2020

Canada Post Corporation

THIRD QUARTER FINANCIAL REPORT

For the period ended September 26, 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 (third quarter or Q3) and 39-week period (first three quarters or year to date) ended September 26, 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 November 19, 2020, unless otherwise noted.

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

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

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Forward-looking statements

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

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

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

The forward-looking statements included in the interim financial statements and MD&A are made as of November 19, 2020, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

COVID-19

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

1. Executive Summary

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

The Group of Companies is one of Canada's largest employers providing jobs to almost 68,000 people. Canada Post, the largest segment with revenue of $4.9 billion for the first three quarters (74.1% of the Group of Companies revenue, after excluding intersegment revenue), is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement. Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians in a secure and financially self-sustaining manner. Canada Post operates the largest retail network in Canada with almost 6,100 retail post offices in the country.

1.1 Significant changes and business developments

Canada Post segment

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

In Q3, Parcels revenue growth exceeded declines in Transaction Mail and Direct Marketing. However, COVID-19 caused significant cost increases, with higher labour costs related to special leaves as well as additional collection, processing and delivery costs. For the year to date in 2020, the net result was a negative estimated impact to earnings before tax of $188 million due to COVID-19, as follows:

Estimated financial impact of COVID-19	**Year to date ended**
(in millions of dollars)	September 26, 2020
Revenue	
Parcels	335
Transaction Mail	(125)
Direct Marketing	(192)
Estimated impact on revenue	**18**
Cost of operations	(206)
Estimated impact on loss before tax	**(188)**

Health and safety

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

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

1.2 Financial highlights

Segment results for the third quarter and the year to date

(in millions of dollars)	Third quarter ended Sept. 26, 2020	Sept. 28, 2019	Change	%	Year to date ended Sept. 26, 2020	Sept. 28, 2019	Change	%
Profit (loss) before tax								
Canada Post Group of Companies	**(216)**	**(87)**	**(129)**	**(148.1)**	**(602)**	**(37)**	**(565)**	**†**
Canada Post	(265)	(135)	(130)	(96.0)	(709)	(162)	(547)	(336.9)
Purolator	42	41	1	3.1	91	105	(14)	(13.1)
Logistics	6	5	1	2.6	12	14	(2)	(14.1)
Other	1	2	(1)	(41.1)	4	6	(2)	(43.0)

† Large percentage change.

In the third quarter of 2020, the Canada Post Group of Companies loss before tax was $216 million. This result was $129 million worse than Q3 2019. The Canada Post segment's loss before tax of $265 million was partly offset by Purolator's profit before tax of $42 million. A loss would have been incurred even without the impact of COVID-19.

For the year to date, the Group of Companies recorded a loss before tax of $602 million, a decrease in profitability of $565 million compared to the same period in 2019. The Canada Post segment contributed $709 million toward this loss in 2020. Although COVID-19 and the arbitrator's decision for the new collective agreements with Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC) contributed to the loss in the Canada Post segment, a loss would have been incurred without these factors.

Canada Post segment

Canada Post segment revenue

(in millions of dollars)	Third quarter ended Sept. 26, 2020	Sept. 28, 2019	Change	%	Year to date ended Sept. 26, 2020	Sept. 28, 2019	Change	%[1]
Parcels	805	619	186	30.0	2,335	1,870	465	25.5
Transaction Mail	545	597	(52)	(8.8)	1,847	2,019	(172)	(8.1)
Direct Marketing	187	247	(60)	(24.1)	563	775	(212)	(26.9)
Other	49	54	(5)	(8.1)	153	169	(16)	(8.3)
Total	**1,586**	**1,517**	**69**	**4.5**	**4,898**	**4,833**	**65**	**1.9**

For the third quarter and the first three quarters of 2020, revenue in the Canada Post segment was $69 million and $65 million higher, respectively, than in the same periods of 2019, with growth in Parcels exceeding declines in Transaction Mail and Direct Marketing.

Parcels revenue grew by $186 million in the third quarter and by $465 million for the year to date in 2020, compared to the same periods in 2019. Volume growth rates in Q3, while still 30% over the same quarter in 2019, started to decline compared to the second quarter of 2020, as stores began to reopen and customers returned to shopping in stores.

Transaction Mail revenue declined by $52 million in the third quarter of 2020 compared to the third quarter of 2019. The impact of COVID-19 caused many businesses to increase digital substitution, while other businesses delayed or cancelled some of their normal mailing programs. For the first three quarters of 2020, erosion was partly offset by a regulated rate increase early in the first quarter for Domestic Lettermail items, international Letter-post items, and special services and fees, for a net decrease of $172 million, compared to the first three quarters of 2019.

Direct Marketing revenue saw decreases of $60 million and $212 million in the third quarter and for the year to date of 2020, respectively, compared to the prior year. The delay or cancellation of marketing campaigns due to COVID-19 and digital substitution continued in the third quarter.

The cost of operations in the Canada Post segment increased by $195 million in the third quarter of 2020 compared to Q3 2019 and were $598 million higher for the first three quarters compared to the same period in the prior year. The increases in Q3, as well as for the year to date, resulted mostly from higher labour costs, including special employee leave, and increased collection, processing and delivery costs resulting from required operational changes due to COVID-19. The accelerated shift in our business from mail to parcels also contributed to higher processing and delivery costs. Additional increases for the year to date resulted from the arbitrator's decision on the new collective agreements with CUPW in the second quarter, adding costs of $134 million, the majority of which was a plan amendment loss of $122 million due to expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC.

At the end of the quarter, market-driven volatility continued to have an impact on the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment and long-term benefits. The solvency deficit (using market value of plan assets) was estimated at $7.6 billion at the end of the third quarter compared to $4.9 billion at December 31, 2019, primarily due to a significant discount rate decrease partially offset by positive investment returns. While a moratorium on solvency special payments relieve the Corporation of making special solvency payments for 2020, market volatility could have a significant effect on solvency payments for 2021 and thereafter. Canada Post continues to work with all stakeholders, including its only shareholder, the Government of Canada, to explore temporary relief options.

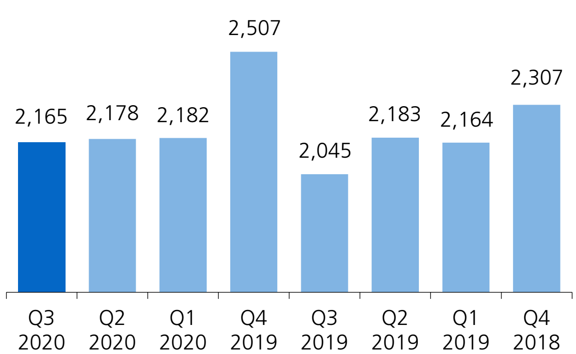
On an accounting basis, remeasurement gains primarily due to positive investment returns partially offset by a decrease in discount rates were recorded in other comprehensive income for the Group of Companies' defined benefit plans of $77 million, net of tax for the third quarter. On a year-to-date basis, remeasurement losses of $1,108 million net of tax were recorded due to a decrease in discount rates partially offset by positive investment returns.

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.

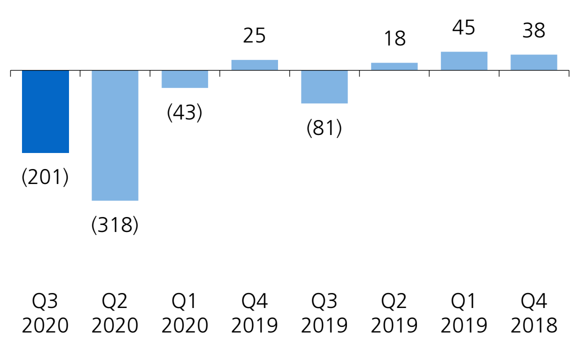
Quarterly consolidated revenue from operations

(in millions of dollars)



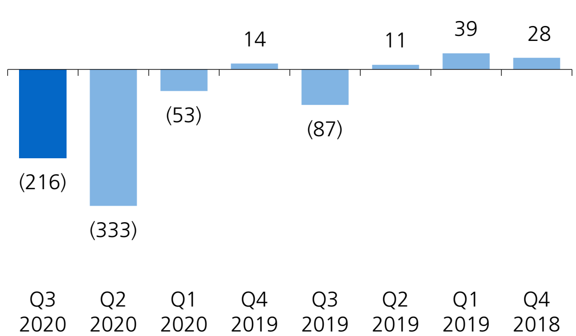
Quarterly consolidated profit (loss) from operations

(in millions of dollars)



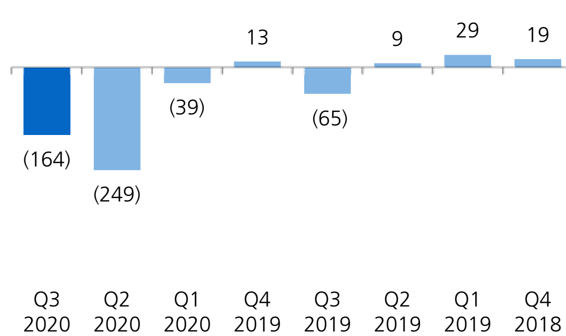
Quarterly consolidated profit (loss) before tax

(in millions of dollars)



Quarterly consolidated net profit (loss)

(in millions of dollars)



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

(in millions of dollars)	Third quarter ended				Year to date ended				
	Sept. 26, 2020	Sept. 28, 2019	Change	%	Sept. 26, 2020	Sept. 28, 2019	Change	%	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	2,165	2,045	120	5.9	6,525	6,392	133	2.6[1]	Growth in the Purolator segment, and, in the Canada Post segment, Parcels growth that was offset by declines in Transaction Mail and Direct Marketing, mostly the result of COVID-19.
Cost of operations	2,366	2,126	240	11.3	7,087	6,410	677	11.1[1]	Higher expenses in the Canada Post segment due to increased labour and employee benefits costs related to the arbitrator's decision and costs due to COVID-19. Also a result of Parcels volume growth in the Canada Post and Purolator segments, related to COVID-19.
Loss from operations	(201)	(81)	(120)	(148.7)	(562)	(18)	(544)	†	Mainly due to a loss in the Canada Post segment.
Loss before tax	(216)	(87)	(129)	(148.1)	(602)	(37)	(565)	†	
Net loss	(164)	(65)	(99)	(153.0)	(452)	(27)	(425)	†	
Comprehensive income (loss)	(85)	2	(87)	*	(1,527)	(1,711)	184	10.9	For the quarter, mainly due to net loss partially offset by remeasurement gains on pension and other post-employment plans due to positive investment returns net of a decrease in discount rates. Year to date, mainly due to net loss and remeasurement losses on pension and other post-employment plans due to a decrease in discount rates partially offset by an increase in investment returns compared to the prior year.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	7	217	(210)	(97.2)	390	233	157	66.6	For the quarter, driven by higher labour and benefit costs as well as changes in non-cash operating working capital. For the year to date, due to CUPW-RSMC pay equity payments in 2019, lower benefit payments in 2020 due to COVID-19 related closures of healthcare providers and changes in non-cash operating working capital.
Cash (used in) provided by investing activities	(35)	54	(89)	(165.0)	(351)	(101)	(250)	(244.9)	For the quarter, mainly due to lower net proceeds from investment activities and higher acquisitions of capital assets. For the year to date, mainly due to lower proceeds from investment activities, partially offset by lower acquisitions of securities and capital assets.
Cash used in financing activities	(29)	(26)	(3)	(5.9)	(83)	(81)	(2)	(0.6)	No material change.

