash and cash equivalents		**(9)**	56
Cash and cash equivalents, beginning of year		**1,475**	1,421
Effect of exchange rate changes on cash and cash equivalents		**(1)**	(2)
Cash and cash equivalents, end of year		**$ 1,465**	$ 1,475

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

Notes to Consolidated Financial Statements

December 31, 2020

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.

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

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

In July 2015, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation aligned its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of the Treasury Board in 2018, and will continue to report on the status of this directive in its Corporate Plans.

2. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates for Domestic Lettermail and U.S. and international letter-post items as well as fees for certain services such as Domestic Registered Mail through regulations under the *Canada Post Corporation Act* (Act). These regulations are subject to approval by the Government of Canada, the sole shareholder and, therefore, a related party of the Corporation. The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray costs incurred by the Corporation in the conduct of its operations under the Act. The Act permits the Corporation to offer rates that differ from regulated rates under certain circumstances, such as when the customer agrees to prepare a mailing in bulk or in a manner that facilitates its processing. Revenue from products and services charged to customers at regulated rates comprises 7% (2019 – 8%) of the Canada Post segment revenue (Note 27).

The Act requires that proposed changes to regulated rates be published in the *Canada Gazette* to provide interested persons with a reasonable opportunity to make representations to the Minister responsible for the Corporation. These representations are considered by the Corporation's Board of Directors when determining the final form of the proposed rate changes. Once approved by the Board of Directors, the regulations are submitted to the Minister responsible for Canada Post Corporation for approval by the Government of Canada, specifically the Governor in Council. Regulations are deemed approved 60 days after the Clerk of the Privy Council receives them for submission to the Governor in Council for consideration, unless the Governor in Council previously approved or refused to approve them.

The Governor in Council approved rates that came into effect on January 13, 2020. Due to COVID-19, the Corporation decided to maintain stamp prices at 2020 levels through 2021, while minimizing the impact of other price changes.

Under the provisions of the *Canada Post Corporation Act*, the Corporation is required to provide services free of charge for certain Government of Canada mailings and for the mailing of materials for persons who are blind. The Government of Canada provides compensation to the Corporation in respect of these services (Note 26 [a]).

The fact that postage rates of certain products and services are subject to regulation does not affect the application of International Financial Reporting Standards (IFRSs) to these consolidated financial statements.

3. Basis of Presentation and Significant Accounting Policies

Statement of compliance • The Corporation has prepared its consolidated financial statements in compliance with IFRSs issued and effective as at the reporting date. These consolidated financial statements were approved and authorized for issue by the Board of Directors March 25, 2021.

Basis of presentation • The consolidated financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRSs and as otherwise indicated within these notes. Amounts are shown in millions, unless otherwise noted.

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

Significant accounting policies • A summary of the significant accounting policies used in these consolidated financial statements is set out below. The accounting policies have been applied consistently to all periods presented.

(a) Basis of consolidation • These consolidated financial statements include the accounts of the Corporation and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies." Details of the Corporation's material subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Principal activity	Place of incorporation	Place of operation	Proportion of ownership interest held directly or indirectly	
				December 31, 2020	December 31, 2019
Purolator Holdings Ltd.	Transportation and courier services	Canada	Canada and United States	91%	91%
SCI Group Inc.	Logistics and transportation services	Canada	Canada	99%	99%
Innovapost Inc.	IS/IT services	Canada	Canada	98%	98%

(b) Financial instruments • Upon initial recognition, all financial assets are either irrevocably designated at fair value through profit and loss or are classified based on the business model and the contractual cash flow characteristics of financial instruments as financial assets at (i) amortized cost, (ii) fair value through other comprehensive income, or (iii) fair value through profit and loss. All financial liabilities are classified as financial liabilities at amortized cost, or at fair value through profit and loss if they are held for trading or designated as such. After initial recognition and classification, the financial asset is not reclassified, unless there is a change in the business model used for managing the financial assets. Financial liabilities cannot be reclassified.

Except for trade receivables, financial instruments are initially recognized at fair value and subsequent measurement depends on the classification of the financial instrument. Trade receivables are initially recognized at their transaction price in accordance with IFRS 15 "Revenue from Contracts with Customers" (IFRS 15). Financial assets are derecognized when rights to receive cash flows from assets have expired or have been transferred, and the Group of Companies has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or has expired.

The Group of Companies' financial assets and financial liabilities are classified and subsequently measured as follows:

Financial instrument	Classification	Subsequent measurement
Cash	Amortized cost	Amortized cost
Cash equivalents	Fair value through other comprehensive income	Fair value
Marketable securities	Fair value through other comprehensive income	Fair value
Segregated securities	Fair value through other comprehensive income	Fair value
Trade and other receivables	Amortized cost	Amortized cost
Risk management financial assets and liabilities	Fair value through profit or loss	Fair value
Trade and other payables	Amortized cost	Amortized cost
Salaries and benefits payable	Amortized cost	Amortized cost
Loans and borrowings	Amortized cost	Amortized cost

(b.1) Financial Assets at fair value through other comprehensive income

The Corporation's financial assets at fair value through other comprehensive income are debt instruments with cash flows consisting of solely payments of principal and interest.

Cash equivalents and marketable securities are principally used to manage cash flow requirements, while earning return on investment and are managed by either collecting contractual cash flows or selling financial assets. Cash equivalents consist of investments with maturities of three months or less from the date of acquisition and are recognized at the settlement date. Marketable securities consist of investments in debt securities with maturities of three years or less at date of acquisition and are recognized at the settlement date. Marketable securities with maturities exceeding 12 months at acquisition are classified as non-current. Unrealized changes in fair value are recognized as they occur in other comprehensive income.

Segregated securities are intended to be held to fund specific restricted benefit plans (Note 6 [a]) and consist of investments that are managed by either collecting contractual cash flows or selling financial assets. These debt securities are recognized at the settlement date and unrealized changes in fair value are recognized as they occur and are included in other comprehensive income or loss until the investment is sold, impaired or otherwise derecognized. Interest income and realized gains and losses on sale of investments are included in the employee benefit expense.

Impairment • The Corporation's investment policy restricts the type of investments to investment grade debt securities. Therefore, by using the low credit risk approach, a 12-month expected credit loss impairment provision is estimated using the probability-of-default method. The probability-of-default method uses historical default rates implied from external credit agencies for similar grade debt securities. The historical defaults are adjusted, if necessary, by using current and forward-looking information such as bond spreads. When these financial assets at fair value through other comprehensive income are impaired, the unrealized changes in fair value recorded in other comprehensive income or loss are reclassified, for cash equivalents and marketable securities, to investment and other income or, for segregated securities, to employee benefit expense, which are both recorded within net profit or loss.

(b.2) Financial assets at amortized cost

Trade and other receivables are initially recognized at their transaction price if these are in scope of IFRS 15 or at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment.

Impairment • The expected credit loss allowance for trade and other receivables is estimated using the simplified approach which requires the use of lifetime expected credit losses. The allowance for other receivables not in scope for IFRS 15 is estimated using 12-month expected credit losses unless there is deterioration in credit risk since initial recognition, in which case the allowance is estimated based on the lifetime expected credit losses. The Group of Companies estimates the lifetime expected losses from a combination of historical write-off percentages and forward-looking information used to identify a deterioration of credit, either at company or macro-economy level. The amount of the allowance is the difference between the receivable's gross carrying amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in other operating costs.

(b.3) Financial assets and liabilities at fair value through profit or loss

Risk management financial assets and liabilities are derivatives purchased to manage foreign exchange risk, which consist of foreign exchange forward contracts that will be settled in future periods. These financial assets and liabilities are recognized at the trade date and are presented within either trade and other receivables or trade and other payables. Fair value adjustments are recognized as they occur in revenue from operations. These derivatives were not designated in a hedging relationship for accounting purposes.

(b.4) Financial liabilities at amortized cost

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

Loans and borrowings are initially recognized at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account transaction costs and any discount or premium. The interest expense on loans and borrowings is recognized in finance costs and other expense.

(b.5) Fair value measurement

Fair values used to measure or disclose amounts in these consolidated financial statements are categorized into different levels in a fair value hierarchy based on inputs to the valuation technique as follows:

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

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

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

(c.1) Recognition and measurement • Capital assets acquired or developed internally are initially measured at cost and are subsequently measured at cost, less accumulated depreciation or amortization and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset.

When significant parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets with depreciation or amortization being recognized over the useful life of each major component.

(c.2) Subsequent costs • The cost of replacing a part of a capital asset is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group of Companies and its cost can be measured reliably. The carrying amount of the replaced part is derecognized concurrent with the replacement. The costs of day-to-day servicing of capital assets are recognized in net profit or loss as incurred.

(c.3) Depreciation and amortization • Depreciation or amortization commences when assets are available for use and is calculated on the cost of an asset, less residual value. Depreciation or amortization is recognized over the estimated useful lives of capital assets, as described in the table below. When a capital asset includes major components, depreciation or amortization is recognized at this level; the depreciation or amortization periods noted below incorporate those applicable for major components, if any, contained within the overall asset.

Type of capital asset	Depreciation or amortization method	Depreciation or amortization period or rate
Buildings	Straight-line	10 to 65 years
Leasehold improvements	Straight-line	Shorter of lease term or the asset's economic useful life
Plant equipment	Straight-line	3 to 20 years
Vehicles:		
Passenger	Declining balance	Annual rate of 30%
Other	Straight-line	7 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 10 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 5 years

The appropriateness of depreciation or amortization methods and estimates of useful lives and residual values is assessed on an annual basis and revised on a prospective basis, where appropriate.

(c.4) **Decommissioning obligations** • Obligations associated with the retirement of property, plant and equipment are recorded when those obligations result from the acquisition, construction, development or normal operation of the assets. The Group of Companies recognizes these obligations in the period they are incurred at the present value of the best estimate of the expenditures required to settle the present obligation, discounted at a risk-free interest rate. Subsequently, at each reporting date, the obligation is adjusted to reflect the passage of time through accretion expense, changes in the estimated amounts required to settle the obligation and significant changes in the discount rate. The associated costs are capitalized as part of the carrying value of the related asset.

(c.5) **Impairment of capital assets** • The Group of Companies assesses the carrying amount of non-financial assets including capital assets at each reporting date to determine whether there is any indication that the carrying amount of an asset or group of assets may be impaired. If such indication exists, or when annual impairment testing for an asset or group of assets is required, the Group of Companies makes an estimate of the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets. When the carrying amount exceeds the recoverable amount, the asset or group of assets is considered impaired and is written down to its recoverable amount. For the purpose of assessing recoverability, capital assets are grouped at the cash-generating unit level, which is the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized as part of net profit or loss for the year. After the recognition of an impairment loss, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

An assessment is also made at each reporting date as to whether there is an indication that any previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognized.

(c.6) **Capital assets to be disposed of by sale** • When the Group of Companies intends to sell a capital asset, for which the sale within 12 months is highly probable, the asset is classified as held for sale and is presented in assets held for sale under current assets, provided that the asset is available for immediate sale in its present condition, subject only to customary terms and conditions. The asset to be sold is measured at the lower of its carrying amount and fair value less costs to sell, and no further depreciation or amortization is recorded once the held-for-sale classification is met. The impairment loss, if any, resulting from the remeasurement of an asset to fair value less costs to sell is recorded as a charge to net profit or loss.

(d) **Goodwill** • Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually, as at the same date each year, or more frequently if events and circumstances indicate that there may be an impairment. Impairment losses recognized for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill arising on the acquisition of a business is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units to which it relates. An impairment loss is recognized when the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its estimated recoverable amount. The impairment loss is the excess of the carrying value over the estimated recoverable amount, and is recognized in net profit or loss in the period in which it is determined. The impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro-rata basis.

