2020

Canada Post Corporation

FIRST QUARTER FINANCIAL REPORT

For the period ended March 28, 2020

Contents

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a discussion of the consolidated financial results and operational changes for the 13-week period (first quarter or Q1) ended March 28, 2020, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI or Logistics) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Segments are based on the legal entities, Canada Post, Purolator, SCI and Innovapost.

Financial results reported in the MD&A were prepared using International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). Amounts are presented in Canadian dollars rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to May 22, 2020, unless otherwise noted.

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

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

Forward-looking statements

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

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

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

The forward-looking statements included in the interim financial statements and MD&A are made as of May 22, 2020, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

COVID-19

COVID-19, declared a pandemic in March 2020, had an impact on our first quarter financial performance. Further, the future impact on the Canadian and global economies, including our business, for the rest of 2020 and thereafter remains highly uncertain. Canadian businesses and consumers are choosing to use our products and services differently, and our suppliers and partners are experiencing their own impacts. Our operations will depend on recommendations by the World Health Organization and the Public Health Agency of Canada, the Government of Canada's lead for the COVID-19 response.

1 Executive Summary

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

The Group of Companies is one of Canada's largest employers providing jobs to almost 68,000 people. Canada Post, the largest segment with revenue of $1.7 billion for the first quarter (76.3% of the Group of Companies revenue, after excluding intersegment revenue), is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement. Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians in a secure and financially self-sustaining manner. Canada Post operates the largest retail network in Canada with almost 6,100 retail post offices in the country.

1.1 Significant changes and business developments

Canada Post segment

There were no significant changes to our strategy during the first quarter of 2020, however, on a national basis, we executed our corporate pandemic plan in late January in response to COVID-19. Toward the end of the first quarter, this action required changes to how we operate our post offices, plants and depots and how we deliver items by complying with federal health measures for physical distancing to keep employees and Canadians safe. For example, we implemented a Knock, Drop and Go delivery policy to restrict customer interactions with delivery employees at the door, and we held all items for closed businesses or businesses with restricted access. Employees took special leave for child and elder care and quarantine. As a result, our ability to meet all service commitments was affected and our service guarantees for most products were suspended. We also did our best to keep customers informed about their deliveries.

In the first quarter, continued growth in Parcels of $53 million more than offset declines in revenue from our core Lettermail™ and Direct Marketing lines of business of $16 million and $26 million, respectively.

Labour matters

Labour negotiations

Arbitration 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) was ongoing in the first quarter of 2020. The parties completed closing arguments May 6, 2020, and are now waiting for the Arbitrator's decision.

Canada Post and the Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC/UPCE) reached a four-year collective agreement prior to the current collective agreement's expiry date of August 31, 2020. The agreement was ratified by a membership vote on May 8, 2020. The new agreement extends to August 31, 2024.

Health and safety

In the first quarter of 2020, our total injury frequency and lost-time injury frequency decreased compared to the first quarter of 2019. We are taking measures to reduce injury frequencies even further and continue to strive for zero harm in the belief that all occupational injuries, illnesses and incidents are preventable.

COVID-19 has had a significant impact on the lives of all Canadians, including our employees, customers and suppliers. Our corporate pandemic plan, which was built to ensure the health and safety of our employees and Canadians, was put into effect in January 2020. The health and safety of our employees and Canadians remain our top priority during this challenging time.

1.2 Financial highlights

Segment results for the first quarter

(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%
			First quarter ended	
Profit (loss) before tax				
Canada Post Group of Companies	**(53)**	**39**	**(92)**	*****
Canada Post	(66)	23	(89)	*
Purolator	10	12	(2)	(17.8)
Logistics	2	2	–	29.0
Other	1	2	(1)	(44.0)

* The calculation is not mathematically meaningful.

The Canada Post Group of Companies lost $53 million before tax, which was $92 million worse than the same period in 2019. The Canada Post segment's loss before tax of $66 million was partly offset by Purolator's profit before tax of $10 million.

Canada Post segment

Canada Post segment revenue

(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%[1]
			First quarter ended	
Transaction Mail	729	745	(16)	(0.6)
Parcels	666	613	53	10.4
Direct Marketing	230	256	(26)	(8.6)
Other	54	58	(4)	(5.9)
Total	**1,679**	**1,672**	**7**	**2.1**

Revenue in the Canada Post segment in the first quarter of 2020 was $7 million higher than the same quarter in the prior year, due to Parcels growth of 10.4%[1] that more than offset declines in Transaction Mail and Direct Marketing.

Transaction Mail revenue was $16 million lower in the first quarter of 2020, compared to the first quarter of 2019 due to continued erosion, offset by a regulated rate increase early in the first quarter for Domestic Lettermail items, international Letter-post items, and special services and fees.

Parcels revenue grew by $53 million in the first quarter of 2020. While growth rates were higher than the first quarter of 2019, they were lower than the first quarter of 2018, and were below rates for general e-commerce trends in the competitive Canadian e-commerce delivery market.

Direct Marketing revenue declined by $26 million in the first quarter of 2020, compared to the prior year. Continued erosion resulted from digital substitution. Toward the end of the quarter there were delays or cancellations of marketing campaigns due to COVID-19, a trend that is likely to continue through the second quarter.

The cost of operations in the Canada Post segment increased by $93 million in the first quarter of 2020 compared to Q1 2019, mostly the result of increased labour and benefits costs, as well as collection, processing and delivery costs attributed to Parcels and network growth in 2020.

At the end of the quarter, COVID-19 market-driven impacts resulted in investment losses and a significant increase in discount rates used to measure the solvency status of the Canada Post Corporation Registered Pension Plan (RPP) and record remeasurements in other comprehensive income and profit and loss. The solvency deficit (using market value of plan assets) deteriorated to an estimated $5.9 billion at the end of the first quarter compared to the 2019 year-end estimate of $4.9 billion due to investment losses partially offset by a higher discount rate. On an accounting basis, remeasurement gains due to higher discount rates partially offset by investment losses were recorded in other comprehensive income for the Group of Companies' defined benefit plans of $2,344 million, net of tax. Remeasurement gains due to higher discount rates were also recorded in loss before tax for the Group of Companies' other long-term benefits plans of $11 million.

On April 15, 2020, due to COVID-19 effects on the economy, the Government of Canada announced it will provide immediate, temporary relief to sponsors of federally regulated defined benefit pension plans. This relief, in the form of a moratorium, results in the Corporation not having to make an estimated $366 million of special solvency payments for 2020. Market volatility due to COVID-19 could have a significant effect on solvency payments for 2021 and thereafter.

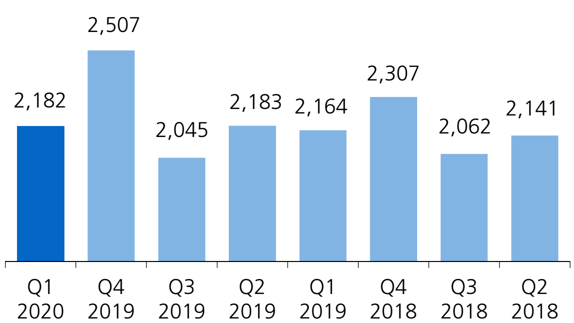
As COVID-19 evolves we are seeing growth in Parcels and related increases in labour and benefits costs, as well as collection, processing and delivery costs. Early in the second quarter Parcels volumes started to approach peak season levels as Canadians increased their online shopping. At the same time, Transaction Mail erosion deepened as many businesses moved to online communication platforms. There were steeper declines in Direct Marketing from curtailment and delay of marketing campaigns due to business closures. The financial impact of COVID-19 is unknown given all related uncertainties.

