2021

Canada Post Corporation

SECOND QUARTER FINANCIAL REPORT

For the period ended July 3, 2021

CANADA POST POSTES CANADA

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Management’s Discussion and Analysis

This Management’s Discussion and Analysis (MD&A) provides a discussion of the consolidated financial results and operational changes for the 13-week period (second quarter or Q2) and 26-week period (first two quarters or year to date) ended July 3, 2021, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Segments are based on the legal entities, Canada Post, Purolator, SCI and Innovapost.

Financial results reported in the MD&A were prepared using International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). Amounts are presented in Canadian dollars rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. Percentages are adjusted for business or paid days, where applicable. In the second quarter of 2021, there was no difference in business or paid days compared to the second quarter in 2020. For the year to date period in 2021, there were two additional business days (which resulted in increased revenue) and three additional paid days (which resulted in increased cost of operations) compared to the same period in 2020, except for the SCI segment, which had one less business day and one less paid day compared to 2020. These are timing differences that will be eliminated by the end of 2021.

This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements (interim financial statements) for the second quarter of 2021, which were prepared in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* and International Accounting Standard (IAS) 34, “Interim Financial Reporting.” We also recommend that this information be read in conjunction with the Corporation’s annual consolidated financial statements and MD&A for the year ended December 31, 2020.

Management is responsible for the information presented in the interim financial statements and the MD&A. All references to *our* or *we* mean either Canada Post or, collectively, Canada Post and its subsidiaries, as the context may require. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the interim financial statements August 19, 2021.

Forward-looking statements

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

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

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

The forward-looking statements included in the interim financial statements and MD&A are made as of August 19, 2021, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

COVID-19, which was declared a pandemic in March 2020, had a significant and material impact on our 2020 financial performance and continues to have an impact on our business in 2021. The impact on the Canadian and global economies, including our business, in 2021 and thereafter remains uncertain. Canadian businesses and consumers have used Canada Post differently, and its suppliers and partners have faced their own challenges. Canada Post follows the direction of the Public Health Agency of Canada and public health authorities across the country.

1. Executive Summary

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

The Group of Companies is one of Canada's largest employers providing jobs to almost 68,000 people. Canada Post, the largest segment with revenue of $3.7 billion for the first two quarters (72.4% of the Group of Companies revenue, after excluding intersegment revenue), is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement. Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians in a secure and financially self-sustaining manner. Canada Post operates the largest retail network in Canada with approximately 6,000 retail post offices in the country.

1.1 Significant changes and business developments

Canada Post segment

COVID-19 has accelerated the need for our transformation to keep up with the changing needs of Canadians and Canadian businesses. In the second quarter of 2021, we communicated our overarching purpose, A Stronger Canada – Delivered, which is built around three pillars:

- Providing a service all Canadians can count on
- Committing to environmental leadership and social purpose
- Doing right by our people

We continue to maintain modifications we made last year in response to COVID-19, including how we operate our post offices, plants and depots, as well as how we deliver items, to keep employees and Canadians safe. Given our many challenges and as a continuation from 2020, guarantees for all services were suspended through the first two quarters of 2021.

The impact of COVID-19 on revenue and volumes affected the current and comparative periods in different ways. As the pandemic took hold over a year ago, our Transaction Mail and Direct Marketing declined substantially, while parcel volumes soared as Canadians pivoted to shopping from home when stores were closed. Year-over-year comparisons in this Report are, therefore, greatly influenced by the unique circumstances of the prior year. We believe that some of the changes to our volumes and product mix in 2020 were part of a sustained shift to ecommerce, as consumers accelerated their adoption and frequency of online shopping by several years, while businesses continued to migrate to digital communication instead of Lettermail™. Our capacity remained strained by heavy parcel volumes and we are working hard to address these challenges.

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

Labour matters

Labour relations

A new four-year collective agreement extending to March 31, 2025, between the Association of Postal Officials of Canada (APOC) and Canada Post was ratified by members on May 25, 2021. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

In June, tentative two-year renewal agreements were reached for employees represented by the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). If ratified, agreements would be in effect until December 31, 2023 (RSMC), and January 31, 2024 (Urban).

Health and safety

We believe that all occupational injuries, illnesses and incidents in every facet of our operation are preventable and we aim for zero harm. For the first two quarters of 2021, our total injury frequency, lost-time injury frequency and severity of lost-time injuries improved compared to the same period in 2020. In 2021, COVID-19 continues to have a significant impact on the lives of all Canadians, including our employees, customers and suppliers. Our top priority during this challenging time remains the health and safety of our employees and Canadians.

1.2 Financial highlights

Segment results – Profit (loss) before tax

(in millions of dollars)

	Second quarter ended				Year-to-date ended			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change
Canada Post	(151)	(378)	227	60.0%	(228)	(444)	216	48.6%
Purolator	77	39	38	97.4%	128	49	79	160.7%
SCI	9	4	5	132.5%	15	6	9	155.2%
Other	1	2	(1)	(19.7)%	2	3	(1)	(24.8)%
Canada Post Group of Companies	**(64)**	**(333)**	**269**	**80.9%**	**(83)**	**(386)**	**303**	**78.6%**

The Canada Post Group of Companies loss before tax was $64 million in the second quarter of 2021, an improvement of $269 million compared to Q2 2020. The Canada Post segment's loss before tax for the second quarter of $151 million was partly offset by Purolator's and SCI's profit before tax of $77 million and $9 million, respectively. The factors causing the Canada Post segment's financial results are recurring and a loss would have been incurred, regardless of the impact of COVID-19.

For the year to date, the Group of Companies recorded a loss before tax of $83 million, an improvement of $303 million compared to the same period in 2020. The Canada Post segment contributed $228 million toward this loss in 2021.

Canada Post segment

(in millions of dollars)

Revenue by line of business	Second quarter ended				Year-to-date ended			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change[1]
Parcels	916	864	52	6.1%	1,868	1,530	338	20.2%
Transaction Mail	616	573	43	7.5%	1,335	1,302	33	0.9%
Direct Marketing	218	146	72	49.1%	434	376	58	13.7%
Other	71	50	21	41.7%	139	104	35	30.9%
Total	**1,821**	**1,633**	**188**	**11.5%**	**3,776**	**3,312**	**464**	**12.2%**

For the second quarter and year to date of 2021, revenue in the Canada Post segment was $188 million higher (+11.5%) and $464 million higher (+12.2%), respectively, than in the same periods of 2020. Continued parcel growth, the impact of the 2021 Census mailing on the Transaction Mail business and a partial recovery of Direct Marketing contributed to these positive results. In addition, two additional business days positively affected the year-to-date period. Year-over-year comparisons are affected by the impact COVID-19 had on our volumes and revenue, which began at the end of Q1 2020, affecting each of our lines of business differently. These effects continued through Q2 2020, the comparative period.

In 2021, Parcels revenue grew by $52 million (+6.1%) in the second quarter and by $338 million (+20.2%) for the year to date, compared to the same periods in 2020. The acceleration in consumer ecommerce behaviour due to COVID-19 began toward the end of Q1 2020, when we started to see significant growth rates in domestic parcels. While this growth remained strong through the first quarter of 2021, it slowed in the second quarter as stores began to reopen for in-person shopping and was lower compared to the second quarter in the prior year, which was significantly affected by COVID-19. Our capacity remained strained and we worked hard to clear backlogs of trailers that were waiting at our facilities for processing. Our Parcels revenue was positively affected by proactively managing our use of available capacity through our commercial customer and product mix. As it costs more to process and deliver parcels than it does letters, the Corporation is making investments to improve processing capacity and efficiencies of this line of business.

Transaction Mail revenue increased by $43 million (+7.5%) in Q2 2021 compared to Q2 2020, and by $33 million (+0.9%) for the year to date compared to the same period in the prior year, due to the 2021 Census mailing. However, these events were partially offset by continuing erosion in this line of business as consumers and mailers migrated to digital alternatives, a trend which COVID-19 has accelerated. Unlike previous years, the Corporation decided because of COVID-19 to maintain regulated stamp prices at 2020 levels through 2021, while minimizing the impact of other price changes.

Direct Marketing revenue increased $72 million (+49.1%) in the second quarter and by $58 million (+13.7%) for the year to date compared to the same periods in 2020. Although COVID-19 had resulted in the delay or cancellation of marketing campaigns and an acceleration of digital substitution over the last year, we began to see some recovery in this line of business in Q2 2021.

The cost of operations in the Canada Post segment decreased by $44 million (-2.2%) in the second quarter and increased by $243 million (+4.1%) for the year to date of 2021 compared to the same periods in 2020. The arbitrator's decision for new collective agreements with CUPW added $114 million of costs to the second quarter of the prior year, mostly due to a pension plan amendment for post-employment healthcare benefits for past service. Excluding the impact of the arbitrator's decision, cost of operations increased by $70 million in the second quarter and $357 million for the year to date compared to the same periods in 2020.These increases were driven by annual wage increases, labour and non-labour collection, processing and delivery costs related to higher parcel volumes and required operational changes due to COVID-19, health and safety costs and special employee leave. The accelerated shift in our business from mail to parcels continues to put pressure on our capacity, processing and delivery costs. Cost increases for the year-to-date period are also affected by three additional paid days in 2021 compared to the prior year.

At the end of the second quarter, discount rates used to measure solvency status of the Canada Post Corporation Registered Pension Plan (RPP) and record remeasurements for pension, other post-employment and other long-term benefit plans stayed relatively stable but slightly lower compared to the first quarter and remain higher than rates observed at year end. Pension asset returns have improved compared to the first quarter. These factors resulted in the solvency deficit (using market value of plan assets) improving to an estimated $4.0 billion at the end of the second quarter and on an accounting basis, remeasurement gains were recorded in other comprehensive income for the Group of Companies' defined benefit plans of $273 million, net of tax. For the period ending July 3, 2021, the actuarially determined pension expense recorded in the statement of comprehensive income and regular payments were not affected by these remeasurements.