(e) **Borrowing costs** • Borrowing costs consist primarily of interest expense calculated using the effective interest method. Borrowing costs are recognized in finance costs and other expense in the period in which they are incurred.

(f) **Provisions and contingent liabilities** • A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are measured at the best estimate of the expenditures expected to be required to settle the present obligation at the end of the reporting period. When there are a number of similar obligations, the likelihood that an outflow will be required in the settlement of obligations is determined by considering the class of obligations as a whole. Discounting, using a risk-free interest rate specific to the liability, is applied in the measurement of amounts to settle the obligation when the expected time to settlement extends over many years and, when coupled with the settlement amounts, would result in material differences if discounting was not considered. Provisions are remeasured at each reporting date using the current discount rate, as applicable. The accretion expense is presented in net profit or loss as part of finance costs and other expense.

A contingent liability is disclosed in the notes to the consolidated financial statements if there is a possible outflow of resources embodying economic benefits or if no reliable estimate can be made. No contingent liability is disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

(g) Revenue from contracts with customers • The Group of Companies' revenue is derived primarily from providing products and services represented by three distinct lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes physical delivery of bills, invoices, notices and statements. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Canada Post Personalized Mail™, Canada Post Neighbourhood Mail™ and Publications Mail™, such as newspapers and periodicals.

(g.1) Legally enforceable contracts • Revenue from these lines of business are generally subject to master service agreements, statements of work and/or customer guides that depict terms and conditions, which become legally enforceable rights and obligations when mail and parcels are inducted into the delivery network or when a delivery or service request is received.

(g.2) Performance obligation and allocation • Delivery of mail or parcels is generally the only performance obligation in contracts with customers. This performance obligation sometimes includes other services (i.e. pickup, transportation, signature, proof of identity, etc.) that are integrated by the network to create a bundle of services and represent one combined output or performance obligation for which the customer has contracted for. However, if a contract is separated into more than one performance obligation, allocation of the total transaction price to each performance obligation is based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. In limited circumstances, when the right to consideration from a customer corresponds directly with the value to the customer of the service transferred to date, the Group of Companies recognizes revenue in the amount to which it has a right to invoice the customer. The Group of Companies applied the practical expedient to not disclose information about remaining performance obligations that have an original expected duration of one year or less and for performance obligations where revenue is recognized in the amount to which it has a right to invoice the customer.

(g.3) Transaction price • Revenue is measured based on the value of the expected consideration in a contract with a customer and excludes sales taxes and other amounts collected on behalf of third parties. Certain Canada Post Group of Companies' customer contracts contain customary discounts or rebates, performance bonuses, refunds for sales with right of return or other consideration that can increase or decrease the transaction price. Most of these forms of variable considerations are contingent on meeting certain volume or revenue thresholds or other performance metrics. These amounts are included in revenue to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. Due to the short-term nature of customer contract payment terms, the Group of Companies does not have a significant financing component within its revenue from contracts with customers.

(g.4) Revenue recognition • The Group of Companies generally recognizes revenue over time due to the continuous transfer of control to the customers. Customers receive the benefit of delivery services for Parcels, Transaction Mail and Direct Marketing items and of transportation and third-party logistics services. Basic warranties for lost, damaged or missing content, as well as warranties for on-time delivery are not sold separately. Therefore, they are not separate performance obligations and they are accounted for in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

Other revenue is derived from mail redirection, data products and services, philatelic products and other retail products and services such as money orders and postal box rentals. Other revenue is typically provided over a short period, less than one year, and recognized over time. For some other retail products, revenue is recognized at a point in time.

The Group of Companies may enter into arrangements with subcontractors, mostly resellers and delivery agents, to provide services to customers. If the Group of Companies acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained, which is the amount billed to the customer less the amount paid to the subcontractor, is recognized as revenue.

(g.5) Contract costs consist mostly of costs to obtain contracts such as fees or commissions paid to resellers to sell products and services on its behalf. The Group of Companies applies the practical expedient, which allows it to recognize the incremental cost of obtaining contracts as an expense when incurred if the amortization of the asset would have otherwise been less than one year.

(g.6) Contract assets includes mostly billed and unbilled amounts resulting from in-transit parcels and mail as a receivable. Contract assets only exist when all performance obligations have been completed and the right to payment is solely based on the passage of time. Given the short-term nature, billed and unbilled amounts are presented as current with trade, other receivables and contract assets.

(g.7) **Contract liabilities** include payments received or amounts billed before services or goods are transferred to the customer. These include payments from meter customers, which are deferred based on a sampling methodology that closely reflects the meter-resetting practices of customers and payments for mail redirection services deferred over the term of the contract, generally four to 12 months. Deferred revenue also includes amounts billed for delivery services prior to delivery or amounts billed to resellers for postal product shipments prior to rendering of related services to customers. Contract liabilities are presented as current in deferred revenue or as non-current in other liabilities based on the nature of the transaction.

(g.8) **Refund liabilities** include volume-based rebates expected to be refunded to the customer when an established sales volume is reached. Refund liabilities are presented as a current liability in trade and other payables.

(h) Pension, other post-employment and other long-term benefit plans

(h.1) **Defined contribution pension plans** • Employer contributions to the defined contribution pension plans are recognized as an expense when employees render the service entitling them to the contributions.

(h.2) **Defined benefit pension and other post-employment plans** • Obligations for providing defined benefit pension and other post-employment benefits are recognized over the period of employee service. Defined benefit obligations and related estimated costs are determined at least annually, or when a plan amendment, curtailment or settlement occurs, on an actuarial basis using the projected unit credit method. Actuarial calculations include actuarial assumptions about demographic and financial variables, such as the discount rates, inflation rate, rates of compensation increase, retirement age, growth rates of healthcare and dental costs, rates of employee disability and mortality tables.

Discount rates used to establish defined benefit obligations are determined by reference to market conditions at year's end using the yield curve approach, based on a theoretical portfolio of AA-rated corporate bonds with overall duration equal to the weighted-average duration of respective defined benefit obligations.

Components of defined benefit costs include service costs, net interest on the net defined benefit liability and remeasurements of the net defined benefit liability.

The defined benefit expense is presented in employee benefits in net profit or loss on the consolidated statement of comprehensive income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on plan assets, interest on the effect of the asset ceiling, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. The current service cost, interest income on plan assets, interest cost and interest on the effect of the asset ceiling are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period or when a plan amendment, curtailment or settlement occurs.

Remeasurements of defined benefit plans are presented in other comprehensive income on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return (net of costs of managing plan assets) and interest income on plan assets, and the change in the effect of the asset ceiling (net of interest), if applicable. Remeasurements are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. The plans' significant assumptions are assessed and revised, as appropriate.

When a funded plan gives rise to a pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Furthermore, in circumstances where the funding position of a plan is in a deficit with respect to past service, the minimum funding requirements for past service may require further reduction of the pension benefit asset and may create or increase a pension benefit liability. This assessment is made on a plan-by-plan basis.

The pension benefit assets and the pension and other post-employment benefit liabilities are presented as non-current items on the consolidated statement of financial position.

(h.3) **Other long-term employee benefits** • Other long-term employee benefits primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and the continuation of benefits for employees on long-term disability. The same methodology and assumptions as for post-employment benefit plans are applicable, except for the following:

- The obligation for providing workers' compensation benefits and the continuation of certain benefits for employees on long-term disability is recognized when the event triggering the obligation occurs.
- Management's best estimate includes top-up credit utilization experience as well as the experience and assumptions for provincial workers' compensation boards.
- Any actuarial gains and losses on defined benefit obligations are recognized in net profit or loss in the period in which they arise.

- Other long-term benefit liabilities are segregated between current and non-current components on the consolidated statement of financial position.

(h.4) Termination benefits • Termination benefits result from a decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The Group of Companies recognizes termination benefits at the earliest of when it can no longer withdraw its termination offer or when restructuring costs are accrued if termination benefits are part of a restructuring plan.

(i) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between carrying values and tax bases of assets and liabilities. Deferred tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that their realization is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Deferred tax assets and deferred tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each reporting period in the event of changes in income tax rates.

(j) Foreign currency translation

(j.1) Subsidiaries • Items included in the consolidated financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operated (functional currency).

(j.2) Transactions and balances • Foreign currency transactions for each entity within the Canada Post Group of Companies are translated into Canadian dollars, the functional and presentation currency of the Corporation, using the exchange rates prevailing on transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at the period-end rate of exchange, of monetary assets and liabilities not denominated in the functional currency of the Corporation, are recognized in net profit or loss. Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period-end rates of exchange, and the results of their operations are translated at exchange rates on transaction dates. The resulting foreign currency translation adjustment is recognized in other comprehensive income. Additionally, foreign exchange gains and losses related to intercompany loans that are permanent in nature are recognized in other comprehensive income.

(k) Leases • As a lessee, the Group of Companies assesses whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group of Companies assesses whether

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, if the supplier has a substantive substitution right, then the asset is not identified;
- the Group of Companies has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the Group of Companies has the right to direct the use of the asset; the Group of Companies has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Following this approach, the Group of Companies has identified lease contracts for many assets including land and buildings, vehicles and plant equipment. At inception or on reassessment of a contract that contains a lease component, the Group of Companies allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. For certain building leases in which it is a lessee, the Group of Companies has elected not to separate non-lease components, and it will account for the lease and non-lease components as a single lease component.

The Group of Companies has elected not to recognize right-of-use assets and lease liabilities for short-term leases for all right-of-use asset classes that have a lease term of 12 months or less and leases of low-value assets, such as computer hardware and office equipment. For all other leases, the Group of Companies recognizes a right-of-use asset and a corresponding lease liability.

(k.1) Right-of-use assets • Assets that are leased, but the right to control the assets is conveyed in contracts, are referred to collectively as right-of-use assets, and they are presented as a separate line in the consolidated statement of financial position.

The Group of Companies has categorized and defined portfolios, or classes, of right-of-use assets based on the nature of the underlying asset and the existence of non-lease components: land, buildings – net, buildings – gross, vehicles and plant equipment. A net lease specifies base rent, while the lessee's share of operating costs are accounted for separately and proportionately. In a gross lease, the landlord is responsible for at least some costs associated with the maintenance and operation of the lease, and the lessee's base or gross rent includes these non-lease components. Typical base rent inclusions are cleaning, garbage collection and snow removal, repairs and maintenance, landscaping or security. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, but to account for any lease and associated non-lease components as a single arrangement. The Group of Companies has elected this practical expedient to not separate non-lease components in gross leases for buildings. Any operating expenses incurred outside of base or gross rent will be recognized as an operating expense in the period incurred.

The carrying value of right-of-use assets is recorded as follows:

Recognition and measurement • At the commencement date of leases, when the underlying right-of-use asset is made available, right-of-use assets are recognized at cost, which comprise the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease inducements in the form of commission rebates and incentives toward fit-ups, if applicable. These inducements are treated as a reduction of the right-of-use asset. Initial direct costs to negotiate and secure lease agreements and costs to dismantle and remove the underlying asset are not significant to the Group of Companies and, therefore, they are expensed as incurred.

Subsequent measurement • Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability due to a lease modification. Depreciation is calculated over the lease term of the underlying asset. Depreciation starts at the commencement date of the lease and is recognized on a straight-line basis. The Group of Companies accounts for any identified impairment loss in profit or loss.

(k.2) Lease liabilities • Obligations that arise from lease contracts are collectively referred to as lease liabilities and are presented as a separate line under current liabilities and non-current liabilities in the consolidated statement of financial position, based on the lease payment terms. The present value of lease liabilities is calculated as follows:

Recognition and measurement • At the commencement date, lease liabilities are initially measured at the present value of lease payments that are not paid at that date. Fixed lease payments, including fixed base rent increases, are included in the initial measurement of the lease liability. Lump sum variable lease payments that depend on an index or rate, residual value guarantees, purchase options and termination penalties are not significant to the Group of Companies and are generally expensed if incurred. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs.