Group of Companies

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

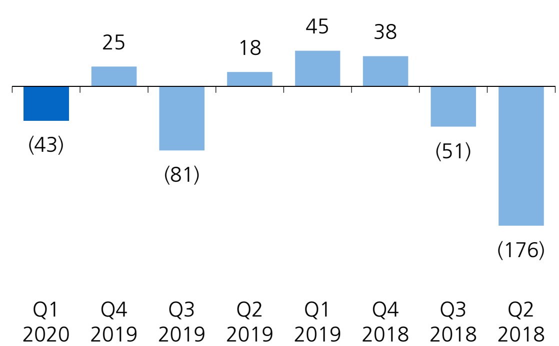
Quarterly consolidated revenue from operations

(in millions of dollars)



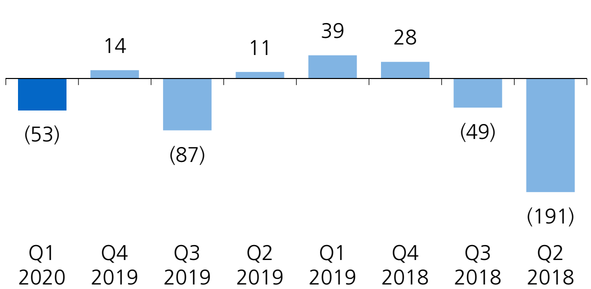
Quarterly consolidated profit (loss) from operations

(in millions of dollars)



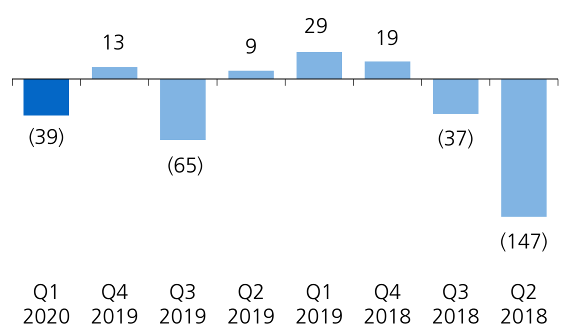
Quarterly consolidated profit (loss) before tax

(in millions of dollars)



Quarterly consolidated net profit (loss)

(in millions of dollars)



The following table presents the Corporation's consolidated performance for the first quarter of 2020, compared to the same period in the prior year.

(in millions of dollars)	First quarter ended				
	March 28, 2020	March 30, 2019	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	2,182	2,164	18	2.5[1]	Growth in the Purolator and Logistics segments, and Parcels growth in the Canada Post segment, offset by declines due to continued erosion from Transaction Mail and Direct Marketing in the Canada Post segment.
Cost of operations	2,225	2,119	106	6.7[1]	Higher expenses in the Canada Post and Purolator segments due to labour and employee benefits, and Parcels volume growth.
Profit (loss) from operations	(43)	45	(88)	*	Mainly due to a loss in the Canada Post segment, partially offset by profit in the Purolator segment.
Profit (loss) before tax	(53)	39	(92)	*	
Net profit (loss)	(39)	29	(68)	*	
Comprehensive income (loss)	2,313	(766)	3,079	*	Mainly due to remeasurement gains on pension and other post-employment plans from an increase in discount rates partially offset by investment losses.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	144	117	27	22.6	Primarily driven by changes in non-cash working capital, partially offset by lower income taxes paid.
Cash used in investing activities	(46)	(53)	7	12.9	Mainly due to higher acquisitions of capital assets in the Canada Post and Purolator segments, partially offset by proceeds from sales of securities in excess of acquisitions in the Canada Post segment.
Cash used in financing activities	(28)	(29)	1	4.1	No material change

* The calculation is not mathematically meaningful.

2 Core Businesses and Strategy

A discussion of Canada Post's business and strategy

Our strategic initiatives continue to focus on engaging our employees, delighting our customers, reinventing our retail model and leveraging our superior network, while addressing our environmental impact as we deliver customers' items. During the first quarter of 2020 and into the second quarter, we continued to focus on these initiatives while also reviewing our risks and adjusting our strategy in response to COVID-19.

The health and safety of our employees and Canadians remains our top priority during this challenging time. We launched national radio and social media campaigns aimed at informing the public of changes in our delivery and retail operations, added displays on our fleet to reinforce our physical distancing message and worked with our employees and bargaining agents to ensure our messages are effective. We've made significant changes to how we operate our post offices, plants and depots, and deliver items. For example:

- Restrictions were lifted on signatures and safe drops for parcels to eliminate customer interactions at the door and reduce the number of parcels at post offices.
- Items that require proof of age are now transferred directly to a retail post office, eliminating the need for interaction at the door. At post offices, barriers were installed and physical distancing measures instituted.
- Physical distancing was adopted in plants and facilities through changes in scheduling, work layouts and work practices to keep employees at least two metres apart in all work areas.
- Gloves, hand sanitizers and wipes were distributed, frequency of facility cleaning was increased and the practice of sanitizing workstations was instituted where needed.
- Personal protective equipment, including N95 respirators approved by the National Institute for Occupational Safety and Health (NIOSH), were used for pre-existing role requirements, such as working with hazardous chemicals, while non-medical masks were made available. In the second quarter, we began releasing additional stock of N95 respirators back to the federal government.
- Changes were made to retail post offices, such as reducing hours of operation, adding sanitization supplies and protective barriers, holding delivery items for longer periods, implementing physical distancing measures and encouraging paperless transactions.
- Regular COVID-19 updates were provided to all employees.
- International travel was banned and all but essential domestic travel was deferred.
- Special leave was implemented for child and elder care, quarantine, and employees at high risk. Also, employees could request cancellation of vacation leave.

We will continue to assess the impacts of COVID-19 on our operations, which will depend on recommendations by the World Health Organization and the Public Health Agency of Canada, the Government of Canada's lead for the response.

While the true scope remains to be determined, significant impacts of COVID-19 on Canadian society and the Canadian economy are expected. As a result of public health measures, Canadians are increasingly turning online to work, communicate and shop. The result is expected to effect significant changes to the spending habits of Canadian consumers and an acceleration of the digital economy. Even after public health measures are lifted, some changes to consumer behaviour are expected to remain. Significant impacts on the Canadian economy – which may include production and supply chain disruptions, workforce unavailability, temporary or permanent business closures, delayed economic investments, and increased financial volatility – are expected as entire sectors pause operations to respond to COVID-19. Once public health policies are lifted, Canadian communications, advertising and retail landscapes may all be significantly altered as a result.

Our core strategy remains to support, strengthen and maximize the role we play in this digital and e-commerce era, while supporting our physical delivery and mail services that our customers rely on. Such a role is to be a powerful, driving force that connects Canadians and Canadian businesses, delivering a stronger Canada.

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

3 Key Performance Drivers

A discussion of our key achievements in 2020

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

Engaging our people

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

Reduced total injury frequency and lost-time injury frequency by 31% and 38%, respectively, over Q1 2019.

Ratification of a new five-year collective agreement by members of the Canadian Postmasters and Assistants Association (CPAA) in January. The agreement is retroactive to January 1, 2019.

Reached a tentative four-year collective agreement with Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC/UPCE) on April 14, 2020, prior to the August 31, 2020, expiry. The new collective agreement was ratified on May 8, 2020.

Launched our Equity, Diversity and Inclusion Committee on January 30, 2020, with representation from all four unions as well as our management team and facilitation from the Canadian Centre for Diversity and Inclusion (CCDI). The Committee agreed to leverage the CCDI methodology to co-create a five-year strategy. Regular committee meetings will continue as the strategy is implemented.

17% fewer grievances were filed, while slightly fewer grievances were resolved, in the first quarter of 2020 compared to the same period in 2019. COVID-19 impacts may have affected grievance reporting.

Developed a Temporary Special Measures Guideline to address the current under-representation for Indigenous peoples and persons with disabilities. This guideline was reviewed by the Canadian Human Rights Commission. It allows us to address employment barriers and significant under-representation of designated groups within the workforce through temporary positive measures. By adopting this guideline, we will temporarily prioritize hiring of Indigenous people and persons with disabilities for some employment opportunities in significantly under-represented areas.

Established and integrated baseline metrics and regional targets in the scorecards of critical hiring teams to address under-representation of Indigenous people and persons with disabilities.

Increased the hiring rate of Indigenous people to 4.7% (an improvement of 11.9%) and of persons with disabilities to 6.8% (an improvement of 4.6%) over the same quarter in 2019.

Delighting our customers

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

Installed 1,375 indoor parcel lockers, and continue to explore alternative solutions for parcel locker deliveries.