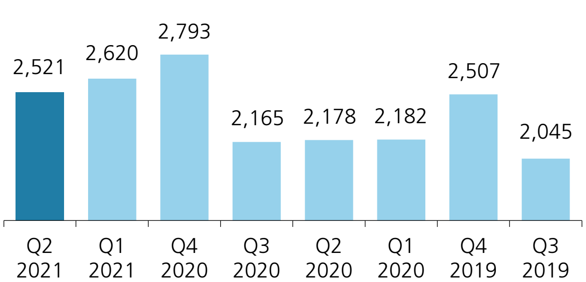
Canada Post is not required to make solvency special payments for 2021; however, market volatility could have a significant effect on solvency payments for 2022 and thereafter if temporary relief is not provided. Canada Post continues to work with its shareholder, the Government of Canada, and has requested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

Canada Post Group of Companies – 2021

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

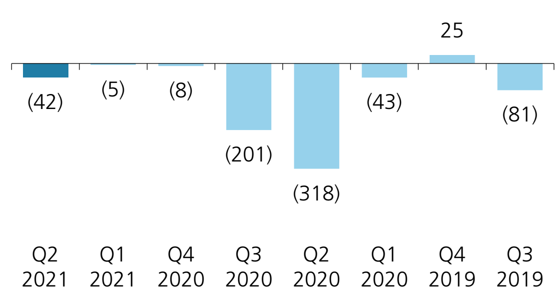
Quarterly consolidated revenue from operations

(in millions of dollars)

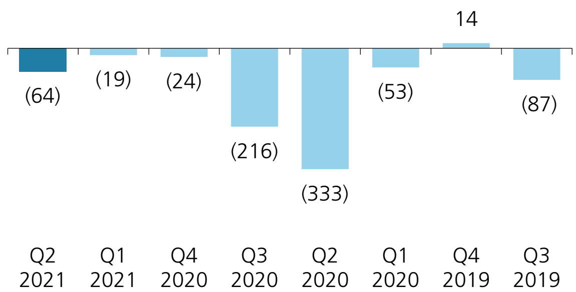


Quarterly consolidated profit (loss) from operations

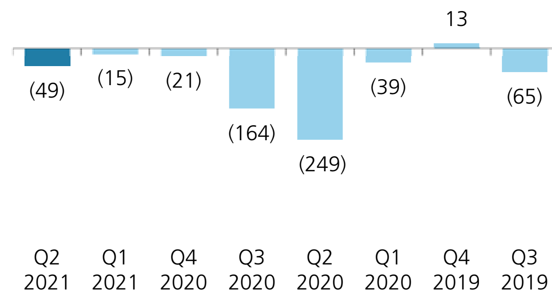
(in millions of dollars)



Quarterly consolidated profit (loss) before tax
(in millions of dollars)



Quarterly consolidated net profit (loss)
(in millions of dollars)



The following table presents the Group of Companies consolidated performance for the second quarter and the year to date of 2021, compared to the same periods in the prior year.

(in millions of dollars)

	Second quarter ended				Year to date ended				
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change	Explanation of change
Consolidated statement of comprehensive income									Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	2,521	2,178	343	15.8%	5,141	4,360	781	16.1%[1]	Growth in all segments.
Cost of operations	2,563	2,496	67	2.7%	5,188	4,721	467	7.4%[1]	Higher expenses in all segments due to labour and employee benefits, and volume growth.
Loss from operations	(42)	(318)	276	86.9%	(47)	(361)	314	87.0%	Mainly due to a loss in the Canada Post segment, partially offset by profit in the Purolator and SCI segments.
Loss before tax	(64)	(333)	269	80.9%	(83)	(386)	303	78.6%	
Net loss	(49)	(249)	200	80.3%	(64)	(288)	224	77.8%	
Comprehensive income (loss)	231	(3,755)	3,986	*	3,194	(1,442)	4,636	*	For Q2, mainly due to remeasurement gains on pension and other post-employment plans from higher than expected asset returns partially offset by discount rate losses compared to larger discount rate losses in Q2 2020. For the year to date (YTD), mainly due to discount rate gains and higher than expected asset returns compared to discount rate losses and lower than expected asset returns in the prior year.
Consolidated statement of cash flows									Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	301	239	62	25.4%	264	383	(119)	(31.3)%	For Q2, primarily due to taxes received and strong parcel growth. For YTD, primarily due to changes in working capital and higher pension payments, partially offset by taxes received and strong parcel growth in both the Canada Post and Purolator segments.
Cash used in investing activities	(28)	(270)	242	89.7%	(266)	(316)	50	15.9%	Mainly due to lower acquisitions of securities, partially offset by higher acquisitions of capital assets combined with lower proceeds from the sale of securities
Cash used in financing activities	(30)	(26)	(4)	(14.9)%	(58)	(54)	(4)	(7.3)%	No material change

* The calculation is not mathematically meaningful.

2. Core Businesses and Strategy

A discussion of Canada Post's business and strategy

With their massive shift to online shopping during the COVID-19 pandemic, Canadians' needs for, and expectations around, delivery have grown and changed. Canadians also expect large organizations, especially an institution like Canada Post, to demonstrate leadership on issues they care about, like the environment, equity and diversity. As well, Canadians expect the Corporation to keep its employees safe and treat them fairly, as do the employees themselves. Canada Post's shareholder, the Government of Canada, expects the company to operate in a manner that is financially self-sustaining.

Recognizing the needs and expectations of Canadians, Canada Post has communicated a plan to help the postal service meet Canadians' changing needs for service, such as the growth in ecommerce, meet Canadians' heightened expectations for environmental and social leadership, and do the right things for its tens of thousands of employees.

To help us fulfill our overarching purpose, A Stronger Canada – Delivered, these three pillars have several initiatives, including those summarized below:

Providing a service all Canadians can count on

- We plan to invest $4 billion over the next five years to build capacity in order to meet the growing demand for parcel delivery, improve service, modernize our network, renew our fleet and green our operations.
- We are improving service and tracking, because Canadians want more control and visibility in every delivery.
- We are also investing in our retail network to support the diverse needs of Canadians.
- We are investing in our network, and new products, services and solutions to help Canada's small and medium-sized businesses succeed and face new challenges.

Committing to environmental leadership and social purpose

- We are investing to reduce our environmental impact and help to deliver a sustainable future. We are committed to action across four key areas of climate action, zero waste, sustainable delivery and engaging employees around the environment.
- Our social-purpose commitments include creating a workplace that reflects equity, diversity and inclusion.
- We have strategies to become more accessible for Canadians and to foster reconciliation with Indigenous peoples by improving postal services in Indigenous and northern communities and procurement from Indigenous-owned business, and other initiatives.

Doing right by our people

- We are embedding health and safety – a top priority – in our culture.
- We are dedicated to working with our bargaining agents in a spirit of partnership across several areas, including collective bargaining.
- We are focused on creating a fair and respectful workplace with engaged employees. Our many efforts include an Anti-Racism Action Plan based on collaboration with bargaining agents and feedback from employees.

We believe that delivering on these three pillars will not hinder our ability to reach financial self-sustainability.

3. Key Performance Drivers

A discussion of Canada Post's key achievements in 2021

Performance scorecards monitoring progress against strategic priorities are reported monthly to senior management of the Canada Post segment. A summary of our progress toward achieving our 2021 strategic plans during the second quarter is included below and is aligned with our new purpose: A Stronger Canada – delivered.

Providing a service all Canadians can count on

Expanding capacity

Completed the first of three construction phases of the new Ontario East Processing Centre, targeting a fall 2022 launch.

Nearing completion of a new parcel sorter in Kitchener (Q3 2021 launch) and approved a new parcel sorter for Calgary (Q3 2022 launch).

Released a request for proposals for automated guided vehicles and expect to select a partner in Q3.

Completed testing of a scalable sortation system using autonomous mobile robots with positive results leading to proof-of-concept development by early 2022.

Improving service and tracking

Installed nearly 1,200 indoor parcel lockers to date in 2021 in apartments and condominiums to support the growth of online shopping across Canada.

Increased the automated parcel locker pilot to 10 locations across Canada. Automated lockers are accessed with a mobile phone, as opposed to the keyed access to parcel lockers next to community mailboxes, and they can be used as a shipping address by consumers when shopping online.

Continued deployment of parcel locker modules at existing community mailbox sites nationally with over 100 installed in 2021, adding parcel capacity and reducing travel time and package pickup at retail.

Commenced deployment of 14,000 new portable data terminals with 2,515 deployed in Q2.

Enhancing our retail services

Selected two community hub locations in Indigenous communities (Membertou, Nova Scotia, and High Prairie, Alberta), which are scheduled to open in late 2021.

Continued testing contactless parcel drop boxes at retail locations across Canada, with 25 planned for launch in 2021.

Helping Canada stay connected and businesses succeed

Expanded our pickup offering in over 500 postal code areas, allowing more commercial customers to have their parcels picked up at their place of business, instead of having them travel to plants, depots or post offices to induct their parcels.

Progressed with enhanced privacy controls project; updated and tested breach response protocols.

Implemented email fraud controls to prevent delivery of unauthorized emails spoofing the Canada Post brand and domains and reduce risk to employees, customers and partners.

Hosted the *Secrets of Direct Mail* virtual event on April 29 which featured industry leaders sharing real-life examples of how direct mail has been incorporated into their retention marketing plans. Events like these support our Canada Post Smartmail Marketing™ business customers to drive recovery and business development in direct marketing.

Announced finalists in Canada Post's *Tales of Triumph* contest, aimed at supporting small businesses in their journey to recovery and growth. Prize winners to be announced later this year.