Subsequent measurement • Lease liabilities are subsequently measured at amortized cost by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect lease payments.

(k.3) Discount rate • Lease payments are discounted using the incremental borrowing rate (IBR), since the rate implicit in leases cannot be readily determined. The IBR is the rate of interest that the Group of Companies would have to pay to borrow funds over similar terms and with similar security to obtain an asset of similar value to the underlying asset in the lease. The IBR is based on Government of Canada bond yields adjusted for entity-specific financing spreads.

(k.4) Modifications • A lease modification occurs when there is a change in future lease payments, duration of the lease or a change in the Group of Companies' assessment of renewal or termination options. Lease modifications require remeasurement of the lease liability with a corresponding adjustment to the right-of-use asset. If the carrying amount of the right-to-use asset is reduced to zero and there is further reduction in the measurement of the lease liability, the remaining remeasurement is recorded in profit or loss. Lease modifications are often triggered when the Group of Companies executes a lease extension. A revised discount rate, which is the rate in effect when both parties agree to a lease modification, is used with the revised terms and conditions to determine the impact of the change on the lease liability.

(k.5) Lessor accounting • As a lessor, the Group of Companies determines at contract inception whether the lease is a finance lease or an operating lease. This classification is with reference to the right-of-use asset, not the underlying asset, and the Group of Companies makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If such risks and rewards are transferred, it is considered a finance lease; if not, then it is an operating lease. As part of this assessment, indicators such as whether the lease is for the major part of the economic life of the asset are considered. If a contract contains lease and non-lease components, the Group of Companies applies IFRS 15 to allocate the consideration in the contract. The Group of Companies recognizes lease payments received under operating leases as income on a straight-line basis over the lease term. Finance lease receivables are recorded in other assets and financing income is recognized in Investment and other income.

(l) Segmented information

Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and SCI. The Other category includes the results of the support functions provided by the information technology business unit, Innovapost, under a shared services agreement between Canada Post, Purolator and Innovapost, as well as consolidation adjustments and intersegment balance eliminations.

The Canada Post segment provides products and services in three lines of business, Transaction Mail, Parcels and Direct Marketing. The Purolator segment derives its revenue from specialized courier services. The SCI segment provides third-party logistics services in supply chain management and transportation services in the small to medium enterprise market.

4. Critical Accounting Estimates and Judgments

The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from 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 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.

(a) Critical judgments in applying accounting policies • The following are critical judgments, apart from those involving estimations (see [b] below), that management has made in the process of applying the Group of Companies' accounting policies and that have the most significant effects on amounts recognized in the consolidated financial statements.

(a.1) Capital assets • Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

(a.2) Provisions and contingent liabilities • In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgment in assessing whether the Group of Companies has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation. In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the consolidated financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is remote.

(a.3) Leases • The Group of Companies is party to many contracting arrangements, which requires judgment to assess, at inception of a contract, whether such contract contains a lease or a service, and whether it conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration. Factors used by management to determine whether a contract meets the definition of a lease include, but are not limited to, whether an identified asset exists, whether a right exists to obtain substantially all the economic benefits and whether the Group of Companies directs how and for what purpose the asset is used throughout the period of use. Right-of-use assets are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the right-of-use asset, external valuations of the right-of-use asset, and obsolescence or physical damage to the right-of-use asset.

Most property leases contain renewal or termination options exercisable by the Group of Companies before the end of the non-cancellable contract period. Where practicable, the Group of Companies seeks to include such options to provide operational flexibility. At lease commencement and annually thereafter, management applies judgment to assess whether it is reasonably certain to exercise renewal and termination options. Any change in the lease term is accounted for as a lease modification, which requires remeasurement of the lease liability.

(a.4) Revenue from contracts with customers • As control transfers over time, revenue from Parcels, Transaction Mail and Direct Marketing, is recognized to the extent of progress toward completion of the performance obligation. Progress toward completion is estimated using a straight-line output method based on delivery performance days to date. Management believes delivery performance days to date best depict the transfer of services because delivery performance is a key performance indicator in the industry. Progress toward completion for services included in other revenue is estimated using input methods such as time elapsed over the contract period or output methods such as hours or quantity of service provided. Retail product revenue included in other revenue is recognized at a point in time, as control passes when the customer takes physical possession of the product in the retail outlet.

The transaction price is generally determined from a price list, but it is also based on variable considerations such as discounts or rebates, performance bonuses, refunds for sales with right of return or other considerations that can increase or decrease the transaction price. Discounts, rebates and performance bonuses are estimated using the most likely amount method based on observed volumes, revenue, scanning or delivery performance metrics and trends. Refunds are estimated using the expected value method based on historical refunds. In determining whether each variable consideration is constrained (i.e. whether or not it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur), the Group of Companies considers the impact of outside factors. These factors can include labour disruptions, experience or history with uncertainties for the type of revenue contracts and the length of time the uncertainties will remain. When a contract contains more than one performance obligation, price is allocated based on the stand-alone selling price. Stand-alone selling price is estimated using rates offered to other customers with similar profiles or estimated using the expected cost plus margin approach where a profit margin comparable to similar contracts for similar services is added to actual cost. Variable considerations that relate directly to a performance obligation are allocated to that specific performance obligation.

(b) Key sources of estimation uncertainty • The following are key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next 12 months.

(b.1) COVID-19 • Declared a pandemic in March 2020, COVID-19 has had a significant impact on the Canadian and global economies, including our business in 2020 and, likely so going forward. As the COVID-19 situation extends in magnitude and duration, entities are experiencing conditions often associated with a general economic downturn. These conditions include, but are not limited to, financial market volatility and erosion, deteriorating credit, increasing unemployment, broad declines in consumer discretionary spending, decreased demand and other restructuring activities. The continuation of these circumstances could result in an even broader economic downturn, which could have a prolonged negative impact on our financial results. There is a wide range of possible outcomes, resulting in a particularly high degree of uncertainty about the ultimate trajectory of the COVID-19 situation. Additional estimation uncertainties, significant judgments, 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, solvency special payments, timing of revenue recognition and contract modifications.

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

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

(b.2) Impairment of financial assets • The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Group of Companies uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Refer to Note 20 (b) on credit risk for further details of key assumptions and inputs used.

(b.3) Capital assets • Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's best estimates of the periods of service provided by the assets, and are included in Note 3 (c.3). The appropriateness of useful lives of these assets is assessed annually. Changes to useful life estimates would affect future depreciation or amortization expenses and future carrying values of assets.

Capital assets are tested for impairment as described in Note 3 (c.5). The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the consolidated financial statements, both in determining the existence of any impairment and in determining the amount of impairment.

(b.4) **Goodwill •** The Group of Companies tests annually, or more frequently if necessary, whether goodwill has suffered any impairment in accordance with the accounting policy provided in Note 3 (d). Performing goodwill impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to Note 12.

(b.5) **Leases •** Right-of-use assets, comprising land, buildings, vehicles and plant equipment, are valued using, and depreciated over, their estimated lease term. Lease terms are based on management's best estimate of whether it is reasonably certain that renewal and termination options will be exercised in future periods. The appropriateness of lease terms used in the calculation of these right-of-use assets and lease liabilities is reassessed annually and based on historical use of available options, operational requirements and strategic decisions about asset use. Changes to management's assessment of lease terms would affect future carrying values of right-of-use assets and lease liabilities.

Right-of-use assets are reviewed for impairment. Refer to Note 3 (c.5) and Note 4 (b.3).

The incremental borrowing rate (IBR) used to discount lease payments represents management's best estimate of the rate obtained if the underlying asset within the lease contract was purchased and not leased. The IBR is based on Government of Canada bond yields adjusted for entity-specific financing spreads and applied on a lease-by-lease basis.

(b.6) **Deferred revenue •** The Group of Companies estimates deferred revenue at the end of the reporting period for parcels deposited or in transit but not yet delivered, stamps distributed to dealers but not yet resold to customers, meters filled but not yet used by customers and the remaining contract period for mail redirection services. The estimate of deferred parcel revenue is made based on delivery service statistics maintained by the Group of Companies. Estimates relating to deferred stamp and meter revenue are established using aggregate dealer outlet and meter customer actual usage patterns, respectively, while mail redirection revenue is deferred over the term of the contract, generally four to 12 months.

(b.7) **Pension, other post-employment and other long-term benefit plans •** Pension, other post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs based on the terms of the plan, and the investment and funding decisions. The significant actuarial assumptions used by the Group of Companies in measuring the benefit obligations and benefit costs are the discount rates, mortality tables, healthcare costs trend rates and inflation rate, which has an impact on the long-term rates of compensation increase. The Group of Companies consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on defined benefit obligations, funding requirements and pension, other post-employment and other long-term benefit costs.

For funded plans, assets are recognized only to the extent that the Group of Companies can realize future economic benefits from them. In establishing the economic benefit, the Group of Companies calculates gains resulting from a projected rate of return on assets exceeding the going-concern discount rate used for funding requirements. In addition, to establish asset limit adjustments, it is assumed that a contribution holiday is taken whenever possible and that the Corporation intends to use additional relief in special contributions as permitted by legislation.

Funded plans for which the Canada Post Group of Companies has a unilateral right to the surplus are not subject to asset limit adjustment requirements.

For a description of the pension, other post-employment and other long-term benefit plans, and a sensitivity analysis of significant assumptions, see Note 10.

(b.8) **Provisions •** When it has been determined by management that the Group of Companies has a present legal or constructive obligation as a result of a past event, that it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate of the obligation can be made, a provision is accrued.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of outflows, as well as the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how the Group of Companies intends to handle the obligation. The actual amount and timing of outflows may deviate from assumptions, and the difference might materially affect future consolidated financial statements, with a potentially adverse impact on the consolidated results of operations, financial position and liquidity.

(b.9) **Income taxes •** The Group of Companies operates in many jurisdictions requiring calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amount that was initially recorded, such differences will affect the income tax and deferred tax provisions in the period when such a determination is made.

Deferred tax assets and liabilities comprise temporary differences between carrying values and tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. The timing of the reversal of temporary differences may take many years, and the related deferred tax is calculated using substantively enacted tax rates for the related period.

If future outcomes were to adversely differ from management's best estimate of future results affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred income tax adjustments would not result in an immediate cash outflow, nor would they affect the Group of Companies' immediate liquidity.

5. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

The following amendments issued by the International Accounting Standards Board (IASB) for mandatory or early adoption by the Group of Companies on or after January 1, 2020, resulted in no significant changes in the Corporation's consolidated financial statements:

Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8) • In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across standards and to clarify certain aspects of the definition. It was specified that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions. The amendments state that, in assessing whether any information could reasonably be expected to influence decisions of the primary users, an entity must consider the characteristics of those users as well as its own circumstances.

Amendments to IFRS 3 "Business Combinations" (IFRS 3) • In October 2018, the IASB issued narrow-scope amendments to IFRS 3 to guide entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, provide guidance for entities to assess whether an acquired process is substantive, narrow the definitions of a business and outputs, and introduce an optional fair value concentration test.

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

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

In 2020, the IASB issued amendments to the following standards, which are effective for annual periods beginning on or after January 1, 2022 (amendment to IAS 1 deferred to January 1, 2023). Early application is permitted. The Group of Companies is assessing the impact of these amendments.