* The calculation is not mathematically meaningful.

† Large percentage change.

2. Core Businesses and Strategy

A discussion of Canada Post's business and strategy

Canada Post segment

In the third quarter, there was no change to our strategic pillars: 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.

We continued to review our risks and adjust our strategy in response to COVID-19. Our top priority remains the health and safety of our employees and Canadians during this challenging time, and we are following recommendations by the Public Health Agency of Canada as we assess the impact of COVID-19 on our operations. We continue to work closely with our bargaining agents and communicate early and often about changes that may affect our employees and the customers we serve.

As COVID-19 related restrictions imposed by governments and health experts evolved through the third quarter, we maintained significant changes in the way we operate our post offices, plants and depots, and deliver items, changes which were instituted during the first half of the year:

- Reduced customer interactions at the door by lifting restrictions on signatures and the transfer of proof-of-age items directly to a post office.
- Added protective barriers and sanitization supplies, instituted physical distancing measures, and reduced hours of operation in post offices.
- Achieved physical distancing in plants and facilities with changes in scheduling, work layouts and work practices to keep employees at least two metres apart in all work areas.
- Distributed gloves, hand sanitizers and wipes, increased frequency of facility cleaning and workstation sanitizing and made face coverings available to all employees.
- Implemented special leave for child and elder care, quarantine and employees at high risk.
- Enhanced screening protocols for contractors accessing our facilities.
- Introduced requirement for mandatory face coverings in our post offices and specific areas of facilities accessible to the public in compliance with emerging provincial and municipal legislation.
- Engaged a multi-function research and response team to ensure accurate, concise direction and guidance on topics such as safety precautions, work refusals, leave provisions, team leader steps for reporting and responding to employees who test positive for COVID-19, tips for leading remote workers, ergonomic home office setup and equipment allowance for working remotely.

While the acceleration of e-commerce market growth has led to growth in our parcel volumes, increased public health measures have constrained our capacity and prevented us from meeting increased consumer demand. To help alleviate volume pressures expected during the 2020 peak season, we are working with business customers and encouraging them to hold early sales, and we are asking Canadians to do their holiday shopping sooner. Our Direct Marketing business experienced heavy declines during the first months of COVID-19 when it was declared a pandemic, and while we are seeing some recovery, volumes are still far from levels before this period. Direct Marketing is important to consumers and especially to small and medium-sized Canadian businesses, many of which have been negatively affected by COVID-19.

Our customers rely on our physical delivery and mail services, and our core strategy remains to support, strengthen and maximize the role we play in this digital and e-commerce era. We strive to be part of an integrated solution that will help Canadians and the world community overcome the economic and health crises as a result of COVID-19.

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

Purolator segment

Purolator's cross-functional taskforce established since COVID-19 was declared a pandemic continues to monitor the effectiveness of the key measures put in place to protect the health and safety of its employees, and the customers and communities it services. Purolator is committed to follow advice from the Public Health Agency of Canada, the United States Centers for Disease Control and Prevention (CDC) and medical experts to guide its response to COVID-19.

Logistics segment

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

3. Key Performance Drivers

A discussion of our key achievements in 2020

The third quarter of 2020 continued to present incredible challenges and uncertainties for our business and the customers we serve. Under advice from public health authorities, we reviewed and upheld policies and procedures implemented earlier in 2020 as our employees and customers adapt to the environment, which is our new way of doing business for now and the foreseeable future.

In keeping the health and safety of our employees and customers our number one priority, we realigned operations as governments implemented staged recovery plans. We reinstated a number of commercial mail, parcel, retail and other temporary measures implemented in the spring, and we adjusted service standards to better manage customer expectations around expected delivery times. Our customer service team worked closely with operations to reduce calls to our customer service representatives. We paid particular attention to tracking visibility and successful delivery scanning, on-time pickup from our commercial customers, and Canada Post Neighbourhood Mail™ deliveries. We also worked with our commercial customers to understand our role in their recovery process and the subsequent changing volumes of all parcels and mail in our network.

Performance scorecards on 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 third 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 33% for the year to date compared to the same period in 2019.

Launched second annual employee engagement survey, encouraging participation with a donation to the Canada Post Community Foundation for each completed survey.

Held four meetings of the Joint National Equity and Diversity Committee in Q3, focused on developing vision and mission statements, a joint anti-racism action plan and preferential hiring pilots to improve representation of Indigenous peoples and persons with disabilities.

Lifted the COVID-19-related staffing pause, however, despite this action the overall hiring for employment equity purposes declined by 30% compared to Q3 2019:

- Indigenous peoples – increased to 6.3% of hires (improvement of 23.5%).
- persons with disabilities – decreased to 5.2% of hires (decline of 25.7%).

Marked two commemorations: Capital Pride Week with lighting at head office and Orange Shirt Day to further Indigenous reconciliation efforts and acknowledge harm done by the residential school system.

Launched the Canada Post Student Award and Internship for students with disabilities, in partnership with the National Educational Association of Disabled Students (NEADS).

Resolved 27% fewer grievances, and 21% fewer grievances were filed to date in 2020, compared to the same period in 2019. Despite the impact of COVID-19, the overall number of outstanding grievances was down 9% compared to 2019.

Delighting our customers

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

Installed over 2,600 indoor parcel lockers to date in 2020 (for a total of almost 12,000), serving customers in condominium and apartment buildings across Canada.

Updated cheque cashing capability in post offices to include the option for customers to receive reloadable Canada Post Visa cards.

Launched campaign *Write Here, Write Now* shortly after the end of the quarter. The campaign aims to help connect Canadians during COVID-19 by encouraging the simple act of mailing friends and family a letter to brighten their day.

Enhanced tools to improve customer experience, including a new version of Canada Post's mobile app for users to prepay duties and taxes on iOS and Android devices. Users pay with face and touch ID on these devices without entering credit card data.

Deployed changes to the virtual customer service agent with over two million track status conversations to date and greater resolution of calls by the virtual agent.

Launched a survey on the delivery accommodation program to seek input from customers on their experience with the program and identify opportunities for improvement. As of the end of the third quarter, 973 applications were received and almost 1,400 solutions were implemented.

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.

Piloted new retail countertops and suspended splash guards made from thicker material with a larger surface area. Criteria for selecting products included more recycled material along with minimal waste of raw materials and packaging. Distribution to post offices is under way.

Awarded contract to build national design guidelines for the built environment, an accessibility audit tool for existing facilities, and a capital investment strategy for accessibility enhancements.

Leveraging our superior network

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

Implemented a second level of safe physical distancing measures in nearly 600 work stations within processing facilities in response to COVID-19, which restored close to 100% of pre-COVID parcel and mail capacity. Safety measures implemented earlier in the year remain in effect in plants, depots, retail outlets and during delivery.

Completed installation of parcel sorting equipment in Moncton and continued implementation of a new packet sorter in Montréal with expected completion in fourth quarter in time for peak season. Received approval and signed a contract for a new parcel sorter in Kitchener, all as part of capacity expansion programs.

Signed contract for sorting equipment for the new processing centre now under construction in the Greater Toronto Area; detailed design of the equipment is under way.

Began operation of two new delivery facilities in Calgary and Regina, providing additional space for parcel growth.

Concluded pilots of automated guided vehicles (AGVs) and motorized material handling equipment (MMHE) telematics, entering into corporate investment phase for national deployment.

Greening Canada Post

Launched a materiality assessment to identify and prioritize sustainability topics of highest importance to our workforce and other stakeholders.

Added almost 180 hybrid light delivery vehicles to our fleet to date in 2020, bringing the total to over 560.

Approved the baseline measurement design to measure the volume of plastic in the mail stream as we seek to influence and introduce best practices in sustainable mail.

Completed an engineering study to understand and identify the steps required to reach carbon neutrality (net zero) in our real estate portfolio.

Began testing equipment to replace single-use plastic shrink wrap with a 100% recyclable paper band on existing shipping boxes.

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

We continue to monitor and follow the guidance of the Public Health Agency of Canada (PHAC), the Government of Canada's lead on the COVID-19 response. Aside from COVID-19 priorities, our focus this year is on addressing issues in locations where we experience high numbers of injuries. Our safety priorities include leadership, mindset change, effective execution, health and wellness, and road safety. Results for the year to date in 2020 showed improvement of total injury frequency by 31% and lost-time injury frequency by 33% compared to the same period in 2019. We are taking action 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.

The update of company-wide safety rules, including a national consequence management framework, was announced to all operations team leaders at the end of the third quarter; the company-wide launch is planned for early Q4. We instituted continuous audits to monitor adherence to safety rules, including physical distancing, and are communicating results with operations leaders to maintain focus on safety.

To address the rise in complaints of workplace harassment and violence, communication campaigns were developed in Q3 for launch in Q4, which include commercial customer outreach, and employee and team leader training. Development and implementation of system modifications to record and report such complaints continue through the balance of 2020.

As part of our continued focus on safety, a national contest *Awake, Alert, Aware* for local joint health and safety committees (LJHSC), focused on mental health and wellness by challenging LJHSCs to submit their best practices for combatting fatigue and stress during the unprecedented parcel volumes caused as a result of COVID-19. Winning ideas were selected by a national jury panel at the end of Q3 and will be implemented nationally, with the winning LJHSCs also being recognized and rewarded.

Labour relations

Canada Post segment

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

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

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

As part of the mediated settlement reached after PSAC's application to the Canada Industrial Relations Board (CIRB), PSAC, APOC (Association of Postal Officials of Canada) and Canada Post continued their joint evaluation of certain jobs that the unions contend should have been included in their bargaining units. The initial phase of mediation concluded in early October, with the parties reaching agreement on the original set of 44 jobs submitted for consideration.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the third 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 third quarter of 2020, there was no difference in the number of business days or paid days compared to the third quarter in 2019. For the year-to-date period of 2020, there was one less business day and one less paid day compared to the same period in 2019, except for the Logistics segment which had one additional business day and one additional paid day compared to the same period in 2019.