Committing to environmental leadership and social purpose

Equity, diversity and inclusion

Responded to social justice movements to reinforce commitment to equity and diversity in our workplace (letters to employees responding to the discovery at a Kamloops residential school and the attack in London on a Canadian Muslim family, celebrating Pride Month and sharing the story of a transgender employee).

Continued investment in accessibility for employees and customers:

- Continued work to implement icons and tactile features to enhance accessibility (wayfinding) in one community hub scheduled to open in Q3.
- Launched our Accessibility Strategy on May 31 to all employees, commercial clients, stakeholders and Canadians.
- Developed a Prioritization Framework for planning audits and implementing accessibility upgrades in post offices and other buildings.
- Achieved a measure of 83.9% on digital accessibility across all active digital products for the first half of 2021, up from 77.3% in 2020.

Making our environment a priority

Published our 2020 Sustainability Report to provide a detailed view of our progress in, and commitment to, environmental, social and governance performance.

Added 641 hybrid vehicles to date in 2021.

Received recognition from *Corporate Knights* magazine as one of Canada's 50 top corporate citizens.

Developed a plan with CUPW to launch two electric cargo bike routes in downtown Montréal in Q3 2021 to better serve customers, improve environmental performance and help reduce urban congestion.

Selected 62 building sites to pilot greenhouse-gas reduction in scopes 1 and 2 emissions, including pilots for solar power, re-commissioning or testing of our facilities' systems to improve building efficiency, fuel switching from fossil fuels to electricity, capital upgrades and LED retrofits.

Launched four zero-waste pilots in Q2 including communications and employee engagement, new multi-stream bins, new recycling services, adjusted vendor practices, and data improvement in support of our Environmental Action Plan (EAP) goal of having 90% of construction and operational waste diverted from landfill by 2030.

Installed 75 water bottle filling stations in 2021 in support of our EAP goal to eliminate unnecessary single-use plastics from our corporate meetings, events, and operations.

Canada Post is a board member and founding member of the Sustainable Mail Group, dedicated to transforming the Canadian mail industry to build a better, cleaner future. The website at sustainablemailgroup.ca was launched in June.

Fostering reconciliation with Indigenous peoples

Began development of the Indigenous Reconciliation Strategy, policies and guidelines in preparation for program launch in 2021.

Inspected over 1,100 items (more than double the target), resulting in the removal of non-mailable matter with an estimated street value of $2.4M.

Selected two community hub locations in Indigenous communities (Membertou, Nova Scotia, and High Prairie, Alberta), which are scheduled to open in late 2021.

Began deployment of the Special Measures Memorandum of Agreement with APOC to address the current under-representation of Indigenous peoples by creating 15 designated permanent positions. Staffing is in progress for these designated positions in the Greater Toronto Area, and the Prairies and Pacific regions.

Doing right by our people

Embedding health and safety in our culture

Reduced total injury frequency and lost-time injury frequency by 8% and 4%, respectively, compared to the first two quarters of 2020.

Introduced a new online toolkit, including a mental health training program, *Supporting Mental Health*, to help employees manage stress and anxiety.

Building alignment

Reached a four-year collective agreement with the Association of Postal Officials of Canada (APOC), prior to the expiry on March 31, 2021. The new collective agreement, which extends to March 31, 2025, was ratified by members May 25.

Reached tentative two-year collective agreements for employees represented by the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). If ratified, agreements would be in effect until December 31, 2023 (RSMC), and January 31, 2024 (Urban).

Selected pilot location with CUPW to jointly implement a flexible staffing system to balance workload to volume by day of week, improving health and safety through improved route design.

Filed grievances increased by 16.9%, while pending grievances were reduced by 6.8% – all compared to Q2 2020.

Creating a fair and respectful workplace

Launched phase two of our kindness campaign, with focus on our remote northern communities, aimed at reducing aggressive behaviour toward our retail employees.

Began deployment of the Special Measures Memorandum of Agreement with APOC to address the current under-representation of Indigenous peoples and persons with disabilities by creating 15 and 30 designated permanent positions, respectively. Staffing is in progress for these positions in the Greater Toronto Area and the Prairies and Pacific regions.

4. Capabilities

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

4.1 Our employees

An update of 2021 health and safety, and collective bargaining activities by segment is provided below.

Health and safety

Canada Post segment

We continue to aim for zero harm with a commitment to reducing injuries and preventing incidents in all facets of our operations by identifying, preventing and controlling hazards and risks to our employees, contractors, visitors and members of the public. For the first two quarters of 2021, our total injury frequency rate improved 8% and the lost-time injury frequency rate improved 4% compared to the same period in 2020. We also saw improvements of 6% for the year to date compared to the prior year in the severity of lost-time injuries, counted as the rate of days lost due to injuries per working hours. Employees across the country have been successful in improving safety results through their increased focus on safety.

As part of the continuous improvement of our mental health strategy, the following initiatives that support the psychological health of Canada Post employees were launched in the second quarter:

- Stress and anxiety communications coupled with launch of a mandatory training module for employee mental health awareness.
- *Awake, Alert, Aware* – Four national initiatives developed by Local Joint Health and Safety committees across the country to address well-being and positive mental health. They include local ideas on self-care, gratitude, positivity and physical activity.
- Wellness Challenge – A five-week program focusing on physical activity, nutrition, psychological well-being, intellectual wellness and social connections.

Labour relations

Canada Post segment

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

The current collective agreements for CUPW-UPO and CUPW-RSMC expire on December 31, 2021 (RSMC), and January 31, 2022 (UPO). In the second quarter, Canada Post and CUPW successfully reached two tentative collective agreements, expiring December 31, 2023 (CUPW-RSMC), and January 31, 2024 (CUPW-UPO). These agreements are now subject to member ratification.

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

Canadian Postmasters and Assistants Association (CPAA)

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

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

Association of Postal Officials of Canada (APOC)

In the second quarter, APOC members ratified a new four-year collective agreement that was reached prior to the expiration of the previous agreement. The new collective agreement extends to March 31, 2025, and includes wage increases of 2% each year and continued improvements to benefits. There is also a wage realignment of 1% in 2021 and 2025 for a certain employee classification. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

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

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

As part of the mediated settlement reached after PSAC's application to the Canada Industrial Relations Board, PSAC, APOC and Canada Post continued their joint evaluation of certain jobs that the unions contend should have been included in their bargaining units. The initial phase of mediation concluded in October 2020, with the parties reaching agreement on the original set of 44 jobs submitted for consideration. The process to transition certain jobs into the agreed upon bargaining unit was completed in Q2.

4.2 Internal controls and procedures

During the second quarter of 2021, there were no changes in internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5. Discussion of Operations

A detailed discussion of our financial performance

5.1 Consolidated trends

Consolidated results by quarter

The Group of Companies' consolidated results for the last eight quarters are presented below, highlighting the seasonal nature of our business. Demand for services is highest during the holiday or peak season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level in the third quarter. The Group of Companies' significant fixed costs do not vary in the short term. Further, additional business days result in increased revenue, while additional paid days result in increased cost of operations. In the second quarter of 2021, there was no difference in business or paid days compared to the second quarter in 2020. For the year to date period of 2021, there were two additional business days and three additional paid days compared to the same period in 2020, except for the SCI segment, which had one less business day and one less paid day compared to 2020. These are timing differences that will be eliminated by the end of 2021.

(in millions of dollars)

	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenue from operations	2,521	2,620	2,793	2,165	2,178	2,182	2,507	2,045
Cost of operations	2,563	2,625	2,801	2,366	2,496	2,225	2,482	2,126
Profit (loss) from operations	**(42)**	**(5)**	**(8)**	**(201)**	**(318)**	**(43)**	**25**	**(81)**
Investing and financing income (expense), net	(22)	(14)	(16)	(15)	(15)	(10)	(11)	(6)
Profit (loss) before tax	**(64)**	**(19)**	**(24)**	**(216)**	**(333)**	**(53)**	**14**	**(87)**
Tax expense (recovery)	(15)	(4)	(3)	(52)	(84)	(14)	1	(22)
Net profit (loss)	**(49)**	**(15)**	**(21)**	**(164)**	**(249)**	**(39)**	**13**	**(65)**

5.2 Consolidated results from operations

Consolidated results for the second quarter and for the year to date

(in millions of dollars)

	Second quarter ended				**Year to date ended**			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change
Revenue from operations	2,521	2,178	343	15.8%	5,141	4,360	781	16.1%[1]
Cost of operations	2,563	2,496	67	2.7%	5,188	4,721	467	7.4%[1]
Loss from operations	**(42)**	**(318)**	**276**	**86.9%**	**(47)**	**(361)**	**314**	**87.0%**
Investing and financing income (expense), net	(22)	(15)	(7)	(49.7)%	(36)	(25)	(11)	(41.8)%
Loss before tax	**(64)**	**(333)**	**269**	**80.9%**	**(83)**	**(386)**	**303**	**78.6%**
Tax recovery	(15)	(84)	69	82.6%	(19)	(98)	79	80.9%
Net loss	**(49)**	**(249)**	**200**	**80.3%**	**(64)**	**(288)**	**224**	**77.8%**
Other comprehensive income (loss)	280	(3,506)	3,786	*	3,258	(1,154)	4,412	*
Comprehensive income	**231**	**(3,755)**	**3,986**	*	**3,194**	**(1,442)**	**4,636**	*

* The calculation is not mathematically meaningful.

The Canada Post Group of Companies' loss before tax of $64 million in the second quarter of 2021 was an improvement of $269 million compared to the loss before tax in Q2 of 2020. For the year to date, the loss before tax in 2021 was $83 million, an improvement of $303 million compared to the same period in the prior year. A detailed discussion by segment is provided in sections 5.4 to 5.6.