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

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

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

Amendments to IFRS 16 "Leases – Lease Incentives" • As part of IASB's Annual Improvements to IFRS 2018-2020, the amendment to Illustrative Example 13 accompanying IFRS 16 removes the illustration of the reimbursement of leasehold improvements by the lessor to resolve any potential confusion regarding the treatment of lease incentives.

Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) • In January 2020, the IASB issued amendments to IAS 1 to clarify requirements for classifying liabilities as current or non-current with an effective date for annual reporting periods beginning on or after January 1, 2022. In July 2020, the IASB issued a subsequent amendment that defers the effective date of these amendments to annual reporting periods beginning on or after January 1, 2023. Earlier application of the amendments will continue to be permitted.

6. Cash and Cash Equivalents, Marketable Securities and Segregated Securities

(a) Cash and cash equivalents, marketable securities and segregated securities consisted of the following:

As at December 31 (in millions)		**2020**			2019	
Cash and cash equivalents						
Cash	$	1,303	85 %	$	1,300	88 %
Money market instruments issued by						
Provincial governments		20	2 %		73	5 %
Financial institutions		25	2 %		24	2 %
Corporations		117	11 %		78	5 %
Total cash and cash equivalents	**$**	**1,465**	**100 %**	$	1,475	100 %
Marketable securities						
Money market instruments issued by						
Government of Canada	$	282	22 %	$	258	21 %
Provincial governments		420	32 %		258	21 %
Financial institutions		396	30 %		469	38 %
Corporations		144	11 %		161	13 %
Bonds issued by corporations		59	5 %		102	7 %
Total marketable securities	$	1,301	100 %	$	1,248	100 %
Current marketable securities	**$**	**1,256**	**97 %**	$	1,077	86 %
Non-current marketable securities	**$**	**45**	**3 %**	$	171	14 %
Segregated securities						
Cash	$	8	1 %	$	19	4 %
Bonds issued by						
Government of Canada		115	22 %		106	21 %
Provincial governments		230	43 %		213	41 %
Corporations		184	34 %		176	34 %
Total segregated securities	**$**	**537**	**100 %**	$	514	100 %

All money market instruments and bonds held as at December 31, 2020, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2020, was 0.8% for money market instruments (2019 – 2.2%) and 1.7% for bonds (2019 – 2.4%).

Securities are segregated due to external restrictions imposed on other retirement dental and life insurance benefit plans repatriated through the federal public sector pension reform. These defined benefit plans were partially funded by the transitional support from the Government of Canada; therefore, the Group of Companies is obligated to use these funds exclusively for related benefit payments. Segregated securities, if held to maturity, have terms expiring over a 22-year period.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $33 million (2019 – $59 million). Interest income and gains and losses on segregated securities amounted to $16 million (2019 – $23 million).

(c) Fair values of financial instruments

The estimated fair values of cash equivalents, marketable securities, segregated securities and risk management financial assets and liabilities used to measure amounts in the consolidated financial statements are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the years ended December 31, 2020, and 2019.

7. Other Assets

As at December 31 (in millions)	**2020**	2019
Income tax receivable	$ 96	$ 50
Prepaid expenses	120	119
Assets held for sale	2	1
Finance lease receivable	15	14
Other receivables	48	52
Total other assets	**$ 281**	$ 236
Current other assets	**$ 217**	$ 171
Non-current other assets	**64**	65

As at December 31, 2020, all properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

The table below identifies undiscounted lease payments to be received on an annual basis for each of the following periods:

As at December 31 (in millions)	**2020**	2019
Contractual undiscounted cash flows		
Less than one year	$ 5	$ 5
One to five years	10	9
Total undiscounted finance lease receivable	**$ 15**	$ 14

8. 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, 2018	$ 347	$ 2,138	$ 318	$ 1,177	$ 503	$ 354	$ 1,058	$ 103	$ 5,998
Additions	105	55	42	49	99	26	82	74	532
Reclassified as held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	(14)	(1)	(41)	(3)	(12)	(4)	–	(75)
Transfers	–	19	5	2	–	3	33	(62)	–
December 31, 2019	$ 452	$ 2,197	$ 364	$ 1,187	$ 599	$ 371	$ 1,169	$ 115	$ 6,454
Additions	7	67	13	33	82	12	66	213	493
Reclassified as held for sale	(1)	(6)	–	–	–	–	–	–	(7)
Retirements	(1)	(14)	(5)	(16)	(2)	(21)	(174)	–	(233)
Transfers	–	36	3	7	–	6	3	(55)	–
December 31, 2020	**$ 457**	**$ 2,280**	**$ 375**	**$ 1,211**	**$ 679**	**$ 368**	**$ 1,064**	**$ 273**	**$ 6,707**
Accumulated depreciation									
December 31, 2018	$ –	$ 1,171	$ 241	$ 723	$ 317	$ 275	$ 584	$ –	$ 3,311
Depreciation	–	60	16	73	46	28	48	–	271
Reclassified as held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	(12)	(1)	(38)	(3)	(12)	(3)	–	(69)
December 31, 2019	$ –	$ 1,218	$ 256	$ 758	$ 360	$ 291	$ 629	$ –	$ 3,512
Depreciation	–	61	17	72	47	22	51	–	270
Reclassified as held for sale	–	(5)	–	–	–	–	–	–	(5)
Retirements	–	(12)	(4)	(16)	(2)	(21)	(175)	–	(230)
December 31, 2020	**$ –**	**$ 1,262**	**$ 269**	**$ 814**	**$ 405**	**$ 292**	**$ 505**	**$ –**	**$ 3,547**
Carrying amounts									
December 31, 2019	$ 452	$ 979	$ 108	$ 429	$ 239	$ 80	$ 540	$ 115	$ 2,942
December 31, 2020	**$ 457**	**$ 1,018**	**$ 106**	**$ 397**	**$ 274**	**$ 76**	**$ 559**	**$ 273**	**$ 3,160**

(b) Intangible assets

(in millions)	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2018	$ 818	$ 9	$ 23	$ 850
Additions	7	52	–	59
Retirements	(22)	–	–	(22)
Transfers	12	(12)	–	–
December 31, 2019	$ 815	$ 49	$ 23	$ 887
Additions	10	69	–	79
Retirements	–	(20)	(1)	(21)
Transfers	31	(31)	–	–
December 31, 2020	**$ 856**	**$ 67**	**$ 22**	**$ 945**
Accumulated amortization				
December 31, 2018	$ 722	$ –	$ 22	$ 744
Amortization	41	–	–	41
Retirements	(22)	–	–	(22)
December 31, 2019	$ 741	$ –	$ 22	$ 763
Amortization	41	–	–	41
December 31, 2020	**$ 782**	**$ –**	**$ 22**	**$ 804**
Carrying amounts				
December 31, 2019	$ 74	$ 49	$ 1	$ 124
December 31, 2020	**$ 74**	**$ 67**	**$ –**	**$ 141**

(c) Right-of-use assets

(in millions)	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
December 31, 2018	$ 118	$ 230	$ 597	$ 34	$ 3	$ 982
Additions	2	62	186	1	1	252
Depreciation	(3)	(26)	(73)	(14)	(2)	(118)
Terminations	–	(1)	(1)	–	(1)	(3)
December 31, 2019	$ 117	$ 265	$ 709	$ 21	$ 1	$ 1,113
Additions	4	46	178	–	1	229
Depreciation	(3)	(27)	(83)	(7)	(1)	(121)
December 31, 2020	**$ 118**	**$ 284**	**$ 804**	**$ 14**	**$ 1**	**$ 1,221**

9. Employee Benefits

The employee benefits expense recognized in net loss consisted of the following items:

For the year ended December 31 (in millions)	**2020**	2019
Active and other employee benefits	$ 648	$ 622
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	1,230	928
Employee benefits	**$ 1,878**	$ 1,550

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

(a) Characteristics of benefit plans

The Group of Companies has a number of funded and unfunded benefit plans that provide defined benefit pension plans, other post-employment and other long-term benefits for the majority of its employees, and also provides pension benefits to eligible employees through defined contribution plans. Certain new employees must join the defined contribution plans and are not eligible to join the defined benefit pension plans. The pension benefit plans are funded through contributions made to external trusts, and the other post-employment and other long-term benefit plans are unfunded. Unfunded plans are plans where benefits are paid directly by the employer. With funded plans, which are individually sponsored by each legal entity of the Group of Companies, funds are transferred to external trusts and the benefits are paid directly from these trusts.

Benefits provided under the most significant defined benefit pension plans are calculated based on length of pensionable service, pensionable salary and retirement age, or for certain employees, are based on negotiated benefit rates. These plans provide for a retirement pension, a survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plans and the retirement compensation arrangements, for benefits in excess of statutory limits as defined under the *Income Tax Act*. For the salaried plans, pension benefits in pay are indexed annually.

Both the employers' and, where applicable, the employees' contributions to the external trusts are made in accordance with the provisions of the plans. The contributions to the defined benefit plans are determined by actuarial valuations in compliance with the requirements of regulatory authorities, to ensure that the external trusts have sufficient assets to pay pension benefits when employees retire. Each entity in the Group of Companies has a pension governance structure in place, which is overseen by the Board of Directors. The governance structure includes committees that provide expertise and support management in areas such as investments, administration and compensation. Committees are composed of elected, appointed and retired employees.

The most significant post-employment defined benefit plans, other than pension, include unfunded healthcare, as well as dental, life and death insurance plans. The benefit costs covered by the employer and the costs assumed by retirees, if any, are determined in accordance with the rules of each plan and the provisions of labour contracts.

Other long-term benefit plans primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and health, dental and life insurance coverage for employees receiving long-term disability benefits. Under short-term disability or injury-on-duty leave, eligible employees can use their unused balances from the former sick leave plan as top-up credits to supplement eligible employees' salary while on leave. The other long-term benefit costs covered by the employer and the costs assumed by employees, if any, are determined in accordance with the rules of each plan, the provisions of labour contracts and respective provincial worker's compensation legislation.

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

(b) Risks associated with defined benefit plans

Funding risk

One of the primary risks that plan sponsors face is funding risk, which is the risk that the investment asset growth and contribution rates of the pension plans will not be sufficient to cover the pension funding obligations, resulting in unfunded liabilities. When funding deficits exist, regulatory authorities require that special contributions be made over specified future periods. Regulations of the *Pension Benefits Standards Act, 1985,* have allowed the Corporation to reduce special contributions, and we are working with our only shareholder, the Government of Canada, to request additional temporary relief. Additional details and risks associated with the funding relief are disclosed in Note 10 (i).

The most significant contributors to funding risk are declines in solvency discount rates, investments failing to achieve expected returns, and non-economic factors like changes in member demographics. Changes to member demographics, such as an increase in life expectancies of plan members, also contribute to increasing the funding obligations, which increases the funding risk faced by plan sponsors.

The Group of Companies manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with individual investment policies and procedures and applicable legislation. Investment policies and procedures are designed to provide the pension plans with a long-term rate of return sufficient to assist the plans in meeting funding objectives and the ongoing growth of the pension funding obligations. A Statement of Investment Policies and Procedures (SIPP), addressing the manner in which the pension plan assets will be invested, is reviewed at least annually for significant plans. Under the current SIPP, it is recognized that it is not always desirable to have the investment portfolio exactly match the long-term asset target allocation. Therefore, minimum and maximum asset category limits have been established. For the most significant plans, asset-liability studies are conducted periodically to ensure that the pension plans' investment strategies remain appropriate in challenging economic environments. The investment strategies also incorporate a mix of return-generating and liability-matching investments. The portion of plan assets invested in liability-matching investments has characteristics that offset a portion of variation in the pension funding requirements.