Responded to COVID-19 by implementing changes to our operations, in support of the Government of Canada, employees, businesses and Canadians.

Sample testing shows digital accessibility at 78% across all products, surpassing our 2020 scorecard goal of 70%.

Received almost 500 new applications for accommodations following the promotion of our delivery accommodation program at the end of 2019.

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.

Canvassed rural Canadians on what services would be important to them in a community hub type facility (i.e. health, legal, government). Survey results and market research to be reviewed in the second quarter.

Prioritized and identified the accessibility projects to be completed in 2020 as part of our accessibility retail roadmap.

Completed the procurement process for the new full-serve point-of-sale systems.

Rolled out poly and prepaid bubble mailers with increased recycled content of 23% compared to 15% after a successful pilot.

Leveraging our superior network

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

Progressed with Moncton, Montréal and Kitchener parcel and packet capacity expansion programs through installation of equipment and systems. Expecting a manageable delay to many project schedules due to COVID-19 travel and construction restrictions.

Approved plans for a new delivery facility for east Montréal and Toronto to increase space for parcels and new addresses.

Established business requirements for the procurement and installation of new equipment and systems in Toronto and Montréal exchange offices with the Canada Border Services Agency.

Piloted drones in remote and rural settings in collaboration with several external stakeholders.

Tested autonomous guided vehicle (AGV) technology for material handling applications.

Greening Canada Post's Network

Developed a three-year Environmental Action Plan for greening Canada Post's network as a joint effort with our bargaining agents. Investments for 2020 implementation were approved in Q1 2020 and work is underway. Publication of the 2020-2022 Environmental Action Plan is expected later this year, pending the COVID-19 situation.

Added more than 40 hybrid light delivery vehicles to our fleet, bringing the total to over 400.

Became a member of the Sustainable Packaging Coalition to collectively drive progress toward shared sustainable packaging objectives.

4 Capabilities

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

4.1 Our employees

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

Health and safety

Canada Post segment

In 2020, safety priorities include leadership, mindset change, effective execution, health and wellness, and road safety. We continue to focus on addressing issues identified in locations where we experience high injuries. Our metrics, total injury frequency and lost-time injury frequency improved by 31% and 38%, respectively, compared to the first quarter of 2019.

Throughout January and February of 2020, we developed leadership assessments of indicator measures and safety action plans. We refreshed our safety rules, including a national consequence management framework, for release this second quarter. To address the increasing incidence of workplace violence, we examined process improvements of elements known to trigger this violence and prepared a new communication campaign targeting third-party workplace violence, "Prevent, Reduce, Support." These initiatives have been delayed due to the focus on the COVID-19 response initiated in March 2020. The pilot for our mental health program *Not Myself Today* launched during the first few months of 2020 was suspended for the field portion of the pilot, but it continues for head office groups.

The health and safety of our employees and Canadians remain our top priority during this challenging time. We continue to follow the guidance of the Public Health Agency of Canada (PHAC), the Government of Canada's lead on the COVID-19 response. During the first quarter of 2020 and into the second quarter, we introduced new health and safety measures as a result (Section 2 Core Businesses and Strategy).

Labour relations

Canada Post segment

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

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. Arbitration continued throughout the first quarter of 2020. The parties have completed the presentation of their respective cases; closing oral arguments took place May 6, 2020, and the parties are now waiting for the arbitrator to render her decision. The Arbitrator has indicated that her decision will be released by June 30, 2020, which is the date her mandate will expire under the 2018 back-to-work legislation.

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

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

After commencing labour negotiations in January 2020, Canada Post and PSAC/UPCE reached a tentative four-year collective agreement on April 14, well in advance of the current collective agreement's expiry date of August 31, 2020. The agreement, which was ratified May 8, 2020, 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.

Further to a mediated settlement reached between PSAC, APOC and Canada Post regarding PSAC's application to the Canada Industrial Relations Board (CIRB) seeking a determination that certain jobs should have been included within its bargaining unit, the parties continued their joint evaluation of the jobs at issue. The settlement provides for binding arbitration if a consensus cannot be achieved; PSAC has referred a number of the jobs at issue to the arbitration process. PSAC has withdrawn its application to the CIRB.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

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

5 Discussion of Operations

A detailed discussion of our financial performance

5.1 Summary of quarterly results

Consolidated results by quarter

The Group of Companies' consolidated results for the last eight quarters are presented below, highlighting the seasonal nature of our business. Demand for services is highest during the holiday or peak season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level in the third quarter. The Group of Companies' significant fixed costs do not vary in the short term. Further, additional business (trading) days result in increased revenue, while additional paid days result in increased cost of operations. In the first quarter of 2020, there was one less business day and one less paid day compared to the first quarter in 2019, except for the Logistics segment, which had one additional business day and one additional paid day compared to the first quarter in 2019.

(in millions of dollars)	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018	Q2 2018
Revenue from operations	2,182	2,507	2,045	2,183	2,164	2,307	2,062	2,141
Cost of operations	2,225	2,482	2,126	2,165	2,119	2,269	2,113	2,317
Profit (loss) from operations	**(43)**	**25**	**(81)**	**18**	**45**	**38**	**(51)**	**(176)**
Investing and financing income (expense), net	(10)	(11)	(6)	(7)	(6)	(10)	2	(15)
Profit (loss) before tax	**(53)**	**14**	**(87)**	**11**	**39**	**28**	**(49)**	**(191)**
Tax expense (recovery)	(14)	1	(22)	2	10	9	(12)	(44)
Net profit (loss)	**(39)**	**13**	**(65)**	**9**	**29**	**19**	**(37)**	**(147)**

5.2 Consolidated results from operations

Consolidated results for the first quarter

		First quarter ended		
(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%
Revenue from operations	2,182	2,164	18	2.5[1]
Cost of operations	2,225	2,119	106	6.7[1]
Profit (loss) from operations	**(43)**	**45**	**(88)**	*****
Investing and financing income (expense), net	(10)	(6)	(4)	(72.6)
Profit (loss) before tax	**(53)**	**39**	**(92)**	*****
Tax expense (recovery)	(14)	10	(24)	*
Net loss	**(39)**	**29**	**(68)**	*****
Other comprehensive income (loss)	2,352	(795)	3,147	*
Comprehensive income (loss)	**2,313**	**(766)**	**3,079**	*****

* The calculation is not mathematically meaningful.

The Canada Post Group of Companies recorded a loss before tax of $53 million for the first quarter of 2020. Compared to a profit before tax of $39 million in Q1 2019, this result is $92 million worse, mostly due to a loss in the Canada Post segment of $66 million, compared to profit before tax of $23 million in Q1 2019.

Consolidated revenue from operations

In the first quarter of 2020, revenue from operations increased by $18 million compared to Q1 in the prior year. Revenue growth in the Canada Post and Purolator segments was partially offset by a decline in the Logistics segment.

Consolidated cost of operations

The cost of operations increased by $106 million in the first quarter of 2020, compared to the same period in 2019. Cost increases resulted from volume growth in the Canada Post and Purolator segments, partly offset by lower costs for the Logistics segment.

Consolidated tax expense (recovery)

The consolidated tax expense decreased by $24 million in the first quarter of 2020, compared with Q1 2019, as a result of a decrease in profit before tax.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive income of $2,352 million for the first quarter was mainly due to remeasurement gains on pension and other post-employment plans as a result of an increase in discount rates partially offset by investment losses.

5.3 Operating results by segment

Segmented results – Profit (loss) before tax

	First quarter ended			
(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%
Canada Post	(66)	23	(89)	*
Purolator	10	12	(2)	(17.8)
Logistics	2	2	–	29.0
Other	1	2	(1)	(44.0)
Canada Post Group of Companies	**(53)**	**39**	**(92)**	*

* The calculation is not mathematically meaningful.

5.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $66 million in the first quarter of 2020, compared to a profit before tax of $23 million in the first quarter of 2019 as a result of higher labour and employee benefits, partly offset by Parcels volume growth.