Consolidated revenue from operations

Revenue from operations increased by $343 million (+15.8%) and $781 million (+16.1%) in the second quarter and year to date of 2021, respectively, compared to the same periods in 2020, as a result of growth in the Canada Post, Purolator and SCI segments. Year-over-year comparisons are greatly affected by the unique circumstances of the prior year when COVID-19 was starting to change consumer behaviour toward online shopping and accelerate the digital substitution of mail. For the year to date, two additional business days in 2021 compared to 2020 also resulted in additional revenue.

Consolidated cost of operations

In the second quarter and year to date of 2021, the cost of operations increased by $67 million (+2.7%) and $467 million (+7.4%), respectively, compared to the same periods in the prior year, due to cost increases in labour and transportation related to parcel growth, as well as increased costs related to COVID-19 in the Canada Post, Purolator and SCI segments. These results were also influenced by the arbitrator's decision for new collective agreements with CUPW which added $114 million of costs in Q2 2020. For the first two quarters, three additional paid days in 2021 compared to the same period in 2020 also contributed to increased costs.

Consolidated tax expense (recovery)

The consolidated tax recovery for the second quarter and year to date of 2021 decreased by $69 million and $79 million, respectively, compared to the same periods in 2020, as a result of a lower loss in the Group of Companies.

Consolidated other comprehensive income

Consolidated other comprehensive income was $280 million and $3,258 million, respectively, in the second quarter and year to date. For the quarter, remeasurement gains on pension and other post-employment plans were recorded, primarily due to higher-than-expected asset returns partially offset by discount rate losses compared to larger discount rate losses in the same quarter last year. Year to date, other comprehensive income was mainly due to discount rate gains and higher than expected asset returns compared to discount rate losses and lower-than-expected asset returns in the prior year. Fluctuations in the various factors and assumptions used to remeasure these plans cause volatility and have a significant impact on the Group of Companies' other comprehensive income.

5.3 Operating results by segment

Segmented results – Profit (loss) before tax

(in millions of dollars)

	Second quarter ended				**Year to date ended**			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change
Canada Post	(151)	(378)	227	60.0%	(228)	(444)	216	48.6%
Purolator	77	39	38	97.4%	128	49	79	160.7%
SCI	9	4	5	132.5%	15	6	9	155.2%
Other	1	2	(1)	(19.7)%	2	3	(1)	(24.8)%
Canada Post Group of Companies	**(64)**	**(333)**	**269**	**80.9%**	**(83)**	**(386)**	**303**	**78.6%**

5.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $151 million in the second quarter compared to a loss before tax of $378 million for the same period in 2020. For the year to date in 2021, the loss was $216 million lower than the same period in 2020. However, the arbitrator's decision for new collective agreements with CUPW added $114 million of costs to the second quarter of the prior year, mostly due to a pension plan amendment for post-employment healthcare benefits for past service. Excluding the impact of the arbitrator's decision, the loss was $102 million lower for the year to date compared to 2020. Growth in revenue from all lines of business was not sufficient to address the higher labour costs due to annual wage increases, special leaves, Parcels volume growth and operational changes due to COVID-19.

Summary of results for the second quarter and for the year to date

(in millions of dollars)

	Second quarter ended				Year to date ended			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change
Revenue from operations	1,821	1,633	188	11.5%	3,776	3,312	464	12.2%[1]
Cost of operations	1,957	2,001	(44)	(2.2)%	3,983	3,740	243	4.1%[1]
Loss from operations	**(136)**	**(368)**	**232**	**63.0%**	**(207)**	**(428)**	**221**	**51.7%**
Investing and financing income (expense), net	(15)	(10)	(5)	(61.6)%	(21)	(16)	(5)	(34.1)%
Loss before tax	**(151)**	**(378)**	**227**	**60.0%**	**(228)**	**(444)**	**216**	**48.6%**

Revenue from operations

The impact of COVID-19 on revenue affected the current and comparative period in different ways. As the pandemic took hold over a year ago, our Transaction Mail and Direct Marketing volumes had declined substantially, while parcel volumes soared as Canadians pivoted to shopping from home when in-person shopping in stores was restricted. Year-over-year comparisons in this Report are, therefore, greatly influenced by the unique circumstances that began to affect revenue toward the end of Q1 2020. We experienced continued growth in Parcels, increase in Transaction Mail revenue due to the 2021 Census mailing and a partial recovery in Direct Marketing, for a combined increase of $188 million (+11.5%) and $464 million (+12.2%) for Q2 and the year to date, respectively, over the prior year. For the first two quarters, revenue for all lines of business also increased as a result of two additional business days in 2021 compared to the same period in the prior year.

Revenue and volumes by line of business for the second quarter

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change
Parcels								
Domestic Parcels	734	711	23	3.3%	73	80	(7)	(8.6)%
Outbound Parcels	78	62	16	25.4%	3	3	–	6.3%
Inbound Parcels	98	87	11	13.2%	19	17	2	6.9%
Other	6	4	2	49.9%	–	–	–	–
Total Parcels	**916**	**864**	**52**	**6.1%**	**95**	**100**	**(5)**	**(5.4)%**
Transaction Mail								
Domestic Lettermail	588	547	41	7.5%	595	574	21	3.7%
Outbound Letter-post	18	16	2	11.9%	8	7	1	6.7%
Inbound Letter-post	10	10	–	0.3%	14	11	3	22.6%
Total Transaction Mail	**616**	**573**	**43**	**7.5%**	**617**	**592**	**25**	**4.1%**
Direct Marketing								
Canada Post Personalized Mail™	92	61	31	49.8%	161	107	54	49.9%
Canada Post Neighbourhood Mail™	86	48	38	78.6%	733	415	318	76.8%
Total Canada Post Smartmail Marketing™	**178**	**109**	**69**	**62.5%**	**894**	**522**	**372**	**71.3%**
Publications Mail™	32	30	2	9.2%	47	44	3	7.1%
Business Reply Mail™ and Other Mail	4	4	–	11.1%	3	3	–	13.3%
Other	4	3	1	13.8%	–	–	–	–
Total Direct Marketing	**218**	**146**	**72**	**49.1%**	**944**	**569**	**375**	**66.1%**
Other Revenue	71	50	21	41.7%	–	–	–	–
Total	**1,821**	**1,633**	**188**	**11.5%**	**1,656**	**1,261**	**395**	**31.3%**

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

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	July 3, 2021	June 27, 2020	$ change	% change[1]	July 3, 2021	June 27, 2020	$ change	% change[1]
Parcels								
Domestic Parcels	1,476	1,216	260	19.5%	150	133	17	10.7%
Outbound Parcels	164	124	40	29.8%	7	6	1	22.2%
Inbound Parcels	216	181	35	17.7%	36	36	–	(1.7)%
Other	12	9	3	26.0%	–	–	–	–
Total Parcels	**1,868**	**1,530**	**338**	**20.2%**	**193**	**175**	**18**	**8.5%**
Transaction Mail								
Domestic Lettermail	1,271	1,226	45	2.0%	1,291	1,290	1	(1.4)%
Outbound Letter-post	40	40	–	(2.8)%	18	19	(1)	(8.6)%
Inbound Letter-post	24	36	(12)	(33.1)%	29	33	(4)	(15.3)%
Total Transaction Mail	**1,335**	**1,302**	**33**	**0.9%**	**1,338**	**1,342**	**(4)**	**(1.9)%**
Direct Marketing								
Canada Post Personalized Mail	195	170	25	12.8%	342	302	40	11.5%
Canada Post Neighbourhood Mail	161	128	33	23.0%	1,370	1,096	274	23.0%
Total Canada Post Smartmail Marketing	**356**	**298**	**58**	**17.2%**	**1,712**	**1,398**	**314**	**20.5%**
Publications Mail	62	63	(1)	(2.2)%	89	91	(2)	(3.2)%
Business Reply Mail and Other Mail	9	9	–	4.3%	7	6	1	4.4%
Other	7	6	1	16.7%	–	–	–	–
Total Direct Marketing	**434**	**376**	**58**	**13.7%**	**1,808**	**1,495**	**313**	**19.0%**
Other Revenue	139	104	35	30.9%	–	–	–	–
Total	**3,776**	**3,312**	**464**	**12.2%**	**3,339**	**3,012**	**327**	**9.1%**

Parcels

Parcels revenue in the second quarter and year to date of 2021 increased by $52 million (+6.1%) and $338 million (+20.2%), respectively, compared to the same periods in 2020. Consumer ecommerce behaviour accelerated toward the end of Q1 2020 due to COVID-19 and growth rates were high through the remainder of 2020 and Q1 2021. However, starting in Q2 2021, domestic parcel growth rates were lower than in Q2 2020 as stores began to reopen for in-person shopping. Despite volume declines in Q2, our Parcels revenue was positively affected by proactively managing our use of available capacity through our commercial customer and product mix. We believe some changes in consumer behaviour due to COVID-19 are likely part of a sustained shift to ecommerce. Continued capacity constraints throughout our network required that we manage volumes and re-route parcels, causing some delays of items. As it costs more to process and deliver parcels than it does letters, the Corporation is making investments to improve processing capacity and efficiencies of this line of business.

Transaction Mail

Transaction Mail revenue increased by $43 million (+7.5%) in the second quarter of 2021 compared to the second quarter of 2020, while year to date increases were $33 million (+0.9%) compared to the same period in the prior year. Leading up to this quarter, businesses increasingly used digital communication rather than Lettermail™, a trend that was accelerated by COVID-19. However, mailings in Q2 from the 2021 Census mailing combined with continued above-normal retail usage fuelled by COVID-19 lockdowns had a positive impact on revenue. Unlike previous years, the Corporation decided, due to COVID-19, to maintain regulated stamp prices at 2020 levels through 2021, while minimizing the impact of other price changes.