Other risks

Plan assets are also subject to a variety of financial risks as a result of investment activities. These risks include credit risk, market risk (interest rate, currency and price risk) and liquidity risk arising from financial instruments. In addition, defined benefit obligations are subject to measurement uncertainty due to the use of significant actuarial assumptions (Note 10 [g]). The impact of these factors on the remeasurement of the pension benefit asset, and pension, other post-employment and other long-term benefit obligations can be significant and volatile (Note 10 [h]).

(c) Net defined benefit liability

A reconciliation of the net defined benefit liability of the defined benefit plans was as follows, including the present value of defined benefit plan obligations and the fair value of plan assets:

As at December 31 (in millions)	**2020**		2019	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	$ 31,904	$ 3,901	$ 28,700	$ 3,644
Current service cost	728	127	533	121
Interest cost	987	127	1,083	139
Employee contributions	282	–	281	–
Benefits paid	(1,126)	(146)	(1,098)	(167)
Actuarial losses (Note 10 [f])	1,847	303	2,405	156
Losses from plan amendments (Note 10 [e])	–	123	–	8
Balance, end of year	$ 34,622	$ 4,435	$ 31,904	$ 3,901
Fair value of plan assets				
Balance, beginning of year	$ 29,319	$ –	$ 26,094	$ –
Interest income on plan assets	903	–	984	–
Return on plan assets, excluding interest income on plan assets (Note 10 [e])	1,658		2,677	–
Employer regular contributions	360	–	338	–
Employer special contributions	34	–	57	–
Employee contributions	282	–	281	–
Other administration costs	(14)	–	(14)	–
Benefits paid	(1,126)	–	(1,098)	–
Balance, end of year	$ 31,416	$ –	$ 29,319	$ –
Net defined benefit liability	**$ 3,206**	**$ 4,435**	$ 2,585	$ 3,901

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no resulting decrease in the pension benefit assets and no resulting increase in the pension benefit liabilities as at December 31, 2020, and 2019.

A reconciliation of the net defined benefit liability was as follows:

As at December 31 (in millions)	2020		2019	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	$ 2,585	$ 3,901	$ 2,606	$ 3,644
Remeasurements of defined benefit plans (Note 10 [e])	189	287	(272)	142
Benefits paid directly to beneficiaries (Note 10 [i])	–	(146)	–	(167)
Employer regular contributions paid	(360)	–	(338)	–
Employer special contributions paid	(34)	–	(57)	–
Defined benefit expense (Note 10 [e])	826	393	646	282
Net defined benefit liability, end of the year	**$ 3,206**	**$ 4,435**	$ 2,585	$ 3,901

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

As at December 31 (in millions)	2020	2019
Pension benefit assets	**$ 25**	$ 75
Pension benefit liabilities	$ 3,231	$ 2,660
Other post-employment and other long-term benefit liabilities	4,435	3,901
Total pension, other post-employment and other long-term benefit liabilities	$ 7,666	$ 6,561
Current other long-term benefit liabilities	**$ 65**	$ 63
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,601**	$ 6,498

(d) Fair value measurement of plan assets

The fair value measurement of plan assets disaggregated by asset class and the fair value hierarchy described in Note 3 (b.5) for the Group of Companies were as follows:

As at December 31, 2020
(in millions)

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 338	1 %	$ 213	1 %	$ –	– %	$ 551	2 %
Fixed income	–	– %	12,292	39 %	1	– %	12,293	39 %
Equities	11,836	39 %	82	– %	–	– %	11,918	39 %
Real estate	2	– %	–	– %	3,248	10 %	3,250	10 %
Private equity	–	– %	–	– %	1,443	5 %	1,443	5 %
Infrastructure	–	– %	–	– %	1,333	4 %	1,333	4 %
Derivatives	–	– %	26	– %	–	– %	26	– %
Other	1	– %	–	– %	399	1 %	400	1 %
Total investment assets	**$ 12,177**	**40 %**	**$ 12,613**	**40 %**	**$ 6,424**	**20 %**	**$ 31,214**	**100 %**
Non-investment assets less liabilities							$ 202	
Fair value of plan assets							**$ 31,416**	

As at December 31, 2019
(in millions)

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 509	2 %	$ 112	– %	$ –	– %	$ 621	2 %
Fixed income	–	– %	11,131	39 %	1	– %	11,132	39 %
Equities	11,299	39 %	145	– %	–	– %	11,444	39 %
Real estate	–	– %	–	– %	3,182	11 %	3,182	11 %
Private equity	–	– %	–	– %	1,250	4 %	1,250	4 %
Infrastructure	–	– %	–	– %	1,085	4 %	1,085	4 %
Derivatives	–	– %	48	– %	–	– %	48	– %
Other	1	– %	–	– %	347	1 %	348	1 %
Total investment assets	$ 11,809	41 %	$ 11,436	39 %	$ 5,865	20 %	$ 29,110	100 %
Non-investment assets less liabilities							$ 209	
Fair value of plan assets							$ 29,319	

Total plan assets included $4,154 million (2019 – $3,505 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $158 million (2019 – $173 million) in refundable taxes held by the Canada Revenue Agency. The fair value of the refundable taxes is measured with a discounted cash flow approach using a risk-free government rate at December 31, 2020, with a duration that approximates the timing of future benefit payments. The fair value of the remainder of the non-investment assets less liabilities approximates their carrying value (Note 10 [e]).

The Group of Companies' pension plans do not own financial instruments or any other assets of the Group of Companies.

(e) Defined benefit and defined contribution costs

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

For the year ended December 31 (in millions)			**2020**			2019
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 728	$ 127	$ 855	$ 533	$ 121	$ 654
Interest cost	986	127	1,113	1,083	139	1,222
Interest income on plan assets	(903)	–	(903)	(984)	–	(984)
Actuarial losses (Note 10 [f])[1]	–	16	16	–	14	14
Other administration costs	15	–	15	14	–	14
Losses from plan amendments[2]	–	123	123	–	8	8
Defined benefit expense (Note 10 [c])	826	393	1,219	646	282	928
Defined contribution expense	27	–	27	23	–	23
Total expense	853	393	1,246	669	282	951
Return on segregated securities (Note 6 [b])	–	(16)	(16)	–	(23)	(23)
Component included in employee benefits expense (Note 9)	**$ 853**	**$ 377**	**$ 1,230**	$ 669	$ 259	$ 928
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets[3]	$ (1,658)	$ –	$ (1,658)	$ (2,677)	$ –	$ (2,677)
Actuarial losses (Note10 [f])	1,847	287	2,134	2,405	142	2,547
Component included in other comprehensive (income) loss (Note 10 [c])[4,5]	**$ 189**	**$ 287**	**$ 476**	$ (272)	$ 142	$ (130)

1. Remeasurements for other long-term benefit plans are recognized in net profit or loss in the period in which they arise.
2. The arbitrator rendered her decision relating to collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). This ruling led to expanded eligibility for the post-employment health plan for employees represented by CUPW-RSMC, resulting in a plan amendment loss of $122 million. A plan amendment loss of $1 million was also recorded due to the ratification of a new collective agreement with the Canadian Postmasters and Assistants Association (CPAA), which included modifications of the post-employment health plan. In 2019, benefits for psychological coverage were increased under the post-employment health plan, resulting in a plan amendment loss of $8 million.
3. For 2020, the Corporation followed a discounted approach in estimating the fair value of refundable taxes held by the Canada Revenue Agency. For 2019, the face value was used. This change in estimate will be applied prospectively and resulted in a $16 million loss to other comprehensive income for the year ended December 31, 2020.
4. Amounts presented in this table exclude income tax recovery of $119 million for the year ended December 31, 2020 (income tax expense of $31 million at December 31, 2019).
5. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at December 31, 2020, was 2.67% and 2.74% respectively, compared to 3.10% and 3.20%, respectively, at December 31, 2019.

(f) Actuarial (gains) losses

The actuarial (gains) losses components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31 (in millions)			**2020**			2019
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial (gains) losses on other long-term benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	$ –	$ 6	$ 6	$ –	$ (4)	$ (4)
Actuarial losses arising from changes in financial assumptions	–	12	12	–	12	12
Actuarial (gains) losses arising from experience adjustments	–	(2)	(2)	–	6	6
Actuarial losses included in net profit (Note 10 [e])	$ –	$ 16	$ 16	$ –	$ 14	$ 14
Actuarial (gains) losses on defined benefit obligations:						
Actuarial gains arising from changes in demographic assumptions	$ (55)	$ –	$ (55)	$ (1,091)	$ (92)	$ (1,183)
Actuarial losses arising from changes in financial assumptions	2,219	283	2,502	3,526	232	3,758
Actuarial (gains) losses arising from experience adjustments	(317)	4	(313)	(30)	2	(28)
Actuarial losses included in other comprehensive income (Note 10 [e])	**$ 1,847**	**$ 287**	**$ 2,134**	$ 2,405	$ 142	$ 2,547
Total actuarial losses (Note 10 [c])	**$ 1,847**	**$ 303**	**$ 2,150**	$ 2,405	$ 156	$ 2,561

(g) Significant actuarial assumptions

The weighted-average actuarial assumptions used in measuring the Group of Companies' significant defined benefit plans were as follows:

As at December 31		**2020**		2019
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	2.67 %	2.74 %	3.10 %	3.20 %
Consumer price index	2.00 %	2.00 %	2.00 %	2.00 %
Defined benefit expense:				
Discount rate	3.10 %	3.20 %	3.80 %	3.90 %
Consumer price index	2.00 %	2.00 %	2.00 %	2.00 %
Healthcare cost trend rate[1]	N/A	5.07 %	N/A	5.13 %

1. For 2020 and 2019, the healthcare cost trend rates were 5.07% and 5.13%, respectively, decreasing progressively to a rate of 4.00% by 2040.

The average life expectancies used in the measurement of the defined benefit obligations for the significant plans were as follows:

As at December 31	**2020**	2019
Life expectancy[1] at age 60 at December 31, 2020, and 2019 (in years):		
Males	26	26
Females	29	29
Life expectancy[1] at age 60 at December 31, 2040, and 2039 (in years):		
Males	27	27
Females	30	30

1. The average life expectancies are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM), more specifically the CPM 2014 Private Sector Mortality Tables with the CPM improvement scale B. A study of Canada Post pension plan experience was performed in 2019, the results of which show that these unadjusted tables give the best agreement with past experience.

(h) Sensitivity analysis

The sensitivity analysis of the significant actuarial assumptions on the Group of Companies' defined benefit obligations was as follows:

As at December 31 (in millions)			**2020**			2019
	Pension benefit plan	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:						
0.5% increase in discount rate	$ (2,671)	$ (356)	$ (3,027)	$ (2,499)	$ (304)	$ (2,803)
0.5% decrease in discount rate	$ 3,032	$ 406	$ 3,438	$ 2,731	$ 346	$ 3,077
Consumer price index (CPI) sensitivity:						
0.25% increase in CPI	$ 1,191	$ 43	$ 1,234	$ 1,161	$ 38	$ 1,199
0.25% decrease in CPI	$ (1,150)	$ (41)	$ (1,191)	$ (1,119)	$ (36)	$ (1,155)
Mortality tables sensitivity:						
10% increase in mortality tables	$ (851)	$ (110)	$ (961)	$ (730)	$ (85)	$ (815)
10% decrease in mortality tables	$ 873	$ 128	$ 1,001	$ 749	$ 99	$ 848
Healthcare cost trend rates sensitivity:						
1% increase in healthcare trend rates	N/A	$ 641	$ 641	N/A	$ 511	$ 511
1% decrease in healthcare trend rates	N/A	$ (491)	$ (491)	N/A	$ (395)	$ (395)

This sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on these variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in amounts may not be linear. The sensitivity analysis has been calculated independently of changes in other significant assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining this sensitivity analysis are consistent with those used to determine the pension and other benefit plan obligations in 2019.