Canada Post results for the first quarter

	First quarter ended			
(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%
Revenue from operations	1,679	1,672	7	2.1[1]
Cost of operations	1,739	1,646	93	7.3[1]
Profit (loss) from operations	**(60)**	**26**	**(86)**	*
Investing and financing income (expense), net	(6)	(3)	(3)	(127.3)
Profit (loss) before tax	**(66)**	**23**	**(89)**	*
Tax expense (recovery)	(16)	6	(22)	*
Net profit (loss)	**(50)**	**17**	**(67)**	*

* The calculation is not mathematically meaningful.

Revenue from operations

Canada Post's revenue from operations increased by $7 million in the first quarter of 2020, compared to the same period in 2019. Growth in Parcels more than offset mail erosion.

Revenue and volumes by line of business for the first quarter

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	March 28, 2020	March 30, 2019	Change	%[1]	March 28, 2020	March 30, 2019	Change	%[1]
Transaction Mail								
Domestic Lettermail	679	701	(22)	(1.6)	716	744	(28)	(2.2)
Outbound Letter-post	24	27	(3)	(6.8)	12	13	(1)	(5.9)
Inbound Letter-post	26	17	9	51.6	22	23	(1)	(0.9)
Total Transaction Mail	**729**	**745**	**(16)**	**(0.6)**	**750**	**780**	**(30)**	**(2.2)**
Parcels								
Domestic Parcels	505	466	39	10.0	53	51	2	6.3
Outbound Parcels	62	58	4	10.1	3	2	1	8.2
Inbound Parcels	94	84	10	13.8	19	18	1	5.2
Other	5	5	–	0.2	–	–	–	–
Total Parcels	**666**	**613**	**53**	**10.4**	**75**	**71**	**4**	**6.1**
Direct Marketing								
Personalized Mail™	109	123	(14)	(9.4)	195	222	(27)	(10.8)
Neighbourhood Mail™	80	90	(10)	(9.5)	681	775	(94)	(10.6)
Total Smartmail Marketing™	**189**	**213**	**(24)**	**(9.5)**	**876**	**997**	**(121)**	**(10.7)**
Publications Mail™	33	35	(2)	(4.9)	47	51	(4)	(8.1)
Business Reply Mail™ and Other Mail	5	5	–	(4.6)	3	4	(1)	(10.3)
Other	3	3	–	2.4	–	–	–	–
Total Direct Marketing	**230**	**256**	**(26)**	**(8.6)**	**926**	**1,052**	**(126)**	**(10.5)**
Other Revenue	54	58	(4)	(5.9)	–	–	–	–
Total	**1,679**	**1,672**	**7**	**2.1**	**1,751**	**1,903**	**(152)**	**(6.5)**

Transaction Mail

Revenue and volume declines, although less than previous quarters, were primarily driven by ongoing erosion due to substitution of digital alternatives by households and businesses. This erosion was partially offset by a regulated rate increase for Lettermail items, international Letter-post items and special services and fees, and other non-volume related revenues. The impact of COVID-19 was minimal in the first quarter but is expected to worsen in the second quarter.

Parcels

The growth rate for Parcels in Q1 2020, was higher than in the same quarter of 2019, but remained lower than in the first quarter of 2018. Domestic parcels from e-commerce continued to grow, offset in part by continued rate-shopping and competitive pressures. The impact of COVID-19 was minimal in the first quarter.

Direct Marketing

Declines in Direct Marketing revenue and volumes were higher than in the first quarter of 2019, as marketing expenditures began to shrink. This trend became more pronounced toward the end of the first quarter and is expected to worsen in the second quarter due to COVID-19.

Other revenue

Other revenue decreased in the first quarter compared to the same period in the prior year mainly due to a decrease in consumer products and services, partially offset by gains in foreign exchange.

Cost of operations

Cost of operations for the Canada Post segment increased by $93 million in the first quarter compared to the same period last year, mainly due to higher labour costs, increased employee benefits costs resulting from higher discount rates, and increased collection, processing and delivery costs driven by Parcels growth. Toward the end of the quarter, additional costs were incurred for special employee leave due to COVID-19.

	First quarter ended			
(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%[1]
Labour	853	816	37	6.1
Employee benefits	353	325	28	10.3
Total labour and employee benefits	**1,206**	**1,141**	**65**	**7.3**
Non-labour collection, processing and delivery	273	256	17	8.5
Property, facilities and maintenance	54	54	–	3.6
Selling, administrative and other	128	119	9	8.8
Total other operating costs	**455**	**429**	**26**	**8.0**
Depreciation and amortization	78	76	2	4.3
Total	**1,739**	**1,646**	**93**	**7.3**

Labour

Labour costs were higher by $37 million in the first quarter of 2020 compared to the Q1 2019, mostly the result of labour cost increases due to Parcels volume, network growth and inflation.

Employee benefits

Benefit costs were $28 million higher in the first quarter of 2020, compared to Q1 2019. One factor was a decrease in the discount rate used to measure non-cash pension expense in 2020, compared to 2019. A second factor was a decrease in interest on segregated assets in 2020, resulting from a realized gain in Q1 2019. Offsetting both of these was a decrease in non-cash other long-term benefits expense in 2020, which was mostly due to the Q1 2020 remeasurement of these plans at a higher discount rate.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $17 million compared to the first quarter in 2019, as a result of higher expenses for transportation, automotive services, and maintenance and repairs due to Parcels volume and network growth.

Property, facilities and maintenance

The cost of facilities was mostly unchanged in the first quarter of 2020, when compared to the same period in 2019.

Selling, administrative and other

Selling, administrative and other expenses increased by $9 million in the first quarter of 2020, compared to the same period in the prior year mainly due to higher spending on program expenses and health and safety supplies in response to COVID-19.

Depreciation and amortization

Depreciation and amortization expenses increased by $2 million in the Q1 2020 compared to Q1 2019, due to increased capital expenditures on infrastructure capacity.

5.5 Purolator segment

The Purolator segment's profit before tax decreased marginally by $2 million in the first quarter of 2020, compared to the same period in the prior year. Revenue from operations increased by $16 million in the first quarter of 2020 compared to the same period in 2019, mainly due to increased volumes from cross-border shipping, and higher volumes from new and existing business, primarily in the business-to-consumer market.

Purolator results for the first quarter

(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%
			First quarter ended	
Revenue from operations	457	441	16	5.1[1]
Cost of operations	444	426	(18)	5.7[1]
Profit from operations	**13**	**15**	**(2)**	**(11.7)**
Investing and financing income (expense), net	(3)	(3)	–	(15.4)
Profit before tax	**10**	**12**	**(2)**	**(17.8)**
Tax expense	2	3	1	48.5
Net profit	**8**	**9**	**(1)**	**(5.9)**

COVID-19 response measures that began midway through March had significant impacts on business-to-business volume largely due to the closure of non-essential businesses across Canada. However, these impacts were largely offset by significant growth in e-commerce volumes as consumers were limited to shopping online. Annual salary increases and business growth caused labour costs to increase by $10 million in Q1 2020 over the same period in 2019. Non-labour costs increased by $8 million in the first quarter of 2020, compared to the same period in the prior year, primarily due to business growth and additional operation costs in response to COVID-19.

5.6 Logistics segment

The Logistics segment's profit before tax increased by over 29% in the first quarter of 2020, compared to 2019. Revenue from operations and cost of operations decreased by $4 million and $5 million, respectively, in the first quarter of 2020, compared to 2019, primarily as a result of customer attrition and decreases in certain customer volumes.