Direct Marketing

Direct Marketing revenue increased by $72 million (+49.1%) in the second quarter of 2021 compared to Q2 2020 and by $58 million (+13.7%) for the year to date compared to the same period in 2020. In Q2 2021, we began to see a recovery in this line of business after significant declines in Personalized Mail™ and Neighbourhood Mail™ revenue and volumes in the prior year. Although results appear positive compared to 2020, COVID-19 caused customers to delay or cancel marketing campaigns and this product line will continue to be affected by the dynamic and competitive nature of this business.

Other Revenue

Other Revenue increased by $21 million (+41.7%) in the second quarter and $35 million (+30.9%) for the year to date compared to the same periods in the prior year, mainly due to an increase in digital and consumer products and services such as mail forwarding.

Cost of operations

In Q2 and for the year to date of 2021, the Canada Post segment's cost of operations decreased by $44 million (-2.2%) and increased by $243 million (+4.1%), respectively, compared to the same periods in the prior year. The arbitrator's decision for new collective agreements with CUPW added $114 million of costs to the second quarter of the prior year, mostly due to a pension plan amendment for post-employment healthcare benefits for past service. Excluding the impact of the 2020 arbitrator's decision, cost of operations increased by $70 million in the second quarter and $357 million for the year to date compared to the same periods in 2020. The increases were due to annual wage increases, higher labour and non-labour collection, processing and delivery costs related to growth in parcel volumes, health and safety costs and special employee leave. Year-to-date costs were also higher as a result of the negative impact of three more paid days during the first two quarters of 2021.

(in millions of dollars)

	Second quarter ended				Year to date ended			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change[1]
Labour	947	936	11	1.1%	1,928	1,789	139	5.3%
Employee benefits	409	512	(103)	(20.2)%	820	865	(45)	(7.3)%
Total labour and employee benefits	**1,356**	**1,448**	**(92)**	**(6.4)%**	**2,748**	**2,654**	**94**	**1.2%**
Non-labour collection, processing and delivery	307	281	26	9.3%	658	554	104	16.0%
Property, facilities and maintenance	57	53	4	7.1%	120	107	13	9.0%
Selling, administrative and other	157	140	17	12.2%	299	268	31	9.3%
Total other operating costs	**521**	**474**	**47**	**9.9%**	**1,077**	**929**	**148**	**13.2%**
Depreciation and amortization	80	79	1	2.1%	158	157	1	1.4%
Total	**1,957**	**2,001**	**(44)**	**(2.2)%**	**3,983**	**3,740**	**243**	**4.1%**

Labour

Labour costs in Q2 increased by $11 million (+1.1%) compared to the second quarter of 2020, and by $139 million (+5.3%) for the first two quarters compared to the same periods in 2020 due to significant parcel volume growth alongside physical distancing measures, employee special leave and annual wage increases. Year-over-year comparisons are affected by the impact of COVID-19, which began to have a significant impact on labour and related costs in Q2 2020. Increased costs for the year to date are also related to three additional paid days during the first two quarters of 2021.

Employee benefits

Benefit costs were $103 million (-20.2%) lower in the second quarter of 2021, compared to the same period in 2020, primarily due to a plan amendment loss recognized in the second quarter of 2020, offset by higher labour costs, higher active benefits due to the reopening of healthcare providers and a decrease in the discount rate which increased the non-cash pension expense in 2021. For the year to date in 2021, the decrease of $45 million (-7.3%) in employee benefit costs compared to the prior year was related to the same factors as those affecting the quarters further offset by three more paid days in 2021 compared to 2020.

Other operating costs

Changes in these costs were as follows:

- Non-labour collection, processing and delivery costs increased by $26 million (+9.3%) in the second quarter and by $104 million (+16.0%) for the first two quarters of 2021 compared to the same periods in 2020, mainly due to Parcels volume growth that resulted in higher spending on transportation, international settlements and dealer fees.
- The cost of facilities increased by $4 million (+7.1%) and $13 million (+9.0%) for Q2 and the first two quarters of 2021, respectively compared to the same periods in 2020, mainly due to cleaning and maintenance costs related to COVID-19.
- Selling, administrative and other expenses increased by $17 million (+12.2%) for the second quarter of 2021 and by $31 million (+9.3%) for the year to date compared to the same periods in the prior year, mainly due to increased investments to sustain our network and support ongoing parcel growth.

5.5 Purolator segment

Compared to the second quarter and the first two quarters of 2020, the Purolator segment's profit before tax increased by $38 million and by $79 million in 2021, respectively.

Summary of results for the second quarter and for the year to date

(in millions of dollars)

	Second quarter ended				Year to date ended			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change
Revenue from operations	653	504	149	29.4%	1,279	961	318	31.0%[1]
Cost of operations	570	460	110	23.6%	1,138	904	234	23.0%[1]
Profit from operations	**83**	**44**	**39**	**90.8%**	**141**	**57**	**84**	**147.9%**
Investing and financing income (expense), net	(6)	(5)	(1)	(35.3)%	(13)	(8)	(5)	(67.3)%
Profit before tax	**77**	**39**	**38**	**97.4%**	**128**	**49**	**79**	**160.7%**

Revenue from operations increased by $149 million (+29.4%) in Q2 2021, and by $318 million (+31.0%) for the year to date, compared to the same periods in 2020, mainly due to continuing volume growth in the business-to-consumer market as a result of COVID-19 measures that were in effect during the first half of the year, strong volume recovery in the business-to-business market as businesses reopened in the second quarter and the company's execution of its plan to grow market share in the domestic and cross-border segments. However, in the business-to-consumer market, the company started to see volume normalizing as retail businesses began to reopen starting in late May.

Annual wage increases, an increase in employee benefit costs, including pension, and business growth caused significant increases in labour costs of $46 million and $100 million for the second quarter and the year to date, respectively, of 2021, compared to the same periods in the prior year. Non-labour cost increases of $64 million in the second quarter, and $134 million for the first two quarters, compared to the same periods in the prior year, were driven by volume growth in the high cost to serve business-to-consumer market, higher fuel costs due to increases in fuel prices and additional health and safety measures required to offer protection from COVID-19 risk.

5.6 SCI segment

SCI's profit before tax increased by $5 million and $9 million for the second quarter and the first two quarters of 2021, respectively, compared to the same periods in 2020.

We'll make you even better.

Summary of results for the second quarter and for the year to date

(in millions of dollars)

	Second quarter ended				Year to date ended			
	July 3, 2021	June 27, 2020	$ change	% change	July 3, 2021	June 27, 2020	$ change	% change
Revenue from operations	96	81	15	18.3%	180	157	23	15.5%[1]
Cost of operations	86	76	10	12.7%	163	149	14	10.1%[1]
Profit from operations	**10**	**5**	**5**	**109.0%**	**17**	**8**	**9**	**120.7%**
Investing and financing income (expense), net	(1)	(1)	–	15.0%	(2)	(2)	–	11.7%
Profit before tax	**9**	**4**	**5**	**132.5%**	**15**	**6**	**9**	**155.2%**

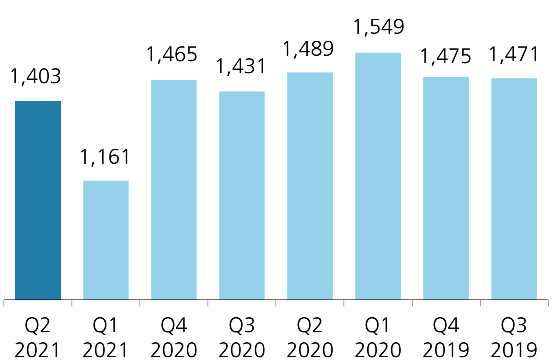
Revenue from operations increased by $15 million (+18.3%) and $23 million (+15.5%) in Q2 and for the first two quarters of 2021, respectively, compared to the same periods in 2020, primarily due to growth in volumes from existing customers as well as new business. Cost of operations was higher by $10 million (+12.7%) and by $14 million (+10.1%) for the second quarter and year to date in 2021, respectively compared to the same periods in 2020 due to cost increases for salaries and transportation resulting from these higher volumes.

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 $1,403 million as at July 3, 2021, compared to $1,465 million as at December 31, 2020. The cash decrease of $62 million was due to lower cash from working capital (mainly due to timing) as well as acquisitions of capital assets and repayment of lease liabilities, partially offset by taxes received during the year and pension expenses exceeding payments. Pension payments were significantly lower than expenses in part because of the special relief afforded to the Canada Post Corporation Registered Pension Plan (RPP) under the *Pension Benefits Standards Act, 1985*.

6.2 Operating activities

(in millions of dollars)

	Second quarter ended			Year to date ended		
	July 3, 2021	June 27, 2020	$ change	July 3, 2021	June 27, 2020	$ change
Cash provided by operating activities	301	239	62	264	383	(119)

Cash provided by operating activities was $62 million higher in the second quarter of 2021, compared to the same period in 2020. For the year to date, cash provided by operating activities decreased by $119 million compared to the first two quarters of 2020. The positive change in cash flow in the second quarter was primarily due to taxes received and strong parcel growth. The negative change in year-to-date cash flows was primarily due to changes in working capital and higher pension payments, partially offset by taxes received and strong parcel growth in both the Canada Post and Purolator segments.

6.3 Investing activities

(in millions of dollars)

	Second quarter ended			Year to date ended		
	July 3, 2021	June 27, 2020	$ change	July 3, 2021	June 27, 2020	$ change
Cash used in investing activities	(28)	(270)	242	(266)	(316)	50

Cash used in investing activities decreased by $242 million in the second quarter of 2021, and by $50 million for the first two quarters of 2021, compared to the same periods in 2020. The positive changes in cash flow were mainly due to lower acquisitions of securities, partially offset by higher acquisitions of capital assets combined with lower proceeds from the sale of securities.