(in millions of dollars)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Revenue from operations	2,165	2,178	2,182	2,507	2,045	2,183	2,164	2,307
Cost of operations	2,366	2,496	2,225	2,482	2,126	2,165	2,119	2,269
Profit (loss) from operations	**(201)**	**(318)**	**(43)**	**25**	**(81)**	**18**	**45**	**38**
Investing and financing income (expense), net	(15)	(15)	(10)	(11)	(6)	(7)	(6)	(10)
Profit (loss) before tax	**(216)**	**(333)**	**(53)**	**14**	**(87)**	**11**	**39**	**28**
Tax expense (recovery)	(52)	(84)	(14)	1	(22)	2	10	9
Net profit (loss)	**(164)**	**(249)**	**(39)**	**13**	**(65)**	**9**	**29**	**19**

5.2 Consolidated results from operations

Consolidated results for the third quarter and the year to date

(in millions of dollars)	Third quarter ended Sept. 26, 2020	Sept. 28, 2019	Change	%	Year to date ended Sept. 26, 2020	Sept. 28, 2019	Change	%
Revenue from operations	2,165	2,045	120	5.9	6,525	6,392	133	2.6[1]
Cost of operations	2,366	2,126	240	11.3	7,087	6,410	677	11.1[1]
Loss from operations	**(201)**	**(81)**	**(120)**	**(148.7)**	**(562)**	**(18)**	**(544)**	†
Investing and financing income (expense), net	(15)	(6)	(9)	(140.2)	(40)	(19)	(21)	(106.6)
Loss before tax	**(216)**	**(87)**	**(129)**	**(148.1)**	**(602)**	**(37)**	**(565)**	†
Tax recovery	(52)	(22)	(30)	(133.7)	(150)	(10)	(140)	†
Net loss	**(164)**	**(65)**	**(99)**	**(153.0)**	**(452)**	**(27)**	**(425)**	†
Other comprehensive income (loss)	79	67	12	17.5	(1,075)	(1,684)	609	36.2
Comprehensive income (loss)	**(85)**	**2**	**(87)**	*****	**(1,527)**	**(1,711)**	**184**	**10.9**

* The calculation is not mathematically meaningful.

† Large percentage change.

The Canada Post Group of Companies recorded a loss before tax of $216 million for the third quarter of 2020. Compared to a loss before tax of $87 million in Q3 2019, this result is $129 million worse. For the year to date, the Group of Companies loss before tax was $602 million, or $565 million worse than the same period in 2019. These results were mostly due to losses in the Canada Post segment.

Consolidated revenue from operations

In the third quarter of 2020, revenue from operations increased by $120 million compared to Q3 in the prior year. The Canada Post segment's Parcels line of business and the Purolator segment saw increases in revenue, which exceeded declines in the Canada Post segment's Transaction Mail and Direct Marketing lines of businesses and the Logistics segment. These changes were mostly due to COVID-19. These same factors resulted in year-to-date revenue increases of $133 million compared to 2019.

Consolidated cost of operations

The cost of operations increased by $240 million in the third quarter of 2020, and by $677 million for the first three quarters, compared to the same periods in 2019. Increased costs were related to COVID-19, Parcels volume growth in the Canada Post segment, and volume growth in the Purolator segment. Additionally, year-to-date costs in the Canada Post segment of $134 million were due to the arbitrator's decision for the new collective agreements with CUPW in the second quarter.

Consolidated tax recovery

The consolidated tax recovery increased by $30 million and $140 million in the third quarter and for the year to date of 2020, respectively, compared with the same periods in 2019, as a result of increases in loss before tax.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive income of $79 million for the third quarter of 2020 was due to a remeasurement gain, net of tax, on the Group of Companies' defined benefit plans resulting from positive investment returns that were partially offset by a decrease in discount rates. For the first three quarters, the other comprehensive loss of $1,075 million resulted from remeasurement losses, net of tax, due to decreases in discount rates, partially offset by positive investment returns.

5.3 Operating results by segment

Segmented results – Profit (loss) before tax

	Third quarter ended				Year to date ended			
(in millions of dollars)	Sept. 26, 2020	Sept. 28, 2019	Change	%	Sept. 26, 2020	Sept. 28, 2019	Change	%
Canada Post	(265)	(135)	(130)	(96.0)	(709)	(162)	(547)	(336.9)
Purolator	42	41	1	3.1	91	105	(14)	(13.1)
Logistics	6	5	1	2.6	12	14	(2)	(14.1)
Other	1	2	(1)	(41.1)	4	6	(2)	(43.0)
Canada Post Group of Companies	**(216)**	**(87)**	**(129)**	**(148.1)**	**(602)**	**(37)**	**(565)**	†

† Large percentage change.

5.4 Canada Post segment

The Canada Post segment recorded losses before tax of $265 million in the third quarter and $709 million for the first three quarters of 2020, respectively, compared to losses before tax of $135 million and $162 million for the same periods in 2019, respectively. Growth in Parcels revenue was more than offset by a combination of declines in Transaction Mail and Direct Marketing, and higher labour costs in response to COVID-19.

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

	Third quarter ended				Year to date ended			
(in millions of dollars)	Sept. 26, 2020	Sept. 28, 2019	Change	%	Sept. 26, 2020	Sept. 28, 2019	Change	%
Revenue from operations	1,586	1,517	69	4.5	4,898	4,833	65	1.9[1]
Cost of operations	1,846	1,651	195	11.8	5,586	4,988	598	12.6[1]
Loss from operations	**(260)**	**(134)**	**(126)**	**(94.6)**	**(688)**	**(155)**	**(533)**	**(343.6)**
Investing and financing income (expense), net	(5)	(1)	(4)	(207.8)	(21)	(7)	(14)	(191.3)
Loss before tax	**(265)**	**(135)**	**(130)**	**(96.0)**	**(709)**	**(162)**	**(547)**	**(336.9)**
Tax recovery	(66)	(34)	(32)	(92.7)	(178)	(41)	(137)	(332.6)
Net loss	**(199)**	**(101)**	**(98)**	**(97.1)**	**(531)**	**(121)**	**(410)**	(338.4)

Revenue from operations

Canada Post's revenue from operations increased by $69 million and $65 million in the third quarter and the year to date of 2020, respectively, compared to the same periods in 2019. The estimated total revenue increase attributed to COVID-19 was $18 million for the year to date.

Revenue and volumes by line of business for the third quarter

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	Sept. 26, 2020	Sept. 28, 2019	Change	%	Sept. 26, 2020	Sept. 28, 2019	Change	%
Parcels								
Domestic Parcels	611	464	147	31.6	69	49	20	40.7
Outbound Parcels	69	54	15	26.8	3	3	–	39.7
Inbound Parcels	120	95	25	27.0	23	21	2	7.8
Other	5	6	(1)	(21.2)	–	–	–	–
Total Parcels	**805**	**619**	**186**	**30.0**	**95**	**73**	**22**	**31.1**
Transaction Mail								
Domestic Lettermail	510	561	(51)	(9.2)	528	598	(70)	(11.8)
Outbound Letter-post	16	19	(3)	(15.2)	7	9	(2)	(19.8)
Inbound Letter-post	19	17	2	11.6	22	22	–	0.8
Total Transaction Mail	**545**	**597**	**(52)**	**(8.8)**	**557**	**629**	**(72)**	**(11.5)**
Direct Marketing								
Personalized Mail™	86	112	(26)	(24.2)	152	206	(54)	(26.1)
Neighbourhood Mail™	66	94	(28)	(29.2)	600	807	(207)	(25.7)
Total Smartmail Marketing™	**152**	**206**	**(54)**	**(26.4)**	**752**	**1,013**	**(261)**	**(25.8)**
Publications Mail™	28	33	(5)	(13.8)	40	48	(8)	(14.5)
Business Reply Mail™ and Other Mail	4	5	(1)	(8.7)	3	3	–	(12.8)
Other	3	3	–	(6.6)	–	–	–	–
Total Direct Marketing	**187**	**247**	**(60)**	**(24.1)**	**795**	**1,064**	**(269)**	**(25.3)**
Other Revenue	49	54	(5)	(8.1)	–	–	–	–
Total	**1,586**	**1,517**	**69**	**4.5**	**1,447**	**1,766**	**(319)**	**(18.0)**

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

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	Sept. 26, 2020	Sept. 28, 2019	Change	%[1]	Sept. 26, 2020	Sept. 28, 2019	Change	%[1]
Parcels								
Domestic Parcels	1,827	1,408	419	30.4	202	151	51	34.9
Outbound Parcels	193	168	25	15.6	9	7	2	26.3
Inbound Parcels	301	277	24	9.2	59	60	(1)	(1.7)
Other	14	17	(3)	(19.1)	–	–	–	–
Total Parcels	**2,335**	**1,870**	**465**	**25.5**	**270**	**218**	**52**	**24.5**
Transaction Mail								
Domestic Lettermail	1,736	1,897	(161)	(8.0)	1,818	2,004	(186)	(8.8)
Outbound Letter-post	56	67	(11)	(16.0)	26	32	(6)	(16.8)
Inbound Letter-post	55	55	–	(0.7)	55	67	(12)	(17.3)
Total Transaction Mail	**1,847**	**2,019**	**(172)**	**(8.1)**	**1,899**	**2,103**	**(204)**	**(9.2)**
Direct Marketing								
Personalized Mail	256	350	(94)	(26.6)	454	640	(186)	(28.6)
Neighbourhood Mail	194	294	(100)	(33.5)	1,696	2,529	(833)	(32.6)
Total Smartmail Marketing	**450**	**644**	**(194)**	**(29.7)**	**2,150**	**3,169**	**(1,019)**	**(31.8)**
Publications Mail	91	107	(16)	(14.5)	131	157	(26)	(16.2)
Business Reply Mail and Other Mail	13	15	(2)	(10.4)	9	11	(2)	(15.8)
Other	9	9	–	(2.3)	–	–	–	–
Total Direct Marketing	**563**	**775**	**(212)**	**(26.9)**	**2,290**	**3,337**	**(1,047)**	**(31.0)**
Other Revenue	153	169	(16)	(8.3)	–	–	–	–
Total	**4,898**	**4,833**	**65**	**1.9**	**4,459**	**5,658**	**(1,199)**	**(20.8)**

Parcels

Volume growth of 31.1% for Parcels in the third quarter of 2020 was higher than in the same quarter of 2019. This was partly due to more Canadians shopping from home during COVID-19. It was also the result of progress we made in clearing the backlog from Q2 of domestic and inbound items in our network, which reduced delays for customers, as more businesses opened their doors and customers returned to shopping in stores at the beginning of Q3. However, compared to the second quarter of 2020, the growth rate declined with these reopenings and easing of restrictions. Toward the end of the quarter, while there was strong growth in Domestic Parcels and Inbound Parcels from the U.S., volumes for the rest of the world increased to a lesser degree due to limited air transportation availability from many countries. For the year to date, volume growth was 24.5%, and although we did our best to manage this growth, we were constrained by our capacity, and this is expected to continue for the rest of the year. Revenue growth of $335 million for the year to date in 2020 is estimated to be due to COVID-19.