The mortality tables sensitivity demonstrates the impact of an increase or decrease in the probability of death within a year for plan members of various ages.

The weighted-average duration of the pension plans, other post-employment plans and other long-term employee benefit plan obligations for the Group of Companies ranges from 15 to 23, 14 to 18, and 5 to 7 years, respectively.

(i) 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 year ended December 31 (in millions)	**2020**	2019
Benefits paid directly to beneficiaries for other benefit plans (Note 10 [c])	$ 146	$ 167
Employer regular contributions to pension benefit plans	360	338
Employer special contributions to pension benefit plans	34	57
Cash payments for defined benefit plans	540	562
Contributions to defined contribution plans	27	23
Total cash payments	**$ 567**	$ 585

Under the *Pension Benefits Standards Act, 1985,* and associated regulations, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities based on the actuarial valuations over five years on a solvency basis. Under the Act and its regulations, Canada Post would have had to make $368 million of solvency special payments for 2020 beyond the relief limit. However, due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into force in the second quarter of 2020, establishing a moratorium on solvency special payments for the remainder of the year for federally regulated, defined benefit pension plans. As a result, Canada Post did not have to make special payments for 2020, which would have totalled $1.1 billion (including special payments made to cover transfer deficiencies) without this relief. Under current regulations of the Act, 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. The Corporation has requested temporary relief from making future payments, from its single shareholder, the Government of Canada.

(j) Future expected contributions

In 2021 and assuming no solvency special payments will be required, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $466 million including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $340 million.

11. Income Taxes

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

The sources of the temporary differences giving rise to net deferred tax assets (liabilities), affecting net loss and other comprehensive income (OCI), were as follows:

(in millions)	December 31, 2019	**Recognized in net loss**	**Recognized in OCI**	**December 31, 2020**
Net deferred tax assets (liabilities)				
Capital assets	$ (87)	$ (16)	$ –	$ (103)
Right-of-use assets	(284)	(33)	–	(317)
Salaries and benefits payable and related provisions	94	(37)	–	57
Lease Liabilities	332	34	–	366
Pension, other post-employment and other long-term benefit liabilities	1,615	168	119	1,902
Other	(11)	–	(11)	(22)
Net deferred tax assets	$ 1,659	**$ 116**	**$ 108**	**$ 1,883**

(in millions)	December 31, 2018	Recognized in net loss	Recognized in OCI	December 31, 2019
Net deferred tax assets (liabilities)				
Capital assets	$ (56)	$ (31)	$ –	$ (87)
Right-of-use assets	(252)	(32)	–	(284)
Salaries and benefits payable and related provisions	146	(52)	–	94
Lease Liabilities	299	33	–	332
Pension, other post-employment and other long-term benefit liabilities	1,549	97	(31)	1,615
Other	(7)	4	(8)	(11)
Net deferred tax assets	$ 1,679	$ 19	$ (39)	$ 1,659

As at December 31, 2020, the Corporation has recognized a deferred tax asset of $1,883 million (2019 – $1,659 million) on its deductible temporary differences. Recognition of the deferred tax asset is based on management's assessment of all available evidence, such as long-term forecasted operating results, which suggests that realizing the deferred tax asset is probable.

Deferred tax liabilities were not recognized for temporary differences associated with investments in subsidiaries as the Corporation is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of these temporary differences at December 31, 2020, was $508 million (2019 – $415 million).

The major components of tax expense (recovery) were as follows:

For the year ended December 31 (in millions)	**2020**	2019
Current tax expense (recovery)	$ (31)	$ 72
Adjustments for prior years	(6)	(62)
Total current tax expense (recovery)	**(37)**	10
Deferred tax recovery relating to origination and reversal of temporary differences	(120)	(77)
Adjustments for prior years	4	58
Total deferred tax recovery	**(116)**	(19)
Tax recovery	**$ (153)**	$ (9)

The tax expense (recovery) differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2019 – 25%) to profit (loss) before tax. The reasons for the differences were as follows:

For the year ended December 31 (in millions)	**2020**	2019
Loss before tax	$ (626)	$ (23)
Federal tax at Corporation's statutory rate	(156)	(6)
Subsidiaries' provincial tax less federal tax abatement	3	3
Adjustments for prior years	(1)	(4)
Other	1	(2)
Tax recovery	**$ (153)**	$ (9)

The federal statutory tax rate, which is the applicable long-term federal statutory tax rate, stood at 25% for 2020 and 2019.

12. Goodwill

Goodwill was allocated on initial recognition to two cash-generating units, corresponding to the Purolator segment and the SCI segment. The carrying amounts of goodwill for those segments were as follows:

As at December 31 (in millions)			**2020**	2019
	Purolator segment	SCI segment	**Total**	Total
Balance, beginning and end of the year	$ 121	$ 9	**$ 130**	$ 130

Goodwill impairment testing

Impairment testing for goodwill is carried out annually at the end of the third and fourth quarter for the SCI and Purolator segments, respectively. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior year.

The calculation of the value in use for the Purolator segment, the only segment with a material balance, was based on the following assumptions:

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (2019 – 2.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 15.0% (2019 – 16.5%), which is based on Purolator's weighted-average cost of capital.

13. Trade and Other Payables

As at December 31 (in millions)	**2020**	2019
Trade payables	$ 181	$ 117
Accruals and other payables	491	394
Payables to foreign postal administrations	87	69
Outstanding money orders	19	16
Taxes payable	100	80
Total	**$ 878**	$ 676

Market and liquidity risks relating to trade and other payables are disclosed in Note 20.

14. Provisions

The following table presents the movement in provisions for the year ended December 31, 2020:

(in millions)	Claims	Other	Total
Balance at December 31, 2019	$ 40	$ 17	$ 57
Additional provisions recognized	13	17	30
Provisions used during the year	(10)	(13)	(23)
Reduction from remeasurement of provisions	(2)	(1)	(3)
Balance at December 31, 2020	**$ 41**	**$ 20**	**$ 61**

Claims

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

Other

The other provisions category consists of a number of sales tax provisions and other corporate provisions, which represents management's best estimate of the probable cash outflows.

Disclosures regarding the fair value of decommissioning liabilities, for which no provisions were recognized due to either insufficient information to reasonably estimate the amount of the obligation or the outflow of resources associated with the obligation being possible rather than probable, can be found in Note 16.

15. Labour-related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. Where appropriate, the Corporation has recorded a provision in salary and benefits payable and related provisions, and such a provision is measured at management's best estimate of the expenditure to be incurred.

The following matters have evolved during the year ended December 31, 2020:

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

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

(c) In 2012, the Canadian Postmasters and Assistants Association (CPAA) requested reactivation of a pay equity complaint filed in 1992, which Canada Post asserted had previously been settled. In 2014, a Canadian Human Rights Commission (Commission) investigator concluded that the 1992-97 period remains at issue and the Commission subsequently referred the matter on its merits to the Canadian Human Rights Tribunal. On May 12, 2019, Canada Post and the CPAA reached an agreement, which the Commission subsequently approved. Canada Post and the CPAA have formed a committee to implement their settlement and implementation is under way.

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

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

16. Contingent Liabilities

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

(b) In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in Quebec may have made, between July 2013 and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation that regulates the Régie de l'assurance maladie du Québec (RAMQ). Canada Post filed its statement of defence on September 6, 2019. An agreement in principle was reached on March 11, 2021 to settle the class action without payments by Canada Post. The agreement in principle is subject to Court approval.

(c) In the normal course of business, the Group of Companies enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies indemnifies its respective directors, officers and certain employees, either through corporate by-laws or indemnity agreements, against claims and expenses incurred by them as a result of serving as directors or officers of the Group of Companies or as directors or officers or in a similar capacity of another entity at the request of the Group of Companies.

These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(d) The Group of Companies is involved in various other claims and litigation in the normal course of business for which the outflows of resources to settle the obligations either cannot be estimated or are not probable at this time. Provisions for such claims are recorded when an obligation exists, an outflow of resources is probable, and amounts can be reasonably estimated.

(e) Some of the Corporation's owned buildings have asbestos-containing materials, which the Corporation would be obligated to remove and dispose of in a special manner should the property undergo major renovations or full or partial demolition. Unless such renovations or demolitions occur, there would be no related provision recognized in the consolidated financial statements as there is currently no significant obligation to remove and dispose of asbestos-containing materials.

The fair value of decommissioning obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates, and as a result no provision has been recorded in the consolidated financial statements. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

17. Loans and Borrowings

As at December 31 (in millions)	**2020**		2019	
	Fair value[3]	**Carrying value**	Fair value[3]	Carrying value
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,2]	$ 577	$ 499	$ 554	$ 499
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16[1,2]	713	498	666	498
Total loans and borrowings (all non-current)	**$ 1,290**	**$ 997**	$ 1,220	$ 997

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.
3. The estimated fair values disclosed for loans and borrowing are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2020, and 2019.

Additional information regarding the Group of Companies' externally imposed capital requirements and borrowing capacity is disclosed in notes 19 and 20 (c).

Interest expense on loans and borrowings amounted to $42 million (2019 – $42 million) and is accrued to trade and other payables. Interest paid is included in cash flows from operating activities in the consolidated statement of cash flows.

Future principal repayments on loans and borrowings were as follows:

As at December 31 (in millions)	**2020**	2019
Maturity:		
2025	$ 500	$ 500
2040	500	500
	$ 1,000	$ 1,000

18. Lease Liabilities

(a) Lease liabilities

As at December 31 (in millions)	**2020**	2019
Maturity analysis – contractual undiscounted cash flows[1,2]		
Less than one year	$ 157	$ 156
One to five years	527	512
More than five years	1,197	1,073
Total undiscounted lease liabilities	**$ 1,881**	$ 1,741
Lease liabilities in the consolidated statement of financial position	**$ 1,414**	$ 1,299
Current lease liabilities	**$ 122**	$ 116
Non-current lease liabilities	**1,292**	1,183

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 $26 million for premises used in postal operations (December 31, 2019 – $29 million, previously disclosed as $42 million).
2. Leases that have not yet commenced, but which have been committed as at December 31, 2020, have future cash outflows of $74 million that are excluded from the measurement of lease liabilities.

The following table presents the financial information for the lease activities recorded within other operating costs in the consolidated statement of comprehensive income.

As at December 31 (in millions)	**2020**	2019
Low-value asset lease payments	$ 9	$ 6
Short-term lease payments	4	4
Variable lease payments	3	–
Sublease income	(14)	(13)

(b) Changes in liabilities arising from financing activities

(in millions)	December 31, 2018	Payments	Interest	Net lease additions	December 31, 2019	Payments	Interest	Net lease additions	**December 31, 2020**
Lease liabilities	$ 1,163	$ (153)	$ 39	$ 250	$ 1,299	$ (159)	$ 41	$ 233	**$ 1,414**

19. Capital Management

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

The Corporation views capital as the sum of loans and borrowings, other liabilities (non-current) and equity of Canada. This definition of capital is used by management and may not be comparable to measures presented by other postal organizations or public companies.

Total outstanding loans and borrowings were $997 million at December 31, 2020, and 2019. The equity of Canada was in a deficit position of $919 million at December 31, 2020, compared to a deficit position of $107 million as at December 31, 2019. The decrease in the equity of Canada was attributable to the 2020 net loss and remeasurements of defined benefit plans, which are recognized in other comprehensive income and are included immediately in retained earnings or accumulated deficit. The Corporation is working with its only shareholder, the Government of Canada, for additional temporary pension solvency relief for future payments.

The Corporation's objectives in managing capital are as follows:

- Provide sufficient liquidity to support and repay its financial obligations and support its operating and strategic plans.
- Maintain financial capacity and access to credit facilities to support future development of the business.