Capital expenditures

(in millions of dollars)

	Second quarter ended			Year to date ended		
	July 3, 2021	June 27, 2020	$ change	July 3, 2021	June 27, 2020	$ change
Canada Post	116	58	58	197	119	78
Purolator	49	17	32	109	40	69
SCI	2	2	–	3	4	(1)
Innovapost and intersegment	(1)	–	(1)	–	–	–
Canada Post Group of Companies	**166**	**77**	**89**	**309**	**163**	**146**

Capital expenditures for the Group of Companies increased by $89 million in the second quarter, and by $146 million for the year to date, mainly due to increased spending on infrastructure capacity in the Canada Post and Purolator segments.

6.4 Financing activities

(in millions of dollars)

	Second quarter ended			Year to date ended		
	July 3, 2021	June 27, 2020	$ change	July 3, 2021	June 27, 2020	$ change
Cash used in financing activities	(30)	(26)	(4)	(58)	(54)	(4)

Cash used in financing activities was relatively unchanged in the second quarter and year to date of 2021 compared to the same period in 2020.

6.5 Canada Post Corporation Registered Pension Plan

In June 2021, Canada Post filed the actuarial valuation of the Canada Post Corporation Registered Pension Plan (RPP) as at December 31, 2020, with the federal pension regulator, the Office of the Superintendent of Financial Institutions. This actuarial valuation disclosed a going-concern surplus of $3.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.4 billion (using the three-year average solvency ratio basis), or $7.4 billion (using market value of plan assets).

At the end of the second quarter, the solvency deficit (using market value of plan assets) of the RPP improved from this recently filed December 31, 2020, valuation of $7.4 billion to an estimated $4.0 billion, primarily due to a discount rate increase and higher than expected asset returns. Under the *Pension Benefits Standards Act, 1985*, and related regulations, Canada Post is not required to make solvency special payments for 2021; however, market volatility could have a significant effect on solvency payments for 2022 and thereafter. Canada Post continues to work with its shareholder, the Government of Canada, and has requested temporary relief from making future payments.

On an accounting basis, a remeasurement gain of $320 million for the RPP, net of tax, was recorded in other comprehensive income for the second quarter of 2021, due to higher than expected asset returns, partially offset by a discount rate decrease. For the first two quarters of 2021, remeasurement gains, net of tax, amounted to $2.8 billion, mainly from an increase in the discount rate.

Current service contributions amounted to $85 million and $157 million, respectively, for the second quarter and first two quarters of 2021, compared to $44 million and $103 million, respectively, for the same periods in 2020.

6.6 Liquidity and capital resources

Liquidity

The Canada Post segment had $2,248 million of unrestricted liquid investments on hand as at July 3, 2021, for a net liquidity position of $1,251 million (after outstanding loans and borrowings of $997 million). The segment also had $100 million of lines of credit, all undrawn.

Canada Post is not required to make solvency special payments in 2021. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $330 million of unrestricted cash on hand and undrawn credit facilities of $151 million as at July 3, 2021, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

Borrowings for the Canada Post segment as at July 3, 2021, amounted to $997 million. For more information on liquidity and access to capital markets, refer to Section 6.6 Liquidity and capital resources of the 2020 Annual MD&A.

7. Changes in Financial Position

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

(in millions of dollars)

ASSETS	July 3, 2021	Dec. 31, 2020	$ change	% change	Explanation of change
Cash and cash equivalents	1,403	1,465	(62)	(4.3)%	Refer to Section 6 Liquidity and Capital Resources.
Marketable securities	1,175	1,256	(81)	(6.4)%	Due to the maturity of securities.
Trade and other receivables	972	1,065	(93)	(8.7)%	Mainly due to lower receivables in the Canada Post and Purolator segments due to lower revenues in Q2 2021 compared to Q4 2020.
Other assets	158	217	(59)	(27.4)%	Mainly from income taxes received during the year in the Canada Post segment, partially offset by higher prepaid expenses in all segments.
Total current assets	**3,708**	**4,003**	**(295)**	**(7.4)%**	
Marketable securities	82	45	37	83.6%	Due to purchase of corporate bonds.
Property, plant and equipment	3,299	3,160	139	4.4%	Mainly due to acquisitions in excess of depreciation.
Intangible assets	153	141	12	8.3%	Mainly due to an increase in software under development.
Right-of-use assets	1,291	1,221	70	5.7%	Mainly due to new leases and lease renewals exceeding depreciation in the Canada Post and Purolator segments.
Segregated securities	509	537	(28)	(5.1)%	Mainly due to unrealized losses in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	502	25	477	†	Mainly due to remeasurement gains resulting from an increase in discount rates and higher than expected asset returns.
Deferred tax assets	855	1,883	(1,028)	(54.6)%	Mainly due to the decrease of temporary differences related to remeasurement gains resulting from an increase in discount rates.
Goodwill	130	130	–	–	No change.
Other assets	63	64	(1)	(3.0)%	No material change.
Total non-current assets	**6,884**	**7,206**	**(322)**	**(4.5)%**	
Total assets	**10,592**	**11,209**	**(617)**	**(5.5)%**	

† Large percentage change.

LIABILITIES	July 3, 2021	Dec. 31, 2020	$ change	% change	Explanation of change
Trade and other payables	794	878	(84)	(9.5)%	Mainly due to lower trade and other payables in the Canada Post and Purolator segments due to lower expenses and timing.
Salaries and benefits payable and related provisions	698	812	(114)	(14.0)%	Mainly due to lower accrued salaries and benefits in the Canada Post segment, mainly due to timing.
Provisions	60	61	(1)	(1.5)%	No material change.
Income tax payable	14	9	5	48.7%	Mainly due to expected liability in the Canada Post segment.
Deferred revenue	168	218	(50)	(22.9)%	Mainly due to lower deferred revenue in the Canada Post segment related to meters, stamps and parcels.
Lease liabilities	128	122	6	4.2%	No material change.
Other long-term benefit liabilities	62	65	(3)	(3.8)%	No material change.
Total current liabilities	**1,924**	**2,165**	**(241)**	**(11.1)%**	
Lease liabilities	1,360	1,292	68	5.3%	Mainly due to new leases and lease renewals in the Canada Post and Purolator segments net of lease payments.
Loans and borrowings	997	997	–	–	No change.
Pension, other post-employment and other long-term benefit liabilities	3,962	7,601	(3,639)	(47.9)%	Mainly due to remeasurement gains resulting from an increase in discount rates.
Other liabilities	33	32	1	5.2%	No material change.
Total non-current liabilities	**6,352**	**9,922**	**(3,570)**	**(36.0)%**	
Total liabilities	**8,276**	**12,087**	**(3,811)**	**(31.5)%**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	62	92	(30)	(32.3)%	Mainly due to unrealized losses on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Accumulated surplus (deficit)	1,044	(2,166)	3,210	*	Driven by remeasurement gains in the Canada Post segment, mostly from an increase in discount rates.
Equity of Canada	**2,261**	**(919)**	**3,180**	*	
Non-controlling interests	55	41	14	34.4%	
Total equity	**2,316**	**(878)**	**3,194**	*	
Total liabilities and equity	**10,592**	**11,209**	**(617)**	**(5.5)%**	

* The calculation is not mathematically meaningful.

8. Risks and Risk Management

A discussion of Canada Post's key risks and uncertainties inherent in our business and our approach to managing these risks

Management considers risks and opportunities at all levels of decision-making and has implemented a rigorous approach to enterprise risk management. Where appropriate, Canada Post has recorded provisions for some of the claims disclosed in the 2020 MD&A. Should the ultimate resolution of these actions differ from management's assessments and assumptions, this could result in a material future adjustment to the Corporation's financial position and results of operations.

As disclosed in the 2020 MD&A, uncertainties related to COVID-19 and the impact on our business and the economy remain. Developments in our emerging or principal risks in the second quarter of 2021 are as follows.

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

In June 2017, the Superior Court of Québec 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*. On June 9, 2021, the Superior Court of Québec approved a settlement agreement reached by the parties. The class action has been settled i) without any money being paid out by Canada Post and ii) on Canada Post sending a letter to its employees and retirees in Quebec explaining the different coverage options. This letter, requested by the class and aimed at informing our employees and retirees about existing policies, is the only concession that was made by Canada Post. The letter, a copy of which is available on the Corporation's intranet site, has been sent to recipients.

Accelerated delivery service – Class-action lawsuit

An application was made to the Superior Court of Québec 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 that Canada Post, nevertheless, continued to promote the delivery guarantees for expedited services while refusing to honour them. The proposed class action has now been limited to consumers (as opposed to commercial accounts) in the province of Quebec only, and is seeking full refunds, compensatory damages and punitive damages. The class action has not yet been certified by the Court.

9. Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2021 and future years

9.1 Critical accounting estimates and estimation uncertainties

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

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

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2020 Annual MD&A and Note 4 Critical Accounting Estimates and Judgments of the 2020 consolidated financial statements in addition to Note 2 Basis of Presentation in this second quarter financial report.

COVID-19

COVID-19 has had a significant impact on the Canadian and global economies, including our business in 2020, which could have a prolonged negative impact on our financial results. As the COVID-19 situation extends in magnitude and duration, the continuation of these circumstances could result in an economic downturn that could have a prolonged negative impact on our financial results. There is a wide range of possible outcomes, resulting in a particularly high degree of uncertainty about the ultimate trajectory of the COVID-19 situation. Additional estimation uncertainties, significant judgments, volatility and risks as a result of COVID-19 include the recoverability and impairment of financial and non-financial assets, accounting for fair value of financial assets, measurement of the pension benefit asset and pension, other post-employment and other long-term benefit obligations, deferred tax asset, solvency special payments, timing of revenue recognition and contract modifications.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations

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

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

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

Amendment	Effective for annual periods beginning on or after
Amendments to International Financial Reporting Standard (IFRS) 3 "Business Combinations – Reference to the Conceptual Framework"	January 1, 2022
Amendments to International Accounting Standard (IAS) 16 "Property, Plant and Equipment – Proceeds before Intended Use"	
Amendments to IAS 37 "Onerous Contracts – Cost of Fulfilling a Contract"	
Amendments to IFRS 16 "Leases – Lease Incentives"	
Amendments to IAS 1 "Presentation of Financial Statements"	January 1, 2023
Amendments to IAS 1 "Presentation of Financial Statements – Disclosure of Accounting Policies" and IFRS Practice Statement 2 "Making Materiality Judgments"	
Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates"	
Amendments to IAS 12 "Income Taxes – Deferred tax related to assets and liabilities arising from a single transaction"	

Endnote

1. Adjusted for business or paid days, where applicable.

Management's Responsibility for Interim Financial Reporting

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements (interim financial statements) in accordance with the Treasury Board of Canada's Directive on Accounting Standards: GC 5200 Crown Corporations Quarterly Financial Reports, and International Accounting Standard (IAS) 34, "Interim Financial Reporting," and for such internal controls as management determines are necessary to enable the preparation of interim financial statements that are free from material misstatement. Management is also responsible for ensuring that all other information in this quarterly financial report is consistent, where appropriate, with the interim financial statements.