Transaction Mail

In the third quarter and for the year to date of 2020, total volume erosion was 11.5% and 9.2% respectively. These declines in Lettermail™ volumes are larger than we would have expected without COVID-19 and are expected to continue in the months to come. Higher erosion in the telecommunications and utilities sectors occurred as businesses in these sectors significantly increased their push for digital conversion of customers during COVID-19. Continued erosion is expected for the balance of 2020 and in future years. The negative impact to revenue was partially offset by a regulated rate increase that took effect in the first quarter for Lettermail items, international Letter-post items and special services and fees, and other non-volume related revenue. COVID-19 was estimated to have caused additional erosion of $125 million for the first three quarters of 2020.

Direct Marketing

Direct Marketing volume erosion was 25.3% and 31.0% for the third quarter and year to date of 2020, respectively. Early in the quarter, declines in Neighbourhood Mail started to ease as businesses began to cautiously reopen. However, the major increases in volumes we would typically see in August for back-to-school promotions did not materialize as advertisers remained cautious amid concerns about driving too much traffic into their stores with the need for physical distancing during COVID-19, as well as concerns regarding necessary inventory levels. We anticipate a very gradual recovery of our Direct Marketing business. An estimated $192 million revenue decline for the year to date of 2020 is attributed to COVID-19.

Other revenue

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

Cost of operations

Cost of operations for the Canada Post segment increased by $195 million in the third quarter and by $598 million for the year to date, compared to the same periods in 2019. The increases in the third quarter were largely from costs associated with COVID-19, including higher labour costs, special employee leave, as well as increased collection, processing and delivery costs resulting from required operational changes. The accelerated shift in our business from mail to parcels also contributed to increased costs as processing and delivering parcels are more costly than sorting and delivering letters. For the year to date, the arbitrator's decision in the second quarter resulted in additional labour and benefits costs of $134 million, mostly related to expanded eligibility for post-employment healthcare benefits to employees represented by CUPW-RSMC. Benefit costs also increased as a result of lower discount rates. The estimated total cost of operations increase attributed to COVID-19 was $206 million for the year to date.

(in millions of dollars)	Third quarter ended Sept. 26, 2020	Sept. 28, 2019	Change	%	Year to date ended Sept. 26, 2020	Sept. 28, 2019	Change	%[1]
Labour	899	827	72	8.7	2,688	2,496	192	8.3
Employee benefits	393	329	64	19.4	1,258	997	261	26.8
Total labour and employee benefits	**1,292**	**1,156**	**136**	**11.8**	**3,946**	**3,493**	**453**	**13.6**
Non-labour collection, processing and delivery	287	239	48	19.8	841	734	107	15.1
Property, facilities and maintenance	51	47	4	9.5	158	148	10	7.6
Selling, administrative and other	140	132	8	6.4	408	383	25	7.0
Total other operating costs	**478**	**418**	**60**	**14.4**	**1,407**	**1,265**	**142**	**11.8**
Depreciation and amortization	76	77	(1)	(1.5)	233	230	3	1.8
Total	**1,846**	**1,651**	**195**	**11.8**	**5,586**	**4,988**	**598**	**12.6**

Labour

Labour costs increased by $72 million and $192 million in the third quarter and the first three quarters, respectively, compared to the same periods in 2019. These increases were mainly due to higher costs related to COVID-19, such as special employee leave, and increased collection, processing and delivery costs resulting from higher Parcels growth, alongside physical distancing measures, as well as ongoing network growth and inflation.

Employee benefits

Benefit costs were $64 million higher in the third quarter of 2020, compared to Q3 2019 primarily as a result of increased labour costs and wage increases, as well as a decrease in the discount rate used to measure non-cash pension expense in 2020 compared to 2019. For the year to date, benefit costs increased by $261 million compared to the same period in 2019. The main factor was the plan amendment loss recognized in the second quarter. Other factors contributing to this cost increase were a decrease in the discount rate used to measure non-cash pension and other long-term expense in 2020, compared to 2019, a decrease in income on segregated assets in 2020, which included a realized gain, as well as increased labour costs and wage increase payments. These increases were partly offset by a decrease in employee benefit costs due to temporary closures of healthcare providers.

Non-labour collection, processing and delivery

Higher expenses for transportation, maintenance, repairs and operating supplies, international settlements, and urban mail delivery were all due to Parcels volume growth related to COVID-19, as well as spending on health and safety supplies that resulted in increases to contracted collection, processing and delivery costs of $48 million and $107 million, in the third quarter and the year to date, respectively, compared to 2019.

Property, facilities and maintenance

Facilities cost increases of $4 million in the third quarter and $10 million for the first three quarters of 2020, compared to the same periods in 2019, were due to increased cleaning and maintenance costs related to COVID-19.

Selling, administrative and other

Selling, administrative and other expenses increased by $8 million in the third quarter of 2020, and by $25 million for the year to date, compared to the same periods in the prior year mainly due to higher spending on program expenses and bad debt allowances, partly offset by travel savings related to COVID-19.

Depreciation and amortization

Increased capital expenditures on infrastructure capacity caused depreciation and amortization expenses to rise by $3 million for the year to date in 2020, compared to the same period in 2019, while the cost for the third quarter was mostly unchanged.

5.5 Purolator segment

The Purolator segment's profit before tax increased by $1 million in the third quarter of 2020, but decreased by $14 million for the year to date, compared to the same periods in the prior year.

Purolator results for the third quarter and the year to date

(in millions of dollars)	Third quarter ended Sept. 26, 2020	Sept. 28, 2019	Change	%	Year to date ended Sept. 26, 2020	Sept. 28, 2019	Change	%
Revenue from operations	**538**	473	65	13.7	1,499	1,399	100	7.8[1]
Cost of operations	487	428	59	13.5	1,391	1,284	107	8.9[1]
Profit from operations	**51**	**45**	**6**	**15.3**	**108**	**115**	**(7)**	**(5.7)**
Investing and financing income (expense), net	(9)	(4)	(5)	(153.4)	(17)	(10)	(7)	(74.2)
Profit before tax	**42**	**41**	**1**	**3.1**	**91**	**105**	**(14)**	**(13.1)**
Tax expense	12	11	1	18.9	24	28	(4)	(11.1)
Net profit	**30**	**30**	**–**	**(2.4)**	**67**	**77**	**(10)**	**(13.8)**

In the third quarter, as the COVID-19 situation stabilized and the broader economy began recovering, Purolator continued to benefit from increased online shopping and the gradual reopening of non-essential businesses. Express volume grew 15.3% year over year in the third quarter led by significant growth in business-to-consumer volume of 54.7%. Business-to-business volume recovered from a significant year-over-year decline of 22.2% in Q2 to a marginal decline of 1.8% in Q3. Revenue from operations increased by $65 million and $100 million in the third quarter and the year to date of 2020, respectively, compared to the same periods in 2019, mainly due to increased volumes from the business-to-consumer market, a result of consumer buying behaviour shifting toward online shopping.

Annual salary increases and business growth caused labour costs to increase by $31 million in Q3 2020, over the same period in 2019. Non-labour costs increased by $28 million in the third quarter of 2020, compared to the same period in the prior year, primarily due to business growth and additional costs incurred by the company for the implementation of COVID-19 safety and prevention measures.

5.6 Logistics segment

The Logistics segment's profit before tax increased by 2.6% in the third quarter and decreased by 14.1% for the year to date of 2020, compared to the same periods in 2019.

Logistics results for the third quarter and the year to date

(in millions of dollars)	Third quarter ended Sept. 26, 2020	Sept. 28, 2019	Change	%	Year to date ended Sept. 26, 2020	Sept. 28, 2019	Change	%
Revenue from operations	**81**	86	(5)	(5.7)	238	251	(13)	(5.8)[1]
Cost of operations	74	79	(5)	(6.5)	223	234	(11)	(5.3)[1]
Profit from operations	**7**	**7**	**–**	**3.4**	**15**	**17**	**(2)**	**(11.9)**
Investing and financing income (expense), net	(1)	(2)	1	–	(3)	(3)	–	(1.8)
Profit before tax	**6**	**5**	**1**	**2.6**	**12**	**14**	**(2)**	**(14.1)**
Tax expense	1	1	–	2.8	3	3	–	(13.5)
Net profit	**5**	**4**	**1**	**2.5**	**9**	**11**	**(2)**	**(14.3)**

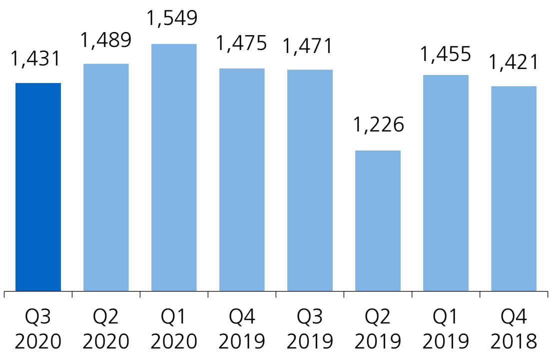
Revenue from operations and cost of operations each decreased by $5 million in the third quarter of 2020, compared to 2019, and by $13 million and $11 million, respectively, for the year to date compared to the prior year, mainly due to customer attrition and decreases in certain customer volumes, a portion of which related to COVID-19. The impact to revenue from operations and cost of operations is expected to continue to be significant for the remainder of 2020 due to the attrition and changing customer volumes, resulting from COVID-19, along with increased costs to operate safely in this environment. SCI is focused on ensuring customer service continues and has deployed mitigation plans to address operating profit impacts, including increased accounts receivable risk.

6. Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

(in millions of dollars)



The Group of Companies held cash and cash equivalents of $1,431 million as at September 26, 2020. The decrease of $44 million compared to December 31, 2019, was mostly due to acquisitions of capital assets and repayments of lease liabilities, partially offset by cash provided by operating activities, mainly from pension, other post-employment and long-term benefit expenses exceeding payments.

6.2 Operating activities

	Third quarter ended			**Year to date ended**		
(in millions of dollars)	Sept. 26, 2020	Sept. 28, 2019	Change	Sept. 26, 2020	Sept. 28, 2019	Change
Cash provided by operating activities	7	217	(210)	390	233	157

Cash from operating activities decreased by $210 million in the third quarter of 2020 compared to the same period in 2019. The negative change in 2020 cash flow was driven by higher labour costs (due to COVID-19, including special employee leave, and increased collection, processing and delivery costs related to Parcels growth), higher employee benefit costs (related to the plan amendment in Q2 as well as a decrease in discount rates used to measure future benefit expenses in 2020 compared to 2019) and from changes in non-cash operating working capital. For the year to date, cash provided by operating activities increased by $157 million. The positive change in 2020 cash flow was primarily due to CUPW-RSMC pay equity payments made in June 2019, lower benefit payments in 2020 mainly as a result of timing and COVID-19 related closures of healthcare providers and changes in non-cash operating working capital. This was partially offset by higher labour costs and benefit expenses.