Logistics results for the first quarter

(in millions of dollars)	March 28, 2020	March 30, 2019	Change	%
			First quarter ended	
Revenue from operations	76	80	(4)	(7.1)[1]
Cost of operations	73	78	(5)	(8.1)[1]
Profit from operations	**3**	**2**	**1**	**36.2**
Investing and financing income (expense), net	(1)	–	(1)	(58.3)
Profit before tax	**2**	**2**	**–**	**29.0**
Tax expense	1	1	–	76.0
Net profit	**1**	**1**	**–**	**28.1**

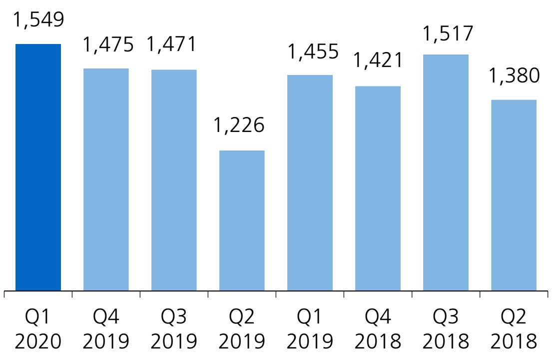
COVID-19 has impacted the Canadian and global economies, including our business, in the first quarter of 2020 and will continue to do so going forward. Most of SCI's customers have been defined by provincial governments as essential businesses. The impact on SCI's business is customer-specific. While SCI continues to meet its customers' supply chain needs, depending on the market segment, their volumes have been affected positively or negatively. In the first quarter, the impact was not significant; however, revenue and cost impacts are expected to be significant in the second quarter and for the balance of the year. Retail customers, supply chains and SCI's transportation business will continue to experience impacts due to changing consumer demand, evolving economic circumstances from temporary business closures and the rising costs to operate safely in this new environment. SCI's management is monitoring the situation closely and has enacted mitigation plans to address potential profit impact, including increased accounts receivable risk. SCI's management is also focused on ensuring the health and safety of team members, while continuing to keep customers' supply chains operating.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $1,549 million as at March 28, 2020. The increase of $74 million compared to December 31, 2019, was from cash provided by operating activities, mostly attributed to pension, other post-employment and long-term benefit expenses exceeding payments. This was partially offset by the acquisition of capital assets and repayments of lease liabilities.

6.2 Operating activities

	First quarter ended		
(in millions of dollars)	March 28, 2020	March 30, 2019	Change
Cash provided by operating activities	144	117	27

Cash provided by operations in the first quarter of 2020 increased by $27 million compared to the same period in 2019. The positive change in 2020 cash flow was primarily due to lower pension, other post-employment and other long-term benefit payments, changes in non-cash operating working capital, and lower taxes paid, partially offset by net losses in the quarter.

6.3 Investing activities

	First quarter ended		
(in millions of dollars)	March 28, 2020	March 30, 2019	Change
Cash used in investing activities	(46)	(53)	7

Cash used in investing activities improved by $7 million in the first quarter of 2020, compared to the same period in 2019, mainly due to other net investment activities, partially offset by higher acquisitions of capital assets and lower net proceeds from the sale of securities in the Canada Post segment.

Capital expenditures

	First quarter ended		
(in millions of dollars)	March 28, 2020	March 30, 2019	Change
Canada Post	61	56	5
Purolator	23	13	10
Logistics	2	7	(5)
Innovapost and intersegment	–	–	–
Canada Post Group of Companies	**86**	**76**	**10**

Capital expenditures for the Group of Companies increased by $10 million in the first quarter, mainly due to increased spending on infrastructure capacity in the Canada Post and Purolator segments, offset by lower acquisitions in the Logistics segment.

6.4 Financing activities

	First quarter ended		
(in millions of dollars)	March 28, 2020	March 30, 2019	Change
Cash used in financing activities	(28)	(29)	1

Cash used in financing activities was relatively unchanged in the first quarter of 2020 compared to the same period in 2019.

6.5 Canada Post Corporation Registered Pension Plan

On April 15, 2020, due to the impacts of COVID-19, the Government of Canada announced it will provide immediate, temporary relief to sponsors of federally regulated, defined benefit pension plans. This relief, in the form of a moratorium, results in the Corporation not having to make an estimated $366 million of special solvency payments for 2020.

COVID-19 and the related market volatility of market-driven discount rates and returns on pension plan assets could have a significant effect on our pension plan deficit in 2020 and solvency payments for 2021 and thereafter. At the end of the first quarter, COVID-19 impacts were observed in investment returns and discount rates used to measure the solvency position and accounting obligation of the Canada Post Corporation Registered Pension Plan (RPP). The solvency deficit (using market value of plan assets) of the RPP increased to an estimated $5.9 billion due to investment losses, partially offset by a higher discount rate compared to the December 31, 2019, estimate of $4.9 billion. On an accounting basis, remeasurement gains of $1,851 million for the RPP, net of tax, were recorded in other comprehensive income for the first quarter of 2020, due to a higher discount rate, partially offset by investment losses.

Current service contributions amounted to $59 million and $68 million, respectively, in each of the first quarters of 2020 and 2019.

6.6 Liquidity and capital resources

Liquidity

The Canada Post segment had $2,301 million of unrestricted liquid investments on hand as at March 28, 2020, and $100 million of lines of credit.

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

The Corporation's subsidiaries had a total of $321 million of unrestricted cash on hand and undrawn credit facilities of $121 million as at March 28, 2020, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

Borrowings for the Canada Post segment as at March 28, 2020, amounted to $997 million. For more information on liquidity and access to capital markets, refer to Section 6.6 Liquidity and capital resources of the 2019 Annual MD&A.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between March 28, 2020, and December 31, 2019

(in millions of dollars)

ASSETS	March 28, 2020	Dec. 31, 2019	Change	%	Explanation of change
Cash and cash equivalents	1,549	1,475	74	5.0	Refer to Section 6 Liquidity and capital resources.
Marketable securities	1,073	1,077	(4)	(0.3)	Due to maturity of corporate bonds.
Trade and other receivables	958	1,011	(53)	(5.3)	Mainly due to lower trade receivables in all segments, partially offset by higher international trade settlement receivables in the Canada Post segment.
Other assets	199	171	28	16.1	Mainly due to a higher income tax receivable balance in the Canada Post segment, as well as higher prepaid expenses, mostly in the Purolator and Other segments.
Total current assets	**3,779**	**3,734**	**45**	**1.2**	
Marketable securities	136	171	(35)	(20.3)	Due to maturity of corporate bonds.
Property, plant and equipment	2,938	2,942	(4)	(0.1)	No material change.
Intangible assets	135	124	11	8.9	Mainly due to acquisitions in the Logistics and Other segments.
Right-of-use assets	1,185	1,113	72	6.5	Mainly due to acquisitions (new leases and lease renewals) exceeding depreciation in the Canada Post, Purolator and Logistics segments.
Segregated securities	525	514	11	2.2	Mainly due to unrealized gains in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	99	75	24	31.3	Mainly due to remeasurement gains resulting from an increase in discount rates partially offset by investment losses.
Deferred tax assets	895	1,659	(764)	(46.1)	Mainly due to the decrease of temporary differences related to remeasurement gains on Canada Post's pension and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	68	65	3	3.7	No material change.
Total non-current assets	**6,111**	**6,793**	**(682)**	**(10.1)**	
Total assets	**9,890**	**10,527**	**(637)**	**(6.1)**	

(in millions of dollars)

LIABILITIES	March 28, 2020	Dec. 31, 2019	Change	%	Explanation of change
Trade and other payables	608	676	(68)	(10.0)	Mainly due to lower trade and sales tax payables and accrued interest on long-term bonds in the Canada Post segment.
Salaries and benefits payable and related provisions	875	839	36	4.2	Mainly due to higher accrued salaries, partially offset by lower accrued benefit liabilities in the Canada Post segment.
Provisions	55	55	–	(0.4)	No material change.
Deferred revenue	139	152	(13)	(8.3)	Mainly related to lower deferred stamp revenue and other deferred parcel and mail-redirection revenue in the Canada Post segment.
Lease liabilities	117	116	1	0.9	No material change.
Other long-term benefit liabilities	63	63	–	–	No change.
Total current liabilities	**1,857**	**1,901**	**(44)**	**(2.3)**	
Lease liabilities	1,254	1,183	71	6.0	Mainly due to acquisitions (new leases and lease renewals) in the Canada Post, Purolator and Logistics segments net of lease payments.
Loans and borrowings	997	997	–	–	No change.
Pension, other post-employment and other long-term benefit liabilities	3,523	6,498	(2,975)	(45.8)	Mainly due to remeasurement gains resulting from an increase in discount rates partially offset by investment losses.
Other liabilities	18	20	(2)	(4.1)	No material change.
Total non-current liabilities	**5,792**	**8,698**	**(2,906)**	**(33.4)**	
Total liabilities	**7,649**	**10,599**	**(2,950)**	**(27.8)**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	72	64	8	13.4	Mainly due to unrealized gains on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Retained earnings (accumulated deficit)	977	(1,326)	2,303	*	Mainly driven by remeasurement gains in the Canada Post segment resulting from an increase in discount rates partially offset by investment losses.
Equity of Canada	**2,204**	**(107)**	**2,311**	*	
Non-controlling interests	37	35	2	5.8	
Total equity	**2,241**	**(72)**	**2,313**	*	
Total liabilities and equity	**9,890**	**10,527**	**(637)**	**(6.1)**	

* The calculation is not mathematically meaningful.