These objectives and their related strategies are reviewed and approved each year by the Board of Directors through the annual Corporate Plan, which is then forwarded for Treasury Board approval. The Corporation's 2021-25 Corporate Plan was filed with the Minister responsible for Canada Post on November 6, 2020.

The borrowing capacity of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk arising from financial instruments in Note 20 (c). Pursuant to the *Financial Administration Act,* Part X, the Corporation must indicate its intention to borrow money in the annual Corporate Plan, or in an amendment thereto, both of which are subject to the approval of the Corporation's Board of Directors and the Treasury Board. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

The Corporation's borrowing limit, other than from the Crown, is authorized pursuant to *Appropriation Act No. 4, 2009-10*. The *Canada Post Corporation Act* provides a maximum limit for borrowing from the Government of Canada's Consolidated Revenue Fund and for the establishment of a share capital structure, giving the Corporation the ability to raise funds through the issuance of shares to the Government of Canada and to the Corporation's employees. No such shares have been issued. Additional information regarding the Corporation's total authorized borrowing limit is disclosed in Note 20 (c).

The Corporation is not subject to any externally imposed capital requirements. Under various borrowing agreements, subsidiaries must satisfy certain restrictive covenants related to funded debt to income before interest, tax and depreciation and amortization, and interest coverage ratios. The subsidiaries are in compliance with all covenants.

20. Financial Instruments and Risk Management

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. Risk management for investment activities is carried out by the Corporate Treasury function under policies approved by the Board of Directors. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return, consistent with the investment policies approved by the Board of Directors. The Group of Companies has various other financial instruments, such as trade and other receivables, trade and other payables and salaries payable, which arise directly from operations. The Group of Companies enters into derivative contracts to manage certain risks in accordance with its risk management policy. Derivatives are never purchased for speculative purposes.

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

(a) Market risk

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

(a.1) Interest rate risk • The Group of Companies' investments consist of cash equivalents, marketable securities and segregated securities and are classified as fair value through other comprehensive income. Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value for changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment liabilities to which they are externally restricted. The average duration in the segregated securities portfolio was 12 years as at December 31, 2020 (2019 – 12 years).

The Group of Companies has performed a sensitivity analysis on interest rate risk using a 1% increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities and other comprehensive income by $64 million at December 31, 2020 (2019 – $61 million). Such change in value would be partially offset by the change in value of certain post-employment benefit liabilities. Substantially all of the Group of Companies' loans and borrowings have fixed interest rates with prepayment terms at a premium to fair value.

COVID-19 has led to additional interest rate risk, due to significant fluctuations in the benchmark Bank of Canada overnight rate, related to measures taken by the Bank to provide additional liquidity to the Canadian economy.

(a.2) 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 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$), euro (€), British pound (£), Japanese yen (JP¥) and Chinese renminbi (CN¥), whereas payment is usually denominated in US$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the five currencies, which underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures, where cash flows are highly probable. COVID-19 has led to additional market volatility, including foreign exchange. The valuation of outstanding forward contracts was as follows:

As at December 31, 2020
(in millions)

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$48	$ 62	$1.293/US$	January 15, 2021	Sell forward	$ 1
Euro	€21	32	$1.565/€	January 15, 2021	Sell forward	–
British pound	£4	7	$1.727/£	January 15, 2021	Sell forward	–
Japanese yen	JP¥627	8	$0.012/JP¥	January 15, 2021	Sell forward	–
Chinese renminbi	CN¥54	11	$0.197/CN¥	January 15, 2021	Sell forward	–
Total		**$ 120**				**$ 1**

As at December 31, 2019
(in millions)

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

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

For the year ended December 31
(in millions)

	2020			2019		
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange losses	Derivative gains	Total
Unrealized	$ 1	$ 1	$ 2	$ (9)	$ 1	$ (8)
Realized	–	(6)	(6)	(2)	6	4
Total	**$ 1**	**$ (5)**	**$ (4)**	$ (11)	$ 7	$ (4)

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2020, all other variables held constant, would have been an increase or decrease in net loss for the year by $13 million (2019 – $10 million).

(a.3) Commodity risk • The Group of Companies is inherently exposed to fuel-price increases. It partially mitigates this risk through the use of a fuel-price surcharge on some of its products. This is an industry-accepted practice and long-standing technique in mitigating risk and as a result, does not require derivative instruments to manage the remaining exposure to commodity risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations, resulting in financial loss to the Group of Companies. Credit risk arises from investments in corporations and financial institutions, as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards. Additional measurement uncertainty exists given that the magnitude and duration of COVID-19 are unknown; however, increases to expected credit losses recorded to the consolidated financial statements in 2020 were not significant.

The carrying amount of financial assets recorded in the consolidated financial statements, which are presented net of expected credit losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe that it is subject to any significant concentration of credit risk.

(b.1) Cash equivalents, marketable securities and segregated securities • Credit risk arising from investments in cash equivalents, marketable securities and segregated securities is mitigated by investing with issuers who meet specific criteria and imposing dollar limits by financial product type and debt issuer. Investments in financial institutions and corporations must be investment grade ratings with minimum ratings from two external rating agencies that are equivalent to Dominion Bond Rating Service (DBRS) ratings of R-1 (middle) for short-term investments and A for long-term investments. The Group of Companies regularly reviews the credit ratings of issuers with whom the Group of Companies holds investments and disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels.

Cash equivalents, marketable and segregated securities, which are investments in debt securities, are considered to have low credit risk, and thus the impairment provision recognized during the period was limited to 12-month expected losses. The probability-of-default approach is used to determine the 12-month expected credit loss, which uses a historical default rate implied from external credit agencies for similar grade debt securities. The historical defaults are adjusted, if necessary, by using current and forward-looking information such as bond spreads. The debt securities are grouped by their individual credit rating and the 12-month expected credit loss is measured on a collective basis. A security designated to be in default implies that the issuer has either not met a legally scheduled payment or has made it clear that it will miss such a payment in the near future or, in certain cases, that there has been a distressed exchange. The debt securities are considered credit impaired when they are in default. COVID-19 has caused volatility in global market conditions. Bond yield spreads widened and default rates increased, resulting in an increased credit risk. We assessed and increased our estimate of the 12-month expected credit loss on certain marketable securities and segregated asset investments for investment categories with maturities greater than 12 months in 2020. There were no significant allowance and no impairment loss on investments recognized during the year and or held at year's end (2019 – nil).

The following table shows the credit risk concentration by credit risk rate grades of debt securities held as cash equivalents, marketable securities and segregated securities:

For the year ended December 31 (in millions)		**2020**			2019	
	R-1 (high)[1] / AAA[4]	**R-1 (middle)[2] / AA[5]**	**R-1 (low)[3] / A[6]**	R-1 (high) / AAA	R-1 (middle) / AA	R-1 (low) / A
Cash equivalents	**$ 45**	**$ 117**	**$ –**	$ 80	$ 51	$ 44
Marketable securities	**$ 762**	**$ 490**	**$ 49**	$ 453	$ 290	$ 505
Segregated securities	**$ 279**	**$ 126**	**$ 132**	$ 184	$ 75	$ 255
12-month expected credit loss rate	**0.00%**	**0.29%**	**0.29%**	0.00%	0.08%	0.08%

The Dominion Bond Rating Service (DBRS) credit risk rate grades applicable to cash equivalents and marketable securities are considered investment grade and are defined as follows:

1. R-1 (high): Highest credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is exceptionally high. It is unlikely to be adversely affected by future events.
2. R-1 (middle): Superior credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is very high. It differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.
3. R-1 (low): Good credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is substantial. Overall strength is not as favourable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

The DBRS credit risk rate grades applicable to segregated securities are considered investment grade and are defined as follows:

4. AAA: The loan portfolio (of debt securities) is considered to be of the highest credit quality.
5. AA: The loan portfolio (of debt securities) is considered to be of superior credit quality.
6. A: The loan portfolio (of debt securities) is considered to be of good credit quality.

The gross carrying amount of the debt securities approximates their net carrying amount due to the low expected credit loss rate.

(b.2) Trade and other receivables • Credit risk associated with trade receivables from wholesale and commercial customers is mitigated by the Group of Companies' large customer base, which covers substantially all business sectors in Canada. The Group of Companies follows a program of individual customer credit evaluation based on financial strength and payment history and limits the amount of credit. The Group of Companies monitors customer accounts against these credit limits and the aging of past-due invoices. The Group of Companies establishes an allowance for doubtful accounts using the simplified approach, which requires the use of lifetime expected credit losses. 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. A trade receivable designated to be in default implies that the customer has not met the agreed payment terms and has stated through internal collection efforts that it will not pay part or all of the amount due. Trade receivables sent to a third-party collection agency are automatically considered in default. Trade receivables are considered credit impaired when they are in default. Active monitoring of aged receivables, credit utilization and risk modelling caused by continued weakness in many sectors of the Canadian economy due to COVID-19 have resulted in an increase to the Group of Companies' bad debt expense and expected credit loss allowance of our commercial accounts receivable.

Credit risk attributable to receivables from foreign postal administrations, other than the United States Postal Service (USPS), is generally mitigated by corresponding trade payables to each foreign postal administration, under the provisions of the Universal Postal Union. Amounts receivable from and payable to the USPS are settled independently under the bilateral agreement between the Corporation and the USPS. Estimates of receivables and payables, including monthly provisional payments, are based on statistics for weights and number of pieces exchanged by Canada and the United States. Final settlement with each foreign postal administration can be billed a year or more after the service is performed.

The age of receivables and the allowance for doubtful accounts for trade and other receivables were as follows:

As at December 31 (in millions)	**2020**	2019
Trade receivables:		
Current	$ 538	$ 494
1-15 days past due	98	75
16-30 days past due	22	35
Over 30 days past due	42	48
Allowance for doubtful accounts	(11)	(5)
Trade receivables – net	689	647
Trade receivables from foreign postal administrations	264	259
Risk management financial assets	1	2
Other receivables	111	103
Trade and other receivables	**$ 1,065**	$ 1,011

The allowance for doubtful accounts is a provision representing potential accounts receivable losses. A weighted average expected loss rate for the Group of Companies ranged from 0% to 1.3% (2019 – 0% to 1.2%), based on historical write-offs, is applied to current and past due amounts and trade receivables aging is monitored to identify potential credit deterioration. When credit deterioration is indicative of a possible economic downturn, a factor is applied to the historical rate. The allowance may also include balances known to be in default which have not been written off because internal collection efforts continue.

The reconciliation of the allowance for doubtful accounts for trade receivables as at December 31, 2020, was as follows:

As at December 31 (in millions)	**2020**	2019
Opening allowance for doubtful accounts:	$ 5	$ 5
Increase in allowance in the period recognized in profit and loss	15	3
Decrease from write-off	(9)	(3)
Closing allowance for doubtful accounts:	**$ 11**	$ 5

(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 high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

Under the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. Canada Post would have had to make $368 million of solvency special payments for 2020 beyond the relief limit. However, the *Solvency Special Payment Relief Regulations* came into force in the second quarter of 2020 establishing a moratorium on solvency special payments for the remainder of the year. As a result, Canada Post did not have to make special payments for 2020. Under current regulations of the Act, Canada Post does not expect to make solvency special payments related to the obligations of the Canada Post Corporation Registered Pension Plan for 2021. The Corporation has requested temporary relief from making future payments from its sole shareholder, the Government of Canada. Market volatility could have a significant effect on solvency payments for 2022 and thereafter. See Note 10 (i) for additional information. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted to the Treasury Board for approval on the recommendation of the Minister responsible for Canada Post and the Minister of Finance, as part of its Corporate Plan approval process (Note 19). Pursuant to the *Canada Post Corporation Act*, the Corporation may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4, 2009-10*, the Corporation is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding $2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance. Lease liabilities are not considered toward this limit. As part of the total authorized borrowing limit, a maximum of $100 million (2019 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2020.