6.3 Investing activities

	Third quarter ended			**Year to date ended**		
(in millions of dollars)	Sept. 26, 2020	Sept. 28, 2019	Change	Sept. 26, 2020	Sept. 28, 2019	Change
Cash (used in) provided by investing activities	(35)	54	(89)	(351)	(101)	(250)

Cash used in investing activities increased by $89 million in the third quarter of 2020, compared to the same period in 2019, mainly due to lower net proceeds from investment activities combined with higher acquisitions of capital assets in the Purolator segment. For the year to date, cash used in investing activities increased by $250 million compared to the same period in 2019, mainly due to lower proceeds from the sales of short-term investments, partially offset by lower acquisitions of securities and lower acquisitions of capital assets in the Canada Post and Logistics segments.

Capital expenditures

	Third quarter ended			Year to date ended		
(in millions of dollars)	Sept. 26, 2020	Sept. 28, 2019	Change	Sept. 26, 2020	Sept. 28, 2019	Change
Canada Post	89	90	(1)	208	252	(44)
Purolator	45	26	19	85	76	9
Logistics	2	4	(2)	6	19	(13)
Innovapost and intersegment	2	2	–	2	2	–
Canada Post Group of Companies	**138**	**122**	**16**	**301**	**349**	**(48)**

Capital expenditures for the Group of Companies increased by $16 million in the third quarter compared to the third quarter of 2019, mainly due to higher acquisitions in the Purolator segment. For the year to date, capital expenditures decreased by $48 million, compared to the same period in 2019, mostly the result of lower spending on infrastructure capacity in the Canada Post segment, and lower acquisitions in the Logistics segment.

6.4 Financing activities

	Third quarter ended			Year to date ended		
(in millions of dollars)	Sept. 26, 2020	Sept. 28, 2019	Change	Sept. 26, 2020	Sept. 28, 2019	Change
Cash used in financing activities	(29)	(26)	(3)	(83)	(81)	(2)

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

6.5 Canada Post Corporation Registered Pension Plan

As a result of the impact of COVID-19 on the economy, the *Solvency Special Payment Relief Regulations* came into force in the second quarter of 2020, establishing a moratorium on solvency special payments for the remainder of 2020 for federally regulated, defined benefit pension plans. These regulations relieve the Corporation of making $368 million of special solvency payments for 2020. Market volatility could have a significant effect on solvency payments for 2021 and thereafter. Canada Post continues to work with all stakeholders, including its only shareholder, the Government of Canada, to explore temporary relief options.

At the end of the third quarter, the solvency deficit (using market value of plan assets) of the Canada Post Corporation Registered Pension Plan (RPP) was estimated at $7.6 billion, compared to $4.9 billion at December 31, 2019. The deficit continues to be affected by low discount rates; however, a small offset due to positive investment returns was observed at the end of Q3.

On an accounting basis, a remeasurement gain of $75 million for the RPP, net of tax, was recorded in other comprehensive income for the third quarter of 2020, due to positive investment returns, partially offset by a decrease in the discount rate. For the first three quarters of 2020, remeasurement losses, net of tax, amounted to $855 million due to a decrease in the discount rate, partially offset by positive investment returns.

Current service contributions amounted to $73 million and $176 million, respectively, for the third quarter and first three quarters of 2020, compared to $85 million and $208 million, respectively, for the same periods in 2019 (2019 amounts for the third quarter and the year to date include $19 million of contributions related to the pay equity ruling for the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers).

6.6 Liquidity and capital resources

Liquidity

The Canada Post segment had $2,245 million of unrestricted liquid investments on hand as at September 26, 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 $379 million of unrestricted cash on hand and undrawn credit facilities of $145 million as at September 26, 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 September 26, 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 September 26, 2020, and December 31, 2019

(in millions of dollars)

ASSETS	Sept. 26, 2020	Dec. 31, 2019	Change	%	Explanation of change
Cash and cash equivalents	1,431	1,475	(44)	(2.9)	Refer to Section 6 Liquidity and capital resources.
Marketable securities	1,193	1,077	116	10.9	Due to purchase of corporate bonds.
Trade and other receivables	914	1,011	(97)	(9.7)	Mainly due to lower trade receivables and international trade settlement receivables in the Canada Post segment.
Other assets	196	171	25	14.5	Mainly due to a higher income tax receivable balance in the Canada Post segment.
Total current assets	**3,734**	**3,734**	**–**	**–**	
Marketable securities	60	171	(111)	(64.8)	Due to maturity of corporate bonds.
Property, plant and equipment	2,982	2,942	40	1.4	Mainly due to acquisitions in excess of depreciation.
Intangible assets	151	124	27	21.6	Mainly due to acquisitions in the Logistics and Other segments.
Right-of-use assets	1,205	1,113	92	8.2	Mainly due to acquisitions (new leases and lease renewals) exceeding depreciation in the Canada Post and Purolator segments.
Segregated securities	565	514	51	10.0	Mainly due to unrealized gains in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	27	75	(48)	(64.8)	Mainly due to remeasurement losses resulting from a decrease in discount rates and lower than expected investment returns.
Deferred tax assets	2,129	1,659	470	28.3	Mainly due to the increase of temporary differences related to remeasurement losses on Canada Post's pension and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	101	65	36	55.6	Mainly due to deposits made for upcoming capital purchases in the Purolator segment.
Total non-current assets	**7,350**	**6,793**	**557**	**8.2**	
Total assets	**11,084**	**10,527**	**557**	**5.3**	

(in millions of dollars)

LIABILITIES	Sept. 26, 2020	Dec. 31, 2019	Change	%	Explanation of change
Trade and other payables	705	676	29	4.4	Mainly due to higher trade payables in the Purolator segment partially due to high parcel volumes.
Salaries and benefits payable and related provisions	786	839	(53)	(6.3)	Mainly due to lower accrued salaries in the Canada Post segment.
Provisions	56	55	1	1.3	No material change.
Deferred revenue	150	152	(2)	(0.9)	No material change.
Lease liabilities	122	116	6	5.3	No material change.
Other long-term benefit liabilities	63	63	–	–	No change.
Total current liabilities	**1,882**	**1,901**	**(19)**	**(0.9)**	
Lease liabilities	1,271	1,183	88	7.5	Mainly due to acquisitions (new leases and lease renewals) in the Canada Post and Purolator segments net of lease payments.
Loans and borrowings	997	997	–	–	No change.
Pension, other post-employment and other long-term benefit liabilities	8,508	6,498	2,010	30.9	Mainly due to remeasurement losses resulting from a decrease in discount rates partially offset by positive investment returns.
Other liabilities	25	20	5	14.3	No material change.
Total non-current liabilities	**10,801**	**8,698**	**2,103**	**24.1**	
Total liabilities	**12,683**	**10,599**	**2,084**	**19.7**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	97	64	33	52.3	Mainly due to unrealized gains on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Accumulated deficit	(2,887)	(1,326)	(1,561)	(117.7)	Mainly driven by remeasurement losses in the Canada Post segment mostly resulting from a decrease in discount rates partially offset by positive investment returns.
Equity of Canada	**(1,635)**	**(107)**	**(1,528)**	†	
Non-controlling interests	36	35	1	2.0	
Total equity	**(1,599)**	**(72)**	**(1,527)**	†	
Total liabilities and equity	**11,084**	**10,527**	**557**	**5.3**	

† Large percentage change.

8. Risks and Risk Management

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

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

COVID-19

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

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

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

During this difficult time, Canada Post continues to deliver important services that customers rely on while monitoring the situation and adapting operations to keep employees and Canadians safe, including delivery changes such as *Knock, Drop, and Go* and suspending the customer signature requirement for most items. As part of its commitment to helping customers respond, adapt and recover during COVID-19, Canada Post launched the *Think Small* campaign to help small businesses succeed by providing savings on shipping through *Free Shipping Tuesdays* and valuable marketing offers. This campaign also offers insights, thought leadership, and resources related to e-commerce, shipping and marketing, so that small businesses can more effectively promote their offerings and engage with customers.

Efforts to minimize the negative impact on Canada Post's mail business include increased customer account management support, engagement with industry partners and providing customers with access to data, and targeting solutions enabling Smartmail Marketing™ products. For the Parcels line of business, volume management solutions, such as modifying delivery standards and shifting volume to locations with available capacity, have been put in place to reduce backlogs and minimize delays. Also, enhanced planning efforts and promotions are ongoing to reduce volume surges and ensure that parcels can be accommodated and delivered efficiently during peak periods. Canada Post is also working with major customers to manage demand and improve the flow of parcels within our network, as well as encouraging Canadians to shop early during the upcoming holiday period.

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

Labour agreements

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

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

In June 2017, the Quebec Superior Court authorized a class-action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in the province of Quebec may have made, between July 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by Quebec's *Act respecting prescription drug insurance*. The plaintiff for the class is essentially asking that Canada Post abide by the "out of pocket" maximum provisions of the Act and is seeking, for all members of the class, reimbursement of the amounts paid since July 2013, which exceeded the maximum provisions. Litigation is ongoing. The trial date has yet to be set, but it is expected to be, at the earliest, in the fall of 2021. The outcome of this class action is currently not determinable.

Accelerated delivery service – Class-action lawsuit

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

9. Critical Accounting Estimates and Accounting Policy Developments

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

9.1 Critical accounting estimates and estimation uncertainties

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

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

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

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

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

The Corporation adopted certain amendments issued by the International Accounting Standards Board (IASB) with effective dates of January 1, 2020, or from their date of issue, which resulted in no material change to the Corporation's interim financial statements.