8 Risks and Risk Management

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

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

COVID-19

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

While impacts were not largely felt until the end of the first quarter, going forward the net effect on Canada Post's business may include the following:

- Lettermail™ volumes may be affected due to an acceleration of digital substitution and reduced overall Canadian economic activity (as measured by gross domestic product).
- A reduction in overall advertising spending or a change in mix, resulting in decreased advertising mail.
- Permanent changes to consumer behaviour, including increased online shopping.

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

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

Labour agreements

Arbitration continued in the first quarter of 2020 with the Canadian Union of Postal Workers (CUPW) bargaining agent, representing employees covered by two separate collective agreements (Urban Postal Operations and Rural and Suburban Mail Carriers). CUPW is Canada Post's largest union, representing more than 40,000 employees. The Corporation's objective during any collective bargaining process is to build a framework for growth, while protecting its financial self-sustainability, in a manner that provides fair and reasonable working conditions to its employees and service to Canadians.

9 Critical Accounting Estimates and Accounting Policy Developments

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

9.1 Critical accounting estimates and estimation uncertainties

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

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

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

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2020. The adoption of these amendments resulted in no change to the Corporation's interim financial statements.

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

During the first quarter of 2020, there were no new standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2019.

Endnote

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

Management's Responsibility for Interim Financial Reporting

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

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

President and CEO

Chief Financial Officer

May 22, 2020

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**March 28, 2020**	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 1,549**	$ 1,475
Marketable securities		**1,073**	1,077
Trade, other receivables and contract assets		**958**	1,011
Other assets	**4**	**199**	171
Total current assets		**3,779**	3,734
Non-current assets			
Marketable securities		**136**	171
Property, plant and equipment	**5**	**2,938**	2,942
Intangible assets	**5**	**135**	124
Right-of-use assets	**5**	**1,185**	1,113
Segregated securities		**525**	514
Pension benefit assets	**6**	**99**	75
Deferred tax assets		**895**	1,659
Goodwill		**130**	130
Other assets	**4**	**68**	65
Total non-current assets		**6,111**	6,793
Total assets		**$ 9,890**	$ 10,527
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 608**	$ 676
Salaries and benefits payable and related provisions		**875**	839
Provisions		**55**	55
Deferred revenue		**139**	152
Lease liabilities	**7**	**117**	116
Other long-term benefit liabilities	**6**	**63**	63
Total current liabilities		**1,857**	1,901
Non-current liabilities			
Lease liabilities	**7**	**1,254**	1,183
Loans and borrowings		**997**	997
Pension, other post-employment and other long-term benefit liabilities	**6**	**3,523**	6,498
Other liabilities		**18**	20
Total non-current liabilities		**5,792**	8,698
Total liabilities		**7,649**	10,599
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income	**8**	**72**	64
Retained earnings (accumulated deficit)		**977**	(1,326)
Equity of Canada		**2,204**	(107)
Non-controlling interests		**37**	35
Total equity		**2,241**	(72)
Total liabilities and equity		**$ 9,890**	$ 10,527
Contingent liabilities	**10**		

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**March 28, 2020**	March 30, 2019
Revenue from operations	**15**	**$ 2,182**	$ 2,164
Cost of operations			
Labour		**1,087**	1,050
Employee benefits		**415**	382
		1,502	1,432
Other operating costs	**12**	**616**	582
Depreciation and amortization	**5**	**107**	105
Total cost of operations		**2,225**	2,119
Profit (loss) from operations		**(43)**	45
Investing and financing income (expense)			
Investment and other income	**13**	**14**	17
Finance costs and other expense	**13**	**(24)**	(23)
Investing and financing expense, net		**(10)**	(6)
Profit (loss) before tax		**(53)**	39
Tax expense (recovery)		**(14)**	10
Net profit (loss)		**$ (39)**	$ 29
Other comprehensive income (loss)	**8**		
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of financial assets		**$ 7**	$ 23
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		**2,344**	(811)
Other comprehensive income (loss)		**2,352**	(795)
Comprehensive income (loss)		**$ 2,313**	$ (766)
Net profit (loss) attributable to			
Government of Canada		**$ (40)**	$ 28
Non-controlling interests		**1**	1
		$ (39)	$ 29
Comprehensive income (loss) attributable to			
Government of Canada		**$ 2,311**	$ (764)
Non-controlling interests		**2**	(2)
		$ 2,313	$ (766)

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

Interim Condensed Consolidated Statement of Changes in Equity

For the 13 weeks ended March 28, 2020 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2019	**$ 1,155**	**$ 64**	**$ (1,326)**	**$ (107)**	**$ 35**	**$ (72)**
Net profit (loss)	**–**	**–**	**(40)**	**(40)**	**1**	**(39)**
Other comprehensive income (loss) (Note 8)	**–**	**8**	**2,343**	**2,351**	**1**	**2,352**
Comprehensive income (loss)	**–**	**8**	**2,303**	**2,311**	**2**	**2,313**
Balance at March 28, 2020	**$ 1,155**	**$ 72**	**$ 977**	**$ 2,204**	**$ 37**	**$ 2,241**

For the 13 weeks ended March 30, 2019 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2018	$ 1,155	$ 43	$ (1,408)	$ (210)	$ 36	$ (174)
Net profit	–	–	28	28	1	29
Other comprehensive income (loss) (Note 8)	–	16	(808)	(792)	(3)	(795)
Comprehensive income (loss)	–	16	(780)	(764)	(2)	(766)
Balance at March 30, 2019	$ 1,155	$ 59	$ (2,188)	$ (974)	$ 34	$ (940)

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

Interim Condensed Consolidated Statement of Cash Flows

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	Notes	**March 28, 2020**	March 30, 2019
Cash flows from operating activities			
Net profit (loss)		**$ (39)**	$ 29
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**5**	**107**	105
Pension, other post-employment and other long-term benefit expense	**6**	**255**	228
Pension, other post-employment and other long-term benefit payments	**6**	**(129)**	(141)
Tax expense (recovery)		**(14)**	10
Net interest expense	**13**	**7**	3
Change in non-cash operating working capital:			
Decrease in trade and other receivables		**53**	98
Decrease in trade and other payables		**(56)**	(97)
Increase in salaries and benefits payable and related provisions		**36**	18
Decrease in provisions		**(6)**	–
Net increase in other non-cash operating working capital		**(29)**	(49)
Other income not affecting cash, net		**(4)**	(11)
Cash provided by operations before interest and tax		**181**	193
Interest received		**14**	18
Interest paid		**(31)**	(31)
Tax paid		**(20)**	(63)
Cash provided by operating activities		**144**	117
Cash flows from investing activities			
Acquisition of securities		**(336)**	(509)
Proceeds from sale of securities		**375**	621
Acquisition of capital assets		**(86)**	(76)
Other investing activities, net		**1**	(89)
Cash used in investing activities		**(46)**	(53)
Cash flows from financing activities			
Repayments of lease liabilities, net of sublease proceeds		**(27)**	(29)
Other financing activities, net		**(1)**	–
Cash used in financing activities		**(28)**	(29)
Net increase in cash and cash equivalents		**70**	35
Cash and cash equivalents, beginning of period		**1,475**	1,421
Effect of exchange rate changes on cash and cash equivalents		**4**	(1)
Cash and cash equivalents, end of period		**$ 1,549**	$ 1,455

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

Notes to Interim Condensed Consolidated Financial Statements

For the 13 weeks ended March 28, 2020
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1 Incorporation, Business Activities and Directives

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

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

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

2 Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements (interim financial statements) in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2019. These interim financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors May 22, 2020.