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

President and Chief Executive Officer

Chief Financial Officer

August 19, 2021

Interim Condensed Consolidated Statement of Financial Position

(Unaudited – in millions of Canadian dollars)

	As at July 3, 2021	As at December 31, 2020
ASSETS		
Current assets		
Cash and cash equivalents	**1,403**	1,465
Marketable securities	**1,175**	1,256
Trade, other receivables and contract assets	**972**	1,065
Other assets (Note 4)	**158**	217
Total current assets	**3,708**	4,003
Non-current assets		
Marketable securities	**82**	45
Property, plant and equipment (Note 5)	**3,299**	3,160
Intangible assets (Note 5)	**153**	141
Right-of-use assets (Note 5)	**1,291**	1,221
Segregated securities	**509**	537
Pension benefit assets (Note 6)	**502**	25
Deferred tax assets	**855**	1,883
Goodwill	**130**	130
Other assets (Note 4)	**63**	64
Total non-current assets	**6,884**	7,206
Total assets	**10,592**	11,209
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**794**	878
Salaries and benefits payable and related provisions	**698**	812
Provisions	**60**	61
Income tax payable	**14**	9
Deferred revenue	**168**	218
Lease liabilities (Note 7)	**128**	122
Other long-term benefit liabilities (Note 6)	**62**	65
Total current liabilities	**1,924**	2,165
Non-current liabilities		
Lease liabilities (Note 7)	**1,360**	1,292
Loans and borrowings	**997**	997
Pension, other post-employment and other long-term benefit liabilities (Note 6)	**3,962**	7,601
Other liabilities	**33**	32
Total non-current liabilities	**6,352**	9,922
Total liabilities	**8,276**	12,087
Equity		
Contributed capital	**1,155**	1,155
Accumulated other comprehensive income (Note 8)	**62**	92
Accumulated surplus (deficit)	**1,044**	(2,166)
Equity of Canada	**2,261**	(919)
Non-controlling interests	**55**	41
Total equity	**2,316**	(878)
Total liabilities and equity	**10,592**	11,209

Contingent liabilities (Note 9)

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

Interim Condensed Consolidated Statement of Comprehensive Income

(Unaudited – in millions of Canadian dollars)

	For the 13 weeks ended		For the 26 weeks ended	
	July 3, 2021	June 27, 2020	**July 3, 2021**	June 27, 2020
Revenue from operations (Note 14)	**2,521**	2,178	**5,141**	4,360
Cost of operations				
Labour	**1,239**	1,188	**2,500**	2,275
Employee benefits	**473**	568	**959**	983
	1,712	1,756	**3,459**	3,258
Other operating costs (Note 11)	**739**	632	**1,508**	1,248
Depreciation and amortization (Note 5)	**112**	108	**221**	215
Total cost of operations	**2,563**	2,496	**5,188**	4,721
Loss from operations	**(42)**	(318)	**(47)**	(361)
Investing and financing income (expense)				
Investment and other income (Note 12)	**5**	9	**18**	23
Finance costs and other expense (Note 12)	**(27)**	(24)	**(54)**	(48)
Investing and financing expense, net	**(22)**	(15)	**(36)**	(25)
Loss before tax	**(64)**	(333)	**(83)**	(386)
Tax recovery	**(15)**	(84)	**(19)**	(98)
Net loss	**(49)**	(249)	**(64)**	(288)
Other comprehensive income (Note 8)				
Items that may subsequently be reclassified to net profit (loss)				
Change in unrealized fair value of financial assets	**7**	24	**(28)**	31
Foreign currency translation adjustment	**–**	(1)	**(2)**	–
Item never reclassified to net profit (loss)				
Remeasurements of defined benefit plans	**273**	(3,529)	**3,288**	(1,185)
Other comprehensive income (loss)	**280**	(3,506)	**3,258**	(1,154)
Comprehensive income (loss)	**231**	(3,755)	**3,194**	(1,442)
Net profit (loss) attributable to				
Government of Canada	**(53)**	(251)	**(71)**	(291)
Non-controlling interests	**4**	2	**7**	3
	(49)	249	**(64)**	(288)
Comprehensive income (loss) attributable to				
Government of Canada	**226**	(3,751)	**3,180**	(1,440)
Non-controlling interests	**5**	(4)	**14**	(2)
	231	(3,755)	**3,194**	(1,442)

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

Interim Condensed Consolidated Statement of Changes in Equity

(Unaudited – in millions of Canadian dollars)

For the 13 weeks ended July 3, 2021	Contributed capital	Accumulated other comprehensive income	Accumulated surplus (deficit)	Equity of Canada	Non-controlling interests	Total equity
Balance at April 3, 2021	**1,155**	**55**	**825**	**2,035**	**50**	**2,085**
Net profit (loss)	**–**	**–**	**(53)**	**(53)**	**4**	**(49)**
Other comprehensive income (Note 8)	**–**	**7**	**272**	**279**	**1**	**280**
Comprehensive income	**–**	**7**	**219**	**226**	**5**	**231**
Balance at July 3, 2021	**1,155**	**62**	**1,044**	**2,261**	**55**	**2,316**

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

For the 26 weeks ended July 3, 2021	Contributed capital	Accumulated other comprehensive income	Accumulated surplus (deficit)	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2020	**1,155**	**92**	**(2,166)**	**(919)**	**41**	**(878)**
Net profit (loss)	**–**	**–**	**(71)**	**(71)**	**7**	**(64)**
Other comprehensive income (loss) (Note 8)	**–**	**(30)**	**3,281**	**3,251**	**7**	**3,258**
Comprehensive income (loss)	**–**	**(30)**	**3,210**	**3,180**	**14**	**3,194**
Balance at July 3, 2021	**1,155**	**62**	**1,044**	**2,261**	**55**	**2,316**

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

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

Interim Condensed Consolidated Statement of Cash Flows

(Unaudited – in millions of Canadian dollars)

	For the 13 weeks ended		For the 26 weeks ended	
	July 3, 2021	June 27, 2020	**July 3, 2021**	June 27, 2020
Cash flows from operating activities				
Net loss	**(49)**	(249)	**(64)**	(288)
Adjustments to reconcile net profit to cash provided by operating activities:				
Depreciation and amortization (Note 5)	**112**	108	**221**	215
Pension, other post-employment and other long-term benefit expense (Note 6)	**294**	416	**582**	671
Pension, other post-employment and other long-term benefit payments (Note 6)	**(160)**	(103)	**(314)**	(232)
Gain on sale of capital assets (Note 12)	**–**	–	**(8)**	–
Tax recovery	**(15)**	(84)	**(19)**	(98)
Net interest expense (Note 12)	**17**	12	**33**	19
Change in non-cash operating working capital:				
Decrease (increase) in trade and other receivables	**4**	(34)	**93**	19
Increase (decrease) in trade and other payables	**101**	129	**(84)**	73
(Decrease) increase in salaries and benefits payable and related provisions	**(43)**	6	**(116)**	42
Increase (decrease) in provisions	**1**	3	**(1)**	(3)
Net (increase) decrease in other non-cash operating working capital	**(41)**	33	**(87)**	4
Other expense not affecting cash, net	**(3)**	(3)	**(6)**	(7)
Cash provided by operations before interest and tax	**218**	234	**230**	415
Interest received	**12**	18	**19**	32
Interest paid	**(10)**	(11)	**(41)**	(42)
Tax received (paid)	**81**	(2)	**56**	(22)
Cash provided by operating activities	**301**	239	**264**	383
Cash flows from investing activities				
Acquisition of securities	**(230)**	(641)	**(596)**	(977)
Proceeds from sale of securities	**366**	446	**627**	821
Acquisition of capital assets	**(166)**	(77)	**(309)**	(163)
Proceeds from sale of capital assets	**1**	1	**11**	1
Other investing activities, net	**1**	1	**1**	2
Cash used in investing activities	**(28)**	(270)	**(266)**	(316)
Cash flows from financing activities				
Repayments of lease liabilities, net of finance sublease proceeds	**(30)**	(27)	**(59)**	(54)
Other financing activities, net	**–**	1	**1**	–
Cash used in financing activities	**(30)**	(26)	**(58)**	(54)
Net increase (decrease) in cash and cash equivalents	**243**	(57)	**(60)**	13
Cash and cash equivalents, beginning of period	**1,161**	1,549	**1,465**	1,475
Effect of exchange rate changes on cash and cash equivalents	**(1)**	(3)	**(2)**	1
Cash and cash equivalents, end of period	**1,403**	1,489	**1,403**	1,489

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

Notes to Interim Condensed Consolidated Financial Statements

For the 26 weeks ended July 3, 2021
(Unaudited – in millions of Canadian dollars, unless otherwise indicated)

1. Incorporation, Business Activities and Directives

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

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

Under the *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. The Corporation is also subject to directives issued pursuant to section 89 of the *Financial Administration Act* as described in Note 1 to the Corporation's annual consolidated financial statements for the year ended December 31, 2020. There is no change to the status of these directives.