The Corporation's loans and borrowings amounted to $997 million (2019 – $997 million), and letters of credit of $16 million (2019 – $13 million) were issued at December 31, 2020. No amounts were drawn on the short-term borrowing facilities as of December 31, 2020.

As at December 31, 2020, the Corporation's subsidiaries had access to financing facilities totalling $155 million (2019 – $135 million), of which $6 million (2019 – $16 million) was drawn at year's end. The subsidiaries also had letters of credit issued in the amount of $9 million (2019 – $7 million). Additional information regarding the Group of Companies' loans and borrowings is disclosed in Note 17.

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

As at December 31, 2020 (in millions)	**Effective interest rate**	**Less than one year**	**Later than one year and not later than five years**	**Later than five years**	**Total**
Non-interest bearing[1]	N/A	$ 1,304	$ –	$ –	$ 1,304
Bonds, Series 1	4.39%	22	87	827	936
Bonds, Series 2	4.12%	20	582	–	602
		$ 1,346	**$ 669**	**$ 827**	**$ 2,842**

As at December 31, 2019 (in millions)	Effective interest rate	Less than one year	Later than one year and not later than five years	Later than five years	Total
Non-interest bearing[1]	N/A	$ 1,158	$ 1	$ –	$ 1,159
Bonds, Series 1	4.39%	22	87	849	958
Bonds, Series 2	4.12%	20	82	520	622
		$ 1,200	$ 170	$ 1,369	$ 2,739

1. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Liquidity risk arising from financial instruments is also affected by the Group of Companies' management of debt and equity levels that is summarized in Note 19.

21. Commitments

The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $219 million that extend to 2024.

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

22. Revenue from Contracts with Customers

Contract assets relate to the Group of Companies' rights to consideration for parcels in-transit at the reporting date and are transferred to receivables when rights become unconditional, which occurs shortly after the reporting date due to the short parcel delivery cycle.

As at December 31 (in millions)	**2020**	2019
Receivables from contracts with customers	$ 996	$ 969
Other receivables	48	37
Contract assets	21	5
Total trade, other receivables and contract assets	**$ 1,065**	$ 1,011

As at December 31 (in millions)	**2020**	2019
Contract liabilities included in:		
Deferred revenue (current)	$ 218	$ 152
Other liabilities (non-current)	7	4
Total	**$ 225**	$ 156

The following table includes a reconciliation of contract liabilities:

As at December 31 (in millions)	**2020**	2019
Contract liabilities, beginning of period	$ 156	$ 158
Revenue recognized included in Deferred revenue (current) and Other liabilities (non-current), beginning of the period	(149)	(154)
Increase due to cash received or amounts billed, excluding amounts recognized as revenue, during period	218	152
Contract liabilities, end of period	**$ 225**	$ 156

23. Other Operating Costs

For the year ended December 31 (in millions)	**2020**	2019
Non-labour collection, processing and delivery	$ 1,844	$ 1,608
Property, facilities and maintenance	297	275
Selling, administrative and other	665	612
Other operating costs	**$ 2,806**	$ 2,495

24. Investing and Financing Income (Expense)

For the year ended December 31 (in millions)	**2020**	2019
Interest income	$ 35	$ 62
Gain (loss) on sale of capital assets and assets held for sale	2	(2)
Other income	4	4
Investment and other income	**$ 41**	$ 64
Interest expense	$ (83)	$ (82)
Other expense	(14)	(12)
Finance costs and other expense	**$ (97)**	$ (94)
Investing and financing expense, net	**$ (56)**	$ (30)

25. Other Comprehensive Income

(in millions)	Items that may subsequently be reclassified to net profit (loss): Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Item never reclassified to net profit (loss): Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2018	$ 38	$ 5	$ 43		
Gains arising	$ 29	$ –	$ 29	$ 130	$ 159
Income taxes	(8)	–	(8)	(31)	(39)
Net	$ 21	$ –	$ 21	$ 99	$ 120
Accumulated balance as at December 31, 2019	$ 59	$ 5	$ 64		
Gains (losses) arising	$ 40	$ (1)	$ 39	$ (476)	$ (437)
Income taxes	(11)	–	(11)	119	108
Net	**$ 29**	**$ (1)**	**$ 28**	**$ (357)**	**$ (329)**
Accumulated balance as at December 31, 2020	**$ 88**	**$ 4**	**$ 92**		

26. 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 consolidated financial statements:

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

For the year ended December 31 (in millions)	**2020**	2019
Related party revenue	**$ 221**	$ 255[1]
Compensation payments for programs		
Government mail and mailing of materials for persons who are blind	**$ 22**	$ 22
Payments from related parties for premises leased from the Corporation	**$ 7**	$ 8
Related party expenditures	**$ 14**	$ 24

1. Disclosure of related party revenue increased by $15 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 (Note 2).

As at December 31 (in millions)	**2020**	2019
Due to/from related parties		
Included in trade and other receivables	**$ 15**	$ 17[1]
Included in trade and other payables	**$ 20**	$ 10
Deferred revenue from related parties	**$ 1**	$ 2

1. Disclosure of amounts due from related parties increased by $2 million due to availability of additional information in the Purolator segment.

For related party lease information, refer to Note 18 (a).

(b) Key management personnel compensation

Key management personnel (KMP) are defined as the Boards of Directors and members of the senior executive teams responsible for planning, controlling and directing the activities of the Group of Companies.

The remuneration of the KMP was as follows:

For the year ended December 31 (in millions)	**2020**	2019
Short-term employee benefits	**$ 10**	$ 13
Post-employment benefits	**1**	1
Total compensation	**$ 11**	$ 14

The KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.6 million (2019 – $0.7 million).

In addition to the amounts in the table, KMP remuneration relating to one-time termination benefits of $1.2 million was incurred in 2020 (2019 – $0.8 million). There were no transactions with the KMP other than compensation.

(c) Transactions with entities in which the KMP of the Canada Post Group of Companies has 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 the KMP of the Group of Companies. Affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2020, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $13 million (2019 – $14 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(d) Transactions with the Corporation's pension plans

During the year, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $12 million (2019 – $12 million). As at December 31, 2020, $11 million (2019 – $13 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables. Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 10 (i).

27. Segmented and Disaggregation of Revenue Information

(a) Operating segments • A description of the Group of Companies' operating segments can be found in the significant accounting policies (Note 3 [l]). The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 3). Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities. With the exception of the information technology (IT) business unit delivering shared services on a cost-recovery basis, the terms and conditions of these transactions are comparable to those offered in the marketplace. On a consolidated basis, no external customer's purchases account for more than 10% of total revenue.

For the year ended December 31, 2020, the IT business unit earned intersegment revenue of $311 million (December 31, 2019 – $277 million), incurred cost of operations of $311 million (December 31, 2019 – $277 million), and earned net profit of nil (December 31, 2019 – nil). Total assets and liabilities at December 31, 2020, were $149 million and $102 million, respectively (December 31, 2019 – $146 million and $97 million, respectively).

For the year ended and as at December 31, 2020
(in millions)

	Canada Post	Purolator	SCI	Other	Total
Revenue from external customers	$ 6,854	$ 2,174	$ 290	$ –	$ 9,318
Intersegment revenue	88	32	39	(159)	–
Revenue from operations	$ 6,942	$ 2,206	$ 329	$ (159)	$ 9,318
Labour and employee benefits	$ 5,365	$ 1,007	$ 164	$ 114	$ 6,650
Other operating costs	2,061	921	101	(277)	2,806
Depreciation and amortization	314	78	40	–	432
Cost of operations	$ 7,740	$ 2,006	$ 305	$ (163)	$ 9,888
Profit (loss) from operations	$ (798)	$ 200	$ 24	$ 4	$ (570)
Investment and other income	$ 84	$ 4	$ –	$ (47)	$ 41
Finance costs and other expense	(65)	(28)	(4)	–	(97)
Profit (loss) before tax	$ (779)	$ 176	$ 20	$ (43)	$ (626)
Tax expense (recovery)	(206)	48	5	–	(153)
Net profit (loss)	$ (573)	$ 128	$ 15	$ (43)	$ (473)
Total assets	$ 9,555	$ 1,679	$ 293	$ (318)	$ 11,209
Additions to capital assets	$ 337	$ 205	$ 7	$ 1	$ 550
Total liabilities	$ 10,968	$ 961	$ 178	$ (20)	$ 12,087

For the year ended and as at December 31, 2019
(in millions)

	Canada Post	Purolator	SCI	Other	Total
Revenue from external customers	$ 6,683	$ 1,907	$ 309	$ –	$ 8,899
Intersegment revenue	65	27	37	(129)	–
Revenue from operations	$ 6,748	$ 1,934	$ 346	$ (129)	$ 8,899
Labour and employee benefits	$ 4,798	$ 885	$ 172	$ 112	$ 5,967
Other operating costs	1,828	801	113	(247)	2,495
Depreciation and amortization	309	84	38	(1)	430
Cost of operations	$ 6,935	$ 1,770	$ 323	$ (136)	$ 8,892
Profit (loss) from operations	$ (187)	$ 164	$ 23	$ 7	$ 7
Investment and other income	$ 107	$ 6	$ –	$ (49)	$ 64
Finance costs and other expense	(73)	(18)	(3)	–	(94)
Profit (loss) before tax	$ (153)	$ 152	$ 20	$ (42)	$ (23)
Tax expense (recovery)	(53)	39	5	–	(9)
Net profit (loss)	$ (100)	$ 113	$ 15	$ (42)	$ (14)
Total assets	$ 9,170	$ 1,392	$ 288	$ (323)	$ 10,527
Additions to capital assets	$ 458	$ 106	$ 24	$ 3	$ 591
Total liabilities	$ 9,678	$ 768	$ 182	$ (29)	$ 10,599

(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 year ended December 31 (in millions)	**2020**	2019
Canada	$ 8,782	$ 8,376
United States	281	259
Rest of the world	255	264
Total revenue	**$ 9,318**	$ 8,899

(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 year ended December 31 (in millions)		**2020**			2019	
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Parcels	$ 5,871	$ (157)	$ 5,714	$ 4,927	$ (126)[1]	$ 4,801
Transaction Mail	1,773	(2)	1,771	1,926	(2)	1,924
Direct Marketing	809	–	809	1,065	–	1,065
Other revenue	515	(311)	204	494	(277)[1]	217
	$ 8,968	$ (470)	$ 8,498	$ 8,412	$ (405)	$ 8,007
Unattributed revenue						
Stamp postage	$ 392	$ –	$ 392	$ 362	$ –	$ 362
Meter postage	428	–	428	530	–	530
	$ 820	$ –	$ 820	$ 892	$ –	$ 892
Total	**$ 9,788**	**$ (470)**	**$ 9,318**	$ 9,304	$ (405)	$ 8,899

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $13 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 27 (b).

For the year ended December 31 (in millions)		**2020**			2019	
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	$ 6,332	$ (159)	$ 6,173	$ 6,341	$ (128)[1]	$ 6,213
Retail	2,612	–	2,612	2,162	–	2,162
	$ 8,944	$ (159)	$ 8,785	$ 8,503	$ (128)	$ 8,375
International	$ 536	$ –	$ 536	$ 523	$ –	$ 523
Other	$ 308	$ (311)	$ (3)	$ 278	$ (277)[1]	$ 1
Total	**$ 9,788**	**$ (470)**	**$ 9,318**	$ 9,304	$ (405)	$ 8,899

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $12 million was reclassified to Parcels from the Other revenue category.

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