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

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

Standard or amendment	Effective for annual periods beginning on or after
Amendments to IAS 1 "Presentation of Financial Statements"	January 1, 2023
Amendments to IFRS 3 "Business Combinations – Reference to the Conceptual Framework"	January 1, 2022
Amendments to IAS 16 "Property, Plant and Equipment – Proceeds before Intended Use"	January 1, 2022
Amendments to IAS 37 "Onerous Contracts – Cost of Fulfilling a Contract"	January 1, 2022
Annual Improvements to IFRS Standards 2018-2020	January 1, 2022

Endnote

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

Management's Responsibility for Interim Financial Reporting

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

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

D. Ettinger

President and CEO

W. G. Chuserman

Chief Financial Officer

November 19, 2020

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	Notes	September 26, 2020	December 31, 2019
Assets			
Current assets			
Cash and cash equivalents		**$ 1,431**	$ 1,475
Marketable securities		**1,193**	1,077
Trade, other receivables and contract assets		**914**	1,011
Other assets	**4**	**196**	171
Total current assets		**3,734**	3,734
Non-current assets			
Marketable securities		**60**	171
Property, plant and equipment	**5**	**2,982**	2,942
Intangible assets	**5**	**151**	124
Right-of-use assets	**5**	**1,205**	1,113
Segregated securities		**565**	514
Pension benefit assets	**6**	**27**	75
Deferred tax assets		**2,129**	1,659
Goodwill		**130**	130
Other assets	**4**	**101**	65
Total non-current assets		**7,350**	6,793
Total assets		**$ 11,084**	$ 10,527
Liabilities and equity			
Current liabilities			
Trade and other payables		**$ 705**	$ 676
Salaries and benefits payable and related provisions		**786**	839
Provisions		**56**	55
Deferred revenue		**150**	152
Lease liabilities	**7**	**122**	116
Other long-term benefit liabilities	**6**	**63**	63
Total current liabilities		**1,882**	1,901
Non-current liabilities			
Lease liabilities	**7**	**1,271**	1,183
Loans and borrowings		**997**	997
Pension, other post-employment and other long-term benefit liabilities	**6**	**8,508**	6,498
Other liabilities		**25**	20
Total non-current liabilities		**10,801**	8,698
Total liabilities		**12,683**	10,599
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income	**8**	**97**	64
Accumulated deficit		**(2,887)**	(1,326)
Equity of Canada		**(1,635)**	(107)
Non-controlling interests		**36**	35
Total equity		**(1,599)**	(72)
Total liabilities and equity		**$ 11,084**	$ 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 (Loss)

For the		13 weeks ended		39 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	**September 26, 2020**	September 28, 2019	**September 26, 2020**	September 28, 2019
Revenue from operations	**15**	**$ 2,165**	$ 2,045	**$ 6,525**	$ 6,392
Cost of operations					
Labour		**1,154**	1,061	**3,429**	3,199
Employee benefits		**450**	379	**1,433**	1,156
		1,604	1,440	**4,862**	4,355
Other operating costs	**12**	**656**	577	**1,904**	1,735
Depreciation and amortization	**5**	**106**	109	**321**	320
Total cost of operations		**2,366**	2,126	**7,087**	6,410
Loss from operations		**(201)**	(81)	**(562)**	(18)
Investing and financing income (expense)					
Investment and other income	**13**	**8**	18	**31**	52
Finance costs and other expense	**13**	**(23)**	(24)	**(71)**	(71)
Investing and financing expense, net		**(15)**	(6)	**(40)**	(19)
Loss before tax		**(216)**	(87)	**(602)**	(37)
Tax recovery		**(52)**	(22)	**(150)**	(10)
Net loss		**$ (164)**	$ (65)	**$ (452)**	$ (27)
Other comprehensive income (loss)					
Items that may be reclassified subsequently to net profit (loss)					
Change in unrealized fair value of financial assets		**$ 2**	$ 4	**$ 33**	$ 37
Reclassification adjustments for gains included in net loss		**–**	–	**–**	(7)
Items that will not be reclassified to net profit (loss)					
Remeasurements of defined benefit plans	**6**	**77**	63	**(1,108)**	(1,714)
Other comprehensive income (loss)	**8**	**79**	67	**(1,075)**	(1,684)
Comprehensive income (loss)		**$ (85)**	$ 2	**$ (1,527)**	$ (1,711)
Net profit (loss) attributable to					
Government of Canada		**$ (166)**	$ (67)	**$ (457)**	$ (33)
Non-controlling interests		**2**	2	**5**	6
		$ (164)	$ (65)	**$ (452)**	$ (27)
Comprehensive income (loss) attributable to					
Government of Canada		**$ (88)**	$ (1)	**$ (1,528)**	$ (1,711)
Non-controlling interests		**3**	3	**1**	–
		$ (85)	$ 2	**$ (1,527)**	$ (1,711)

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 September 26, 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 June 27, 2020	**$ 1,155**	**$ 95**	**$ (2,797)**	**$ (1,547)**	**$ 33**	**$ (1,514)**
Net profit (loss)	**–**	**–**	**(166)**	**(166)**	**2**	**(164)**
Other comprehensive income (Note 8)	**–**	**2**	**76**	**78**	**1**	**79**
Comprehensive income (loss)	**–**	**2**	**(90)**	**(88)**	**3**	**(85)**
Balance at September 26, 2020	**$ 1,155**	**$ 97**	**$ (2,887)**	**$ (1,635)**	**$ 36**	**$ (1,599)**

For the 13 weeks ended September 28, 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 June 29, 2019	$ 1,155	$ 69	$ (3,144)	$ (1,920)	$ 33	$ (1,887)
Net profit (loss)	–	–	(67)	(67)	2	(65)
Other comprehensive income (Note 8)	–	4	62	66	1	67
Comprehensive income (loss)	–	4	(5)	(1)	3	2
Balance at September 28, 2019	$ 1,155	$ 73	$ (3,149)	$ (1,921)	$ 36	$ (1,885)

For the 39 weeks ended September 26, 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)	**–**	**–**	**(457)**	**(457)**	**5**	**(452)**
Other comprehensive income (loss) (Note 8)	**–**	**33**	**(1,104)**	**(1,071)**	**(4)**	**(1,075)**
Comprehensive income (loss)	**–**	**33**	**(1,561)**	**(1,528)**	**1**	**(1,527)**
Balance at September 26, 2020	**$ 1,155**	**$ 97**	**$ (2,887)**	**$ (1,635)**	**$ 36**	**$ (1,599)**

For the 39 weeks ended September 28, 2019 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance as at December 31, 2018	$ 1,155	$ 43	$ (1,408)	$ (210)	$ 36	$ (174)
Net profit (loss)	–	–	(33)	(33)	6	(27)
Other comprehensive income (loss) (Note 8)	–	30	(1,708)	(1,678)	(6)	(1,684)
Comprehensive income (loss)	–	30	(1,741)	(1,711)	–	(1,711)
Balance at September 28, 2019	$ 1,155	$ 73	$ (3,149)	$ (1,921)	$ 36	$ (1,885)

Interim Condensed Consolidated Statement of Cash Flows

For the		13 weeks ended		39 weeks ended	
(Unaudited – in millions of Canadian dollars)	Notes	**September 26, 2020**	September 28, 2019	**September 26, 2020**	September 28, 2019
Cash flows from operating activities					
Net loss		**$ (164)**	$ (65)	**$ (452)**	$ (27)
Adjustments to reconcile net loss to cash provided by operating activities:					
Depreciation and amortization	**5**	**106**	109	**321**	320
Pension, other post-employment and other long-term benefit expense	**6**	**278**	239	**949**	697
Pension, other post-employment and other long-term benefit payments	**6**	**(137)**	(155)	**(369)**	(436)
Gain on sale of capital assets and assets held for sale	**13**	**–**	–	**–**	(1)
Tax recovery		**(52)**	(22)	**(150)**	(10)
Net interest expense	**13**	**14**	6	**33**	13
Change in non-cash operating working capital:					
Decrease in trade and other receivables		**80**	26	**99**	83
(Decrease) increase in trade and other payables		**(41)**	(1)	**32**	(100)
(Decrease) increase in salaries and benefits payable and related provisions		**(95)**	41	**(53)**	(164)
Increase (decrease) in provisions		**1**	2	**(2)**	(2)
Net change in other non-cash operating working capital		**(4)**	5	**–**	(59)
Other income not affecting cash, net		**–**	(4)	**(7)**	(20)
Cash (used in) provided by operations before interest and tax		**(14)**	181	**401**	294
Interest received		**8**	17	**40**	58
Interest paid		**(31)**	(30)	**(73)**	(71)
Tax paid		**44**	49	**22**	(48)
Cash provided by operating activities		**7**	217	**390**	233
Cash flows from investing activities					
Acquisition of securities		**(193)**	(426)	**(1,170)**	(1,442)
Proceeds from sale of securities		**335**	602	**1,156**	1,697
Acquisition of capital assets		**(138)**	(122)	**(301)**	(349)
Proceeds from sale of capital assets		**–**	–	**1**	(7)
Other investing activities, net		**(39)**	–	**(37)**	–
Cash (used in) provided by investing activities		**(35)**	54	**(351)**	(101)
Cash flows from financing activities					
Repayments of lease liabilities, net of sublease proceeds		**(29)**	(26)	**(83)**	(81)
Cash used in financing activities		**(29)**	(26)	**(83)**	(81)
Net (decrease) increase in cash and cash equivalents		**(57)**	245	**(44)**	51
Cash and cash equivalents, beginning of period		**1,489**	1,226	**1,475**	1,421
Effect of exchange rate changes on cash and cash equivalents		**(1)**	–	**–**	(1)
Cash and cash equivalents, end of period		**$ 1,431**	$ 1,471	**$ 1,431**	$ 1,471

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

Notes to Interim Condensed Consolidated Financial Statements

For the 39 weeks ended September 26, 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 November 19, 2020.

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

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

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

Significant accounting policies • Significant accounting policies used in these interim financial statements are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2019, except for the application of new standards, amendments and interpretations effective January 1, 2020, disclosed in Note 3 of the Corporation's interim financial statements for the quarters ended March 28, 2020, and June 27, 2020, as well as in Note 3 (a) in these interim financial statements. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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

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

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

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

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

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

3. Application of New and Revised International Financial Reporting Standards

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

Other than those disclosed in Note 3 (a) of the 2020 First and Second Quarter Financial Reports, there were no new standards, amendments or interpretations issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that required mandatory adoption in the third quarter.