2. Basis of Presentation

Statement of compliance • The Corporation has prepared its interim condensed consolidated financial statements (interim financial statements) in compliance with IAS 34 "Interim Financial Reporting." As permitted under this standard, these interim financial statements do not include all the disclosures required for annual consolidated financial statements, and they should be read in conjunction with the Corporation's audited consolidated financial statements for the year ended December 31, 2020. These interim financial statements have been prepared based on International Financial Reporting Standards (IFRSs) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors August 19, 2021.

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

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

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

Significant accounting policies • Significant accounting policies used in these interim financial statements are disclosed in Note 3 of the Corporation's annual consolidated financial statements for the year ended December 31, 2020. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods. Critical judgments and key sources of estimation uncertainty are disclosed in Note 4 of the Corporation's annual consolidated financial statements for the year ended December 31, 2020.

COVID-19 • Declared a pandemic in March 2020, COVID-19 has had a significant impact on the Canadian and global economies, including our business in 2020, into 2021, and likely going forward. Additional estimation uncertainties, significant judgments and risks as a result of COVID-19 include the recoverability and impairment of financial and non-financial assets, accounting for fair value of financial assets, timing of revenue recognition and contract modifications.

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

3. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2021

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

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

In addition to those disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2020 and in Note 3 (b) of the Corporation's first quarter financial report ended April 3, 2021, in May 2021, the IASB issued an amendment to the following standard, which is effective for annual periods beginning on or after January 1, 2023, with earlier application permitted. The Group of Companies is assessing the impact of this amendment.

Standard	Subject matter and significance
Amendments to IAS 12, Income Taxes – Deferred tax related to assets and liabilities arising from a single transaction	Amendments clarify that the initial recognition exception does not apply to transactions such as leases and decommissioning obligations, where equal amounts of deductible and taxable temporary differences arise on initial recognition. It is a matter of judgment whether payments that settle a liability are deductions attributable (for tax purposes) to the liability (and interest expense) or to the related asset component (and interest expense).

4. Other Assets

(in millions)

	As at July 3, 2021	As at December 31, 2020
Income tax receivable	2	96
Prepaid expenses	156	120
Assets held for sale	2	2
Finance lease receivable	13	15
Other receivables	48	48
Total other assets	**221**	281
Current other assets	**158**	217
Non-current other assets	**63**	64

As at July 3, 2021, all properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

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

	As at July 3, 2021	As at December 31, 2020
Contractual undiscounted cash flows		
Less than one year	6	5
One to five years	7	10
Total undiscounted finance lease receivable	**13**	15

5. Capital Assets

(a) Property, plant and equipment

(in millions)

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2020	457	2,280	375	1,211	679	368	1,064	273	6,707
Additions	1	9	3	9	43	12	31	171	279
Reclassified as held for sale	(1)	(7)	–	–	–	–	–	–	(8)
Retirements	–	–	(3)	(10)	(1)	(17)	(3)	–	(34)
Transfers	–	3	4	2	–	–	1	(10)	–
July 3, 2021	**457**	**2,285**	**379**	**1,212**	**721**	**363**	**1,093**	**434**	**6,944**
Accumulated depreciation									
December 31, 2020	–	1,262	269	814	405	292	505	–	3,547
Depreciation	–	30	8	36	26	11	26	–	137
Reclassified as held for sale	–	(6)	–	–	–	–	–	–	(6)
Retirements	–	–	(3)	(9)	(1)	(17)	(3)	–	(33)
July 3, 2021	**–**	**1,286**	**274**	**841**	**430**	**286**	**528**	**–**	**3,645**
Carrying amounts									
December 31, 2020	457	1,018	106	397	274	76	559	273	3,160
July 3, 2021	**457**	**999**	**105**	**371**	**291**	**77**	**565**	**434**	**3,299**

(b) Intangible assets

(in millions)

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2020	856	67	22	945
Additions	2	31	–	33
Transfers	6	(6)	–	–
July 3, 2021	**864**	**92**	**22**	**978**
Accumulated amortization				
December 31, 2020	782	–	22	804
Amortization	18	3	–	21
July 3, 2021	**800**	**3**	**22**	**825**
Carrying amounts				
December 31, 2020	74	67	–	141
July 3, 2021	**64**	**89**	**–**	**153**

(c) Right-of-use assets

(in millions)

	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
December 31, 2020	118	284	804	14	1	1,221
Additions	–	23	103	7	–	133
Depreciation	(2)	(14)	(43)	(4)	–	(63)
July 3, 2021	**116**	**293**	**864**	**17**	**1**	**1,291**

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:

(in millions)

	As at July 3, 2021	As at December 31, 2020
Pension benefit assets	**502**	25
Pension benefit liabilities	10	3,231
Other post-employment and other long-term benefit liabilities	4,014	4,435
Total pension, other post-employment and other long-term benefit liabilities	4,024	7,666
Current other long-term benefit liabilities	**62**	65
Non-current pension, other post-employment and other long-term benefit liabilities	**3,962**	7,601

(b) Defined benefit and defined contribution costs

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

(in millions)

	For the 13 weeks ended July 3, 2021			For the 13 weeks ended June 27, 2020		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	197	34	231	179	32	211
Interest cost	229	30	259	245	31	276
Interest income on plan assets	(207)	–	(207)	(224)	–	(224)
Other administration costs	3	–	3	4	–	4
Actuarial (gains) losses[1]	–	–	–	–	20	20
Loss from plan amendment[2]	–	–	–	–	122	122
Defined benefit expense	222	64	286	204	205	409
Defined contribution expense	8	–	8	7	–	7
Total expense	230	64	294	211	205	416
Return on segregated securities	–	(4)	(4)	–	(4)	(4)
Component included in employee benefits expense	**230**	**60**	**290**	211	201	412
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	(1,157)	–	(1,157)	(1,864)	–	(1,864)
Actuarial (gains) losses	719	74	793	5,755	816	6,571
Component included in other comprehensive income[3,4,5]	**(438)**	**74**	**(364)**	3,891	816	4,707

1. Remeasurements for other long-term benefits plans are recognized in net profit (or loss) in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at July 3, 2021, was 2.76% compared to 2.89% at April 3, 2021 (2.40% at June 27, 2020, compared to 3.70% at March 28, 2020). Due to the immaterial change in the discount rate, the Canada Post segment other long-term benefit plans were not remeasured at July 3, 2021.
2. In Q2 2020, the arbitrator rendered her decision relating to collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). This ruling led to expanded eligibility for the post-employment health plan for employees represented by CUPW-RSMC, resulting in a plan amendment loss of $122 million.
3. Amounts presented in this table exclude an income tax expense of $91 million for the 13 weeks ended July 3, 2021 ($1,178 million recovery for the 13 weeks ended June 27, 2020).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at July 3, 2021, were 3.27% and 3.39% compared to 3.41% and 3.53% at April 3, 2021 (2.90% at June 27, 2020, compared to 4.20% and 4.30%, respectively, at March 28, 2020).
5. For 2021, the discount rates use the actual plan cash flows rather than rates established for plans of similar duration, as used in 2020.

	For the 26 weeks ended July 3, 2021			For the 26 weeks ended June 27, 2020		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	398	68	466	355	62	417
Interest cost	461	61	522	482	61	543
Interest income on plan assets	(417)	–	(417)	(441)	–	(441)
Other administration costs	7	–	7	7	–	7
Actuarial (gains) losses[1]	–	(12)	(12)	–	9	9
Loss from plan amendment[2]	–	–	–	–	123	123
Defined benefit expense	449	117	566	403	255	658
Defined contribution expense	16	–	16	13	–	13
Total expense	465	117	582	416	255	671
Return on segregated securities	–	(8)	(8)	–	(8)	(8)
Component included in employee benefits expense	**465**	**109**	**574**	416	247	663
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	(767)	–	(767)	428	–	428
Actuarial (gains) losses	(3,159)	(461)	(3,620)	945	209	1,154
Component included in other comprehensive income[3,4,5]	**(3,926)**	**(461)**	**(4,387)**	1,373	209	1,582

1. Remeasurements for other long-term benefits plans are recognized in net profit (or loss) in the period in which they arise. The discount used rate to measure the Canada Post segment other long-term benefit plans at July 3, 2021, was 2.76% compared to 2.09% at December 31, 2020 (2.40% at June 27, 2020, compared to 2.90% at December 31, 2019). Due to the immaterial change in the discount rate from April 3, 2021, the Canada Post segment other long-term benefit plans were not remeasured at July 3, 2021.
2. In Q2 2020, the arbitrator rendered her decision relating to CUPW-UPO and CUPW-RSMC collective agreements. This ruling led to expanded eligibility for the post-employment health plan for employees represented by CUPW-RSMC, resulting in a plan amendment loss of $122 million. In Q1 2020, a plan amendment loss of $1 million was recorded due to the ratification of a new collective agreement with the Canadian Postmasters and Assistants Association (CPAA), which included modifications of the post-employment health plan.
3. Amounts presented in this table exclude an income tax expense of $1,099 million for the 26 weeks ended July 3, 2021 ($397 million recovery for the 26 weeks ended June 27, 2020).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at July 3, 2021, were 3.27% and 3.39% compared to 2.67% and 2.74% at December 31, 2020 (2.90% at June 27, 2020, compared to 3.10% and 3.20%, respectively, at December 31, 2019).
5. For 2021, the discount rates use the actual plan cash flows rather than rates established for plans of similar duration, as previously used.

(c) Total cash payments and funding relief

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

(in millions)

	For the 13 weeks ended		**For the 26 weeks ended**	
	July 3, 2021	June 27, 2020	**July 3, 2021**	June 27, 2020
Benefits paid directly to beneficiaries