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

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

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

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

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

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

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

COVID-19 • Declared a pandemic in March 2020, COVID-19 has had a significant impact on the Canadian and global economies, including our business in 2020 and, likely so going forward. 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.

Our operations depend on recommendations by the World Health Organization and the Public Health Agency of Canada, the Government of Canada's lead for the COVID-19 response. We've added disclosures where our interim financial statements have been affected as a result of this response. The duration and impact of COVID-19 is 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.

3 Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2020

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies January 1, 2020, resulted in no changes in the Corporation's interim 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. The amendments must be applied prospectively for annual reporting periods beginning on or after January 1, 2020.

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. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods.

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

Other than those disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2019, there were no other new standards, amendments and interpretations issued by the IASB or the Interpretations Committee that would have a possible effect on the Group of Companies in the future.

4 Other Assets

As at (in millions)	**March 28, 2020**	December 31, 2019
Income tax receivable	$ 65	$ 50
Prepaid expenses	135	119
Assets held for sale	2	1
Finance lease receivable	13	14
Other receivables	52	52
Total other assets	**$ 267**	$ 236
Current other assets	**$ 199**	$ 171
Non-current other assets	**68**	65

As at March 28, 2020, all properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds. The table below identifies undiscounted lease payments to be received on an annual basis for each of the following periods:

As at (in millions)	**March 28, 2020**	December 31, 2019
Contractual undiscounted cash flows		
Less than one year	$ 5	$ 5
One to five years	8	9
Total undiscounted finance lease receivable	**$ 13**	$ 14

5 Capital Assets

(a) Property, plant and equipment

(in millions)	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2019	$ 452	$ 2,197	$ 364	$ 1,187	$ 599	$ 371	$ 1,169	$ 115	$ 6,454
Additions	5	2	2	4	2	1	18	32	66
Reclassified as held for sale	(1)	(6)	–	–	–	–	–	–	(7)
Retirements	–	–	(1)	–	(2)	–	–	–	(3)
Transfers	–	15	–	–	–	1	3	(19)	–
March 28, 2020	**$ 456**	**$ 2,208**	**$ 365**	**$ 1,191**	**$ 599**	**$ 373**	**$ 1,190**	**$ 128**	**$ 6,510**
Accumulated depreciation									
December 31, 2019	$ –	$ 1,218	$ 256	$ 758	$ 360	$ 291	$ 629	$ –	$ 3,512
Depreciation	–	15	4	18	11	6	13	–	67
Reclassified as held for sale	–	(5)	–	–	–	–	–	–	(5)
Retirements	–	–	(1)	–	(1)	–	–	–	(2)
March 28, 2020	**$ –**	**$ 1,228**	**$ 259**	**$ 776**	**$ 370**	**$ 297**	**$ 642**	**$ –**	**$ 3,572**
Carrying amounts									
December 31, 2019	$ 452	$ 979	$ 108	$ 429	$ 239	$ 80	$ 540	$ 115	$ 2,942
March 28, 2020	**$ 456**	**$ 980**	**$ 106**	**$ 415**	**$ 229**	**$ 76**	**$ 548**	**$ 128**	**$ 2,938**

(b) Intangible assets

(in millions)	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2019	$ 815	$ 49	$ 23	$ 887
Additions	–	21	–	21
Transfers	5	(5)	–	–
March 28, 2020	**$ 820**	**$ 65**	**$ 23**	**$ 908**
Accumulated amortization				
December 31, 2019	$ 741	$ –	$ 22	$ 763
Amortization	10	–	–	10
March 28, 2020	**$ 751**	**$ –**	**$ 22**	**$ 773**
Carrying amounts				
December 31, 2019	$ 74	$ 49	$ 1	$ 124
March 28, 2020	**$ 69**	**$ 65**	**$ 1**	**$ 135**

(c) Right-of-use assets

(in millions)	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
December 31, 2019	$ 117	$ 265	$ 709	$ 21	$ 1	$ 1,113
Additions	4	4	93	–	1	102
Depreciation	(1)	(7)	(20)	(2)	–	(30)
March 28, 2020	**$ 120**	**$ 262**	**$ 782**	**$ 19**	**$ 2**	**$ 1,185**

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

(a) Net defined benefit liability

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

As at (in millions)	**March 28, 2020**	December 31, 2019
Pension benefit assets	**$ 99**	$ 75
Pension benefit liabilities	$ 281	$ 2,660
Other post-employment and other long-term benefit liabilities	3,305	3,901
Total pension, other post-employment and other long-term benefit liabilities	$ 3,586	$ 6,561
Current other long-term benefit liabilities	**$ 63**	$ 63
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 3,523**	$ 6,498

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended (in millions)		**March 28, 2020**			March 30, 2019	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 176	$ 30	$ 206	$ 131	$ 28	$ 159
Interest cost	237	30	267	266	35	301
Interest income on plan assets	(217)	–	(217)	(241)	–	(241)
Other administration costs	3	–	3	3	–	3
Actuarial gains[1]	–	(11)	(11)	–	–	–
Plan amendments[2]	–	1	1	–	–	–
Defined benefit expense	199	50	249	159	63	222
Defined contribution expense	6	–	6	6	–	6
Total expense	205	50	255	165	63	228
Return on segregated securities	–	(4)	(4)	–	(11)	(11)
Component included in employee benefits expense	**$ 205**	**$ 46**	**$ 251**	$ 165	$ 52	$ 217
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ 2,292	$ –	$ 2,292	$ (1,549)	$ –	$ (1,549)
Actuarial (gains) losses	(4,810)	(607)	(5,417)	2,333	298	2,631
Component included in other comprehensive (income) loss[3,4]	**$ (2,518)**	**$ (607)**	**$ (3,125)**	$ 784	$ 298	$ 1,082

1. Remeasurement for other long-term benefits plans are recognized in net profit (or loss) in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at March 28, 2020, was 3.7%, compared to 2.9% at December 31, 2019.
2. During the quarter, the Corporation ratified a new collective agreement with employees represented by the Canadian Postmasters and Assistants Association (CPAA). The new terms and conditions led to modifications of the Extended Health Care Plan, resulting in a plan amendment loss of $1 million.
3. Amounts presented in this table exclude an income tax expense of $781 million for the 13 weeks ended March 28, 2020, (income tax recovery of $271 million at March 30, 2019).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at ended March 28, 2020, was 4.2% and 4.3% compared to 3.1% and 3.2% at December 31, 2019. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at March 30, 2019, were 3.3% and 3.4%.

(c) Total cash payments and funding relief

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

For the 13 weeks ended (in millions)	**March 28, 2020**	March 30, 2019
Benefits paid directly to beneficiaries for other benefit plans	$ 38	$ 40
Employer regular contributions to pension benefit plans	73	82
Employer special contributions to pension benefit plans	12	13
Cash payments for defined benefit plans	123	135
Contributions to defined contribution plans	6	6
Total cash payments	**$ 129**	$ 141

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

On April 15, 2020, due to the effects of COVID-19 on the economy, the Government of Canada announced that it will provide immediate, temporary relief to sponsors of federally regulated defined benefit pension plans. This relief, in the form of a moratorium, relieves the Corporation of making an estimated $366 million of special solvency payments for 2020. Market volatility due to COVID-19 could have a significant effect on solvency payments for 2021 and thereafter.

7 Lease Liabilities

(a) Lease liabilities

As at (in millions)	**March 28, 2020**	December 31, 2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$ 150	$ 156
One to five years	528	512
More than five years	1,192	1,073
Total undiscounted lease liabilities	**$ 1,870**	$ 1,741
Lease liabilities in the consolidated statement of financial position	**$ 1,371**	$ 1,299
Current lease liabilities	**$ 117**	$ 116
Non-current lease liabilities	**1,254**	1,183

Included in the above table are lease payments (undiscounted lease liabilities) to be made to related parties in the normal course of business, in the amount of $28 million for premises used in postal operations and transportation services (December 31, 2019 – $29 million). Leases that have not yet commenced, but which have been committed to as at March 28, 2020, have future cash outflows of $51 million that are included in the above maturity analysis, but they are excluded from the measurement of lease liabilities.