(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, and in Note 3 (b) of the Corporation's quarterly consolidated financial statements for the second quarter ended June 27, 2020, new standards, amendments and interpretations issued by the IASB or the Interpretations Committee that could have a possible effect on the Group of Companies in the future include the following:

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

4. Other Assets

As at (in millions)	**September 26, 2020**	December 31, 2019
Income tax receivable	$ 76	$ 50
Prepaid expenses	120	119
Assets held for sale	2	1
Finance lease receivable	11	14
Other receivables	88	52
Total other assets	**$ 297**	$ 236
Current other assets	**$ 196**	$ 171
Non-current other assets	**101**	65

As at September 26, 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)	**September 26, 2020**	December 31, 2019
Contractual undiscounted cash flows		
Less than one year	$ 5	$ 5
One to five years	6	9
Total undiscounted finance lease receivable	**$ 11**	$ 14

5. Capital Assets

(a) Property, plant and equipment

(in millions)	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2019	$ 452	$ 2,197	$ 364	$ 1,187	$ 599	$ 371	$ 1,169	$ 115	$ 6,454
Additions	7	11	6	15	36	11	49	110	245
Reclassified as held for sale	(1)	(8)	–	–	–	–	–	–	(9)
Retirements	–	–	(2)	(2)	(2)	(3)	(174)	–	(183)
Transfers	–	28	1	1	–	6	3	(39)	–
September 26, 2020	**$ 458**	**$ 2,228**	**$ 369**	**$ 1,201**	**$ 633**	**$ 385**	**$ 1,047**	**$ 186**	**$ 6,507**
Accumulated depreciation									
December 31, 2019	$ –	$ 1,218	$ 256	$ 758	$ 360	$ 291	$ 629	$ –	$ 3,512
Depreciation	–	46	13	54	34	17	38	–	202
Reclassified as held for sale	–	(7)	–	–	–	–	–	–	(7)
Retirements	–	–	(2)	(2)	(2)	(2)	(174)	–	(182)
September 26, 2020	**$ –**	**$ 1,257**	**$ 267**	**$ 810**	**$ 392**	**$ 306**	**$ 493**	**$ –**	**$ 3,525**
Carrying amounts									
December 31, 2019	$ 452	$ 979	$ 108	$ 429	$ 239	$ 80	$ 540	$ 115	$ 2,942
September 26, 2020	**$ 458**	**$ 971**	**$ 102**	**$ 391**	**$ 241**	**$ 79**	**$ 554**	**$ 186**	**$ 2,982**

(b) Intangible assets

(in millions)	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2019	$ 815	$ 49	$ 23	$ 887
Additions	5	53	–	58
Transfers	9	(9)	–	–
September 26, 2020	**$ 829**	**$ 93**	**$ 23**	**$ 945**
Accumulated amortization				
December 31, 2019	$ 741	$ –	$ 22	$ 763
Amortization	29	1	1	31
September 26, 2020	**$ 770**	**$ 1**	**$ 23**	**$ 794**
Carrying amounts				
December 31, 2019	$ 74	$ 49	$ 1	$ 124
September 26, 2020	**$ 59**	**$ 92**	**$ –**	**$ 151**

(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	29	147	–	1	181
Depreciation	(2)	(20)	(60)	(5)	(1)	(88)
Terminations	–	–	(1)	–	–	(1)
September 26, 2020	**$ 119**	**$ 274**	**$ 795**	**$ 16**	**$ 1**	**$ 1,205**

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)	**September 26, 2020**	December 31, 2019
Pension benefit assets	**$ 27**	$ 75
Pension benefit liabilities	$ 4,238	$ 2,660
Other post-employment and other long-term benefit liabilities	4,333	3,901
Total pension, other post-employment and other long-term benefit liabilities	$ 8,571	$ 6,561
Current other long-term benefit liabilities	**$ 63**	$ 63
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 8,508**	$ 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)		**September 26, 2020**			September 28, 2019	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 182	$ 31	$ 213	$ 132	$ 30	$ 162
Interest cost	245	32	277	270	35	305
Interest income on plan assets	(224)	–	(224)	(244)	–	(244)
Other administration costs	3	–	3	3	–	3
Actuarial losses[1]	–	3	3	–	–	–
Plan amendments[2]	–	–	–	–	8	8
Defined benefit expense	206	66	272	161	73	234
Defined contribution expense	6	–	6	5	–	5
Total expense	212	66	278	166	73	239
Return on segregated securities	–	(3)	(3)	–	(4)	(4)
Component included in employee benefits expense	**$ 212**	**$ 63**	**$ 275**	$ 166	$ 69	$ 235
Remeasurement (gains) losses:						
(Return) loss on plan assets, excluding interest income on plan assets	$ (614)	$ –	$ (614)	$ (193)	$ –	$ (193)
Actuarial (gains) losses	503	7	510	59	48	107
Component included in other comprehensive (income) loss[3,4]	**$ (111)**	**$ 7**	**$ (104)**	$ (134)	$ 48	$ (86)

1. Remeasurements for other long-term benefits plans are recognized in net profit (loss) in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at September 26, 2020, was 2.2% (June 27, 2020 – 2.4%).
2. In Q3 2019, benefits for psychological coverage were increased under the post-employment health plan, resulting in a plan amendment loss of $8 million.
3. Amounts presented in this table exclude income tax expense of $27 million for the 13 weeks ended September 26, 2020 (September 28, 2019 – $23 million).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at September 26, 2020, were 2.8% and 2.9%, respectively (June 27, 2020 – 2.9%). The discount rate used to measure the Canada Post segment pension benefit plans and other benefit plans at September 28, 2019, was 3.0% (June 29, 2019 – 3.0% and 3.1%, respectively).

For the 39 weeks ended (in millions)	September 26, 2020			September 28, 2019		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 537	$ 93	$ 630	$ 395	$ 87	$ 482
Interest cost	727	93	820	806	105	911
Interest income on plan assets	(665)	–	(665)	(731)	–	(731)
Other administration costs	10	–	10	10	–	10
Actuarial losses[1]	–	12	12	–	–	–
Plan amendments[2]	–	123	123	–	8	8
Defined benefit expense	609	321	930	480	200	680
Defined contribution expense	19	–	19	17	–	17
Total expense	628	321	949	497	200	697
Return on segregated securities	–	(11)	(11)	–	(19)	(19)
Component included in employee benefits expense	**$ 628**	**$ 310**	**$ 938**	$ 497	$ 181	$ 678
Remeasurement (gains) losses:						
(Return) loss on plan assets, excluding interest income on plan assets	$ (186)	$ –	$ (186)	$ (2,199)	$ –	$ (2,199)
Actuarial (gains) losses	1,448	216	1,664	3,993	493	4,486
Component included in other comprehensive (income) loss[3,4]	**$ 1,262**	**$ 216**	**$ 1,478**	$ 1,794	$ 493	$ 2,287

1. Remeasurements for other long-term benefits plans are recognized in net profit (loss) in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at September 26, 2020, was 2.2% (December 31, 2019 – 2.9%).
2. During the second quarter, the arbitrator rendered her decision relating to collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). This ruling led to expanded eligibility for the post-employment health plan for employees represented by CUPW-RSMC, resulting in a plan amendment loss of $122 million. In the first quarter, a plan amendment loss of $1 million was recorded due to the ratification of a new collective agreement with the Canadian Postmasters and Assistants Association (CPAA), which included modifications of the post-employment health plan. In Q3 2019, benefits for psychological coverage were increased under the post-employment health plan, resulting in a plan amendment loss of $8 million.
3. Amounts presented in this table exclude income tax recovery of $370 million for the 39 weeks ended September 26, 2020 (September 28, 2019 – $573 million).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at September 28, 2020, were 2.8% and 2.9%, respectively (December 31, 2019 – 3.1% and 3.2%, respectively), and 3.0% at September 28, 2019 (December 31, 2018 – 3.8% and 3.9%, respectively).

(c) Total cash payments and funding relief

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

For the (in millions)	13 weeks ended		39 weeks ended	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Benefits paid directly to beneficiaries for other benefit plans	$ 35	$ 40	$ 104	$ 121
Employer regular contributions to pension benefit plans	92	90	229	249
Employer special contributions to pension benefit plans	4	20	17	49
Cash payments for defined benefit plans	131	150	350	419
Contributions to defined contribution plans	6	5	19	17
Total cash payments	**$ 137**	$ 155	**$ 369**	$ 436

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

Due to COVID-19 effects on the economy, the *Solvency Special Payment Relief Regulations* came into force in May 2020 establishing a moratorium on solvency special payments for the remainder of 2020 for federally regulated, defined benefit pension plans. These measures relieve the Corporation of making $368 million of special solvency payments for 2020. Market volatility could have a significant effect on solvency payments for 2021 and thereafter. Canada Post continues to work with all stakeholders, including its only shareholder, the Government of Canada, to explore temporary relief options.

7. Lease Liabilities

(a) Lease liabilities

As at (in millions)	**September 26, 2020**	December 31, 2019
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$ 153	$ 156
One to five years	523	512
More than five years	1,189	1,073
Total undiscounted lease liabilities	**$ 1,865**	$ 1,741
Lease liabilities in the consolidated statement of financial position	**$ 1,393**	$ 1,299
Current lease liabilities	$ 122	$ 116
Non-current lease liabilities	1,271	1,183

Included in the above table are lease payments (undiscounted lease liabilities) to be made to related parties in the normal course of business, in the amount of $27 million for premises used in postal operations and transportation services (December 31, 2019 – $29 million). Leases that have not yet commenced, but which have been committed to as at September 26, 2020, have future cash outflows of $50 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	**September 26, 2020**
Lease liabilities	$ 1,299	$ (116)	$ 30	$ 180	**$ 1,393**

8. Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 39 weeks ended September 26, 2020 (in millions)	Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2019	$ 59	$ 5	$ 64		
Gains (losses) arising	$ 44	$ –	$ 44	$ (1,478)	$ (1,434)
Income taxes	(11)	–	(11)	370	359
Net	**$ 33**	**$ –**	**$ 33**	**$ (1,108)**	**$ (1,075)**
Accumulated balance as at September 26, 2020	**$ 92**	**$ 5**	**$ 97**		

9. Labour-related Matters

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

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

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

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

10. Contingent Liabilities

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

Accelerated delivery service – Class-action lawsuit

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

11. Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

The fair values of cash and cash equivalents, marketable securities, segregated securities, trade and other receivables, trade and other payables and salaries and benefits payable and related provisions are a reasonable approximation of their carrying values as presented on the statement of financial position. Also, these financial instruments are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between levels of the fair value hierarchy during the period ended September 26, 2020.