(b) Changes in liabilities arising from financing activities

(in millions)	December 31, 2019	Payments	Interest	Net lease additions	**March 28, 2020**
Lease liabilities	$ 1,299	$ (38)	$ 10	$ 100	**$ 1,371**

8 Other Comprehensive Income (Loss)

For the 13 weeks ended March 28, 2020 (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, 2019	$ 59	$ 5	$ 64		
Gains arising	$ 10	$ 1	$ 11	$ 3,125	$ 3,136
Income taxes	(3)	–	(3)	(781)	(784)
Net	**$ 7**	**$ 1**	**$ 8**	**$ 2,344**	**$ 2,352**
Accumulated balance as at March 28, 2020	**$ 66**	**$ 6**	**$ 72**		

9 Labour-related Matters

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

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.

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.

10 Contingent Liabilities

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

11 Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

The fair values of cash and cash equivalents, marketable securities, segregated securities, trade and other receivables, trade and other payables and salaries and benefits payable and related provisions are a reasonable approximation of their carrying values as presented on the statement of financial position. Also, these financial instruments are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between levels of the fair value hierarchy during the period ended March 28, 2020.

Financial risk factors

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

(a) Market risk

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

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. COVID-19, declared a pandemic in March 2020, has led to additional market volatility, including foreign exchange. The valuation of outstanding forward contracts was as follows:

As at March 28, 2020
(in millions)

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$98	$ 129	1.314$/US$	April 17, 2020 - December 4, 2020	Sell forward	$ (8)
Euro	€57	85	1.477$/€	April 17, 2020 - December 4, 2020	Sell forward	(5)
British pound	£12	21	1.716$/£	April 17, 2020 - December 4, 2020	Sell forward	–
Japanese yen	¥1,775	22	0.012$/¥	April 17, 2020 - December 4, 2020	Sell forward	(2)
Chinese renminbi	CN¥151	29	0.190$/CN¥	April 17, 2020 - December 4, 2020	Sell forward	(1)
Total		**$ 286**				**$ (16)**

As at December 31, 2019
(in millions)

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

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

For the 13 weeks ended (in millions)	**March 28, 2020**			March 30, 2019		
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange losses	Derivative gains (losses)	Total
Unrealized	$ 17	$ (16)	$ 1	$ (2)	$ 3	$ 1
Realized	5	–	5	–	(1)	(1)
Total	**$ 22**	**$ (16)**	**$ 6**	$ (2)	$ 2	$ –

(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.

COVID-19 has resulted in volatility of global market conditions. Bond yield spreads have widened and default rates have increased, resulting in an increased credit risk. We have 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. We have also increased the expected credit loss allowance of our commercial accounts receivable. Increased measurement uncertainty exists, however, the adjustment recorded in the first quarter was not significant.

(c) Liquidity risk

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

On April 15, 2020, due to the effects of COVID-19 on the economy, the Government of Canada announced it will provide immediate, temporary relief to sponsors of federally regulated defined benefit pension plans. This moratorium relieves the

Corporation of making an estimated $366 million of special solvency payments in 2020. Market volatility due to COVID-19 could have a significant effect on solvency payments for 2021 and thereafter.

12 Other Operating Costs

For the 13 weeks ended (in millions)	**March 28, 2020**	March 30, 2019
Non-labour collection, processing and delivery	$ 400	$ 382
Property, facilities and maintenance	75	74
Selling, administrative and other	141	126
Other operating costs	**$ 616**	$ 582

13 Investing and Financing Income (Expense)

For the 13 weeks ended (in millions)	**March 28, 2020**	March 30, 2019
Interest income	$ 14	$ 17
Loss on sale of capital assets and assets held for sale	–	–
Other income	–	–
Investment and other income	**$ 14**	$ 17
Interest expense	$ (21)	$ (20)
Other expense	(3)	(3)
Finance costs and other expense	**$ (24)**	$ (23)
Investing and financing expense, net	**$ (10)**	$ (6)

14 Related Party Transactions

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

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

For the 13 weeks ended (in millions)	**March 28, 2020**	March 30, 2019
Related party revenue	**$ 61**	$ 62
Compensation payments for programs		
Government mail and mailing of materials for persons who are blind	**$ 6**	$ 6
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2
Related party expenditures	**$ 6**	$ 7

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

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

As at (in millions)	**March 28, 2020**	December 31, 2019
Due to/from related parties		
Included in trade and other receivables	**$ 17**	$ 15
Included in trade and other payables	**$ 6**	$ 10
Deferred revenue from related parties	**$ 1**	$ 2

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 13 weeks ended March 28, 2020, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $3 million (March 30, 2019 – $3 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 weeks ended March 28, 2020, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million (March 30, 2019 – $3 million). As at March 28, 2020, $3 million (December 31, 2019 – $13 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables. Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 6 (c).

15 Segmented and Disaggregation of Revenue Information

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

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

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

As at and for the 13 weeks ended March 30, 2019
(in millions)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,658	$ 434	$ 72	$ –	$ 2,164
Intersegment revenue	14	7	8	(29)	–
Revenue from operations	$ 1,672	$ 441	$ 80	$ (29)	$ 2,164
Labour and employee benefits	$ 1,141	$ 221	$ 42	$ 28	$ 1,432
Other operating costs	429	185	27	(59)	582
Depreciation and amortization	76	20	9	–	105
Cost of operations	$ 1,646	$ 426	$ 78	$ (31)	$ 2,119
Profit from operations	$ 26	$ 15	$ 2	$ 2	$ 45
Investment and other income	$ 15	$ 1	$ 1	$ –	$ 17
Finance costs and other expense	(18)	(4)	(1)	–	(23)
Profit before tax	$ 23	$ 12	$ 2	$ 2	$ 39
Tax expense	6	3	1	–	10
Net profit	$ 17	$ 9	$ 1	$ 2	$ 29
Total assets	$ 9,326	$ 1,236	$ 242	$ (305)	$ 10,499
Total liabilities	$ 10,659	$ 638	$ 148	$ (6)	$ 11,439

(b) Geographic area revenue information

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

For the 13 weeks ended (in millions)	**March 28, 2020**	March 30, 2019
Canada	$ 2,052	$ 2,051
United States	66	60
Rest of the world	64	53
Total revenue	**$ 2,182**	$ 2,164

(c) Products and services revenue information

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

For the 13 weeks ended March 28, 2020 (in millions)	**Total revenue**	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed to products and services			
Transaction Mail	$ 537	$ –	$ 537
Parcels	1,174	(25)	1,149
Direct Marketing	230	(1)	229
Other revenue	122	(72)	50
	$ 2,063	**$ (98)**	**$ 1,965**
Unattributed revenue			
Stamp postage	$ 88	$ –	$ 88
Meter postage	129	–	129
	$ 217	**$ –**	**$ 217**
Total	**$ 2,280**	**$ (98)**	**$ 2,182**

For the 13 weeks ended March 30, 2019 (in millions)	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 544	$ –	$ 544
Parcels	1,119	(25)	1,094
Direct Marketing	255	–	255
Other revenue	115	(66)	49
	$ 2,033	$ (91)	$ 1,942
Unattributed revenue			
Stamp postage	$ 80	$ –	$ 80
Meter postage	142	–	142
	$ 222	$ –	$ 222
Total	$ 2,255	$ (91)	$ 2,164

(d) Sales channel revenue information

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

For the 13 weeks ended March 28, 2020 (in millions)	**Total revenue**	**Intersegment and consolidation**	**Revenue from external customers**
Domestic			
Commercial	$ 1,542	$ (26)	$ 1,516
Retail	536	–	536
	$ 2,078	$ (26)	$ 2,052
International	$ 130	$ –	$ 130
Other	$ 72	$ (72)	$ –
Total	**$ 2,280**	**$ (98)**	**$ 2,182**

For the 13 weeks ended March 30, 2019 (in millions)	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 1,547	$ (26)	$ 1,521
Retail	533	–	533
	$ 2,080	$ (26)	$ 2,054
International	$ 113	$ –	$ 113
Other	$ 62	$ (65)	$ (3)
Total	$ 2,255	$ (91)	$ 2,164

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