Financial risk factors

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

(a) Market risk

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

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

As at September 26, 2020
(in millions)

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$57	$ 76	1.315$/US$	October 9, 2020 - December 4, 2020	Sell forward	$ (1)
Euro	€32	48	1.492$/€	October 9, 2020 - December 4, 2020	Sell forward	(2)
British pound	£7	12	1.717$/£	October 9, 2020 - December 4, 2020	Sell forward	–
Japanese yen	¥1,001	12	0.012$/¥	October 9, 2020 - December 4, 2020	Sell forward	(1)
Chinese renminbi	CN¥86	16	0.190$/CN¥	October 9, 2020 - December 4, 2020	Sell forward	–
Total		**$ 164**				**$ (4)**

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)	**September 26, 2020**			September 28, 2019		
	Foreign exchange losses	**Derivative gains (losses)**	**Total**	Foreign exchange losses	Derivative gains (losses)	Total
Unrealized	$ (2)	$ 4	$ 2	$ (1)	$ (1)	$ (2)
Realized	(2)	(3)	(5)	–	2	2
Total	**$ (4)**	**$ 1**	**$ (3)**	$ (1)	$ 1	$ –

For the 39 weeks ended (in millions)	**September 26, 2020**			September 28, 2019		
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange losses	Derivative gains	Total
Unrealized	$ 1	$ (4)	$ (3)	$ (8)	$ 6	$ (2)
Realized	6	(4)	2	–	2	2
Total	**$ 7**	**$ (8)**	**$ (1)**	$ (8)	$ 8	$ –

(b) Credit risk

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

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

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

(c) Liquidity risk

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

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

12. Other Operating Costs

For the (in millions)	**13 weeks ended**		**39 weeks ended**	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Non-labour collection, processing and delivery	$ 437	$ 370	$ 1,249	$ 1,125
Property, facilities and maintenance	69	63	216	202
Selling, administrative and other	150	144	439	408
Other operating costs	**$ 656**	$ 577	**$ 1,904**	$ 1,735

13. Investing and Financing Income (Expense)

For the (in millions)	**13 weeks ended**		**39 weeks ended**	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Interest revenue	$ 7	$ 14	$ 29	$ 47
Gain on sale of capital assets and assets held for sale	–	–	–	1
Other income	1	4	2	4
Investment and other income	**$ 8**	$ 18	**$ 31**	$ 52
Interest expense	$ (21)	$ (20)	$ (62)	$ (60)
Other expense	(2)	(4)	(9)	(11)
Finance costs and other expense	**$ (23)**	$ (24)	**$ (71)**	$ (71)
Investing and financing expense, net	**$ (15)**	$ (6)	**$ (40)**	$ (19)

14. Related Party Transactions

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

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

For the (in millions)	**13 weeks ended**		**39 weeks ended**	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Related party revenue	**$ 43**	$ 54	**$ 164**	$ 173
Compensation payments for programs				
Government mail and mailing of materials for persons who are blind	**$ 5**	$ 6	**$ 17**	$ 17
Payments from related parties for premises leased from the Corporation	**$ 1**	$ 2	**$ 5**	$ 6
Related party expenditures	**$ 2**	$ 4	**$ 12**	$ 16

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)	**September 26, 2020**	December 31, 2019
Due to/from related parties		
Included in trade and other receivables	**$ 8**	$ 15
Included in trade and other payables	**$ 13**	$ 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 39 weeks ended September 26, 2020, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $3 million and $9 million for the 13 and 39 weeks ended September 26, 2020, respectively (September 28, 2019 – $3 million and $10 million, respectively). These transactions were made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 and 39 weeks ended September 26, 2020, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million and $9 million, respectively (September 28, 2019 – $3 million and $9 million, respectively). As at September 26, 2020, $9 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 September 26, 2020
(in millions)

	Canada Post	**Purolator**	**Logistics**	**Other**	**Total**
Revenue from external customers	$ 1,565	$ 530	$ 70	$ –	$ 2,165
Intersegment revenue	21	8	11	(40)	–
Revenue from operations	$ 1,586	$ 538	$ 81	$ (40)	$ 2,165
Labour and employee benefits	$ 1,292	$ 247	$ 39	$ 26	$ 1,604
Other operating costs	478	220	25	(67)	656
Depreciation and amortization	76	20	10	–	106
Cost of operations	$ 1,846	$ 487	$ 74	$ (41)	$ 2,366
Profit (loss) from operations	$ (260)	$ 51	$ 7	$ 1	$ (201)
Investment and other income	$ 6	$ –	$ 1	$ 1	$ 8
Finance costs and other expense	(11)	(9)	(2)	(1)	(23)
Profit (loss) before tax	$ (265)	$ 42	$ 6	$ 1	$ (216)
Tax expense (recovery)	(66)	12	1	1	(52)
Net profit (loss)	$ (199)	$ 30	$ 5	$ –	$ (164)
Total assets	$ 9,489	$ 1,614	$ 286	$ (305)	$ 11,084
Total liabilities	$ 11,545	$ 981	$ 171	$ (14)	$ 12,683

As at and for the 13 weeks ended September 28, 2019
(in millions)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,502	$ 467	$ 76	$ –	$ 2,045
Intersegment revenue	15	6	10	(31)	–
Revenue from operations	$ 1,517	$ 473	$ 86	$ (31)	$ 2,045
Labour and employee benefits	$ 1,156	$ 215	$ 42	$ 27	$ 1,440
Other operating costs	418	189	28	(58)	577
Depreciation and amortization	77	24	9	(1)	109
Cost of operations	$ 1,651	$ 428	$ 79	$ (32)	$ 2,126
Profit (loss) from operations	$ (134)	$ 45	$ 7	$ 1	$ (81)
Investment and other income	$ 17	$ 1	$ (1)	$ 1	$ 18
Finance costs and other expense	(18)	(5)	(1)	–	(24)
Profit (loss) before tax	$ (135)	$ 41	$ 5	$ 2	$ (87)
Tax expense (recovery)	(34)	11	1	–	(22)
Net profit (loss)	$ (101)	$ 30	$ 4	$ 2	$ (65)
Total assets	$ 9,475	$ 1,367	$ 279	$ (311)	$ 10,810
Total liabilities	$ 11,789	$ 747	$ 176	$ (17)	$ 12,695

As at and for the 39 weeks ended September 26, 2020
(in millions)

	Canada Post	**Purolator**	**Logistics**	**Other**	**Total**
Revenue from external customers	$ 4,838	$ 1,478	$ 209	$ –	$ 6,525
Intersegment revenue	60	21	29	(110)	–
Revenue from operations	$ 4,898	$ 1,499	$ 238	$ (110)	$ 6,525
Labour and employee benefits	$ 3,946	$ 713	$ 119	$ 84	$ 4,862
Other operating costs	1,407	620	74	(197)	1,904
Depreciation and amortization	233	58	30	–	321
Cost of operations	$ 5,586	$ 1,391	$ 223	$ (113)	$ 7,087
Profit (loss) from operations	$ (688)	$ 108	$ 15	$ 3	$ (562)
Investment and other income	$ 27	$ 2	$ 1	$ 1	$ 31
Finance costs and other expense	(48)	(19)	(4)	–	(71)
Profit (loss) before tax	$ (709)	$ 91	$ 12	$ 4	$ (602)
Tax expense (recovery)	(178)	24	3	1	(150)
Net profit (loss)	$ (531)	$ 67	$ 9	$ 3	$ (452)
Total assets	$ 9,489	$ 1,614	$ 286	$ (305)	$ 11,084
Total liabilities	$ 11,545	$ 981	$ 171	$ (14)	$ 12,683

As at and for the 39 weeks ended September 28, 2019
(in millions)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 4,788	$ 1,380	$ 224	$ –	$ 6,392
Intersegment revenue	45	19	27	(91)	–
Revenue from operations	$ 4,833	$ 1,399	$ 251	$ (91)	$ 6,392
Labour and employee benefits	$ 3,493	$ 653	$ 125	$ 84	$ 4,355
Other operating costs	1,265	567	82	(179)	1,735
Depreciation and amortization	230	64	27	(1)	320
Cost of operations	$ 4,988	$ 1,284	$ 234	$ (96)	$ 6,410
Profit (loss) from operations	$ (155)	$ 115	$ 17	$ 5	$ (18)
Investment and other income	$ 47	$ 4	$ –	$ 1	$ 52
Finance costs and other expense	(54)	(14)	(3)	–	(71)
Profit (loss) before tax	$ (162)	$ 105	$ 14	$ 6	$ (37)
Tax expense (recovery)	(41)	28	3	–	(10)
Net profit (loss)	$ (121)	$ 77	$ 11	$ 6	$ (27)
Total assets	$ 9,475	$ 1,367	$ 279	$ (311)	$ 10,810
Total liabilities	$ 11,789	$ 747	$ 176	$ (17)	$ 12,695

(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. Individual foreign countries that are sources of material revenue are reported separately. The Group of Companies has no significant assets located outside of Canada. All intersegment revenue is domestic; therefore, revenue for geographic areas is reported net of intersegment revenue.

For the (in millions)	**13 weeks ended**		**39 weeks ended**	
	September 26, 2020	September 28, 2019	**September 26, 2020**	September 28, 2019
Canada	$ 2,015	$ 1,922	$ 6,142	$ 6,027
United States	76	60	196	182
Rest of the world	74	63	187	183
Total revenue	**$ 2,165**	$ 2,045	**$ 6,525**	$ 6,392

(c) Products and services revenue information

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

For the 13 weeks ended (in millions)	**September 26, 2020**			September 28, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Transaction Mail	$ 402	$ –	$ 402	$ 426	$ (1)	$ 425
Parcels	1,403	(35)	1,368	1,154	(27)	1,127
Direct Marketing	187	–	187	247	–	247
Other revenue	124	(83)	41	117	(69)	48
	$ 2,116	**$ (118)**	**$ 1,998**	$ 1,944	$ (97)	$ 1,847
Unattributed revenue						
Stamp postage	$ 71	$ –	$ 71	$ 76	$ –	$ 76
Meter postage	96	–	96	122	–	122
	$ 167	**$ –**	**$ 167**	$ 198	$ –	$ 198
Total	**$ 2,283**	**$ (118)**	**$ 2,165**	$ 2,142	$ (97)	$ 2,045

For the 39 weeks ended (in millions)	**September 26, 2020**			September 28, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Transaction Mail	$ 1,367	$ (1)	$ 1,366	$ 1,457	$ (2)	$ 1,455
Parcels	4,005	(97)	3,908	3,464	(79)	3,385
Direct Marketing	563	(1)	562	775	–	775
Other revenue	367	(232)	135	350	(204)	146
	$ 6,302	**$ (331)**	**$ 5,971**	$ 6,046	$ (285)	$ 5,761
Unattributed revenue						
Stamp postage	$ 238	$ –	$ 238	$ 232	$ –	$ 232
Meter postage	316	–	316	399	–	399
	$ 554	**$ –**	**$ 554**	$ 631	$ –	$ 631
Total	**$ 6,856**	**$ (331)**	**$ 6,525**	$ 6,677	$ (285)	$ 6,392

(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 16 (b).

For the 13 weeks ended
(in millions)

	September 26, 2020			September 28, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	$ 1,491	$ (35)	$ 1,456	$ 1,457	$ (28)	$ 1,429
Retail	568	–	568	494	–	494
	$ 2,059	$ (35)	$ 2,024	$ 1,951	$ (28)	$ 1,923
International	$ 149	$ –	$ 149	$ 123	$ –	$ 123
Other	$ 75	$ (83)	$ (8)	$ 68	$ (69)	$ (1)
Total	**$ 2,283**	**$ (118)**	**$ 2,165**	$ 2,142	$ (97)	$ 2,045

For the 39 weeks ended
(in millions)

	September 26, 2020			September 28, 2019		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	$ 4,537	$ (99)	$ 4,438	$ 4,584	$ (81)	$ 4,503
Retail	1,717	–	1,717	1,532	–	1,532
	$ 6,254	$ (99)	$ 6,155	$ 6,116	$ (81)	$ 6,035
International	$ 383	$ –	$ 383	$ 365	$ –	$ 365
Other	$ 219	$ (232)	$ (13)	$ 196	$ (204)	$ (8)
Total	**$ 6,856**	**$ (331)**	**$ 6,525**	$ 6,677	$ (285)	$ 6,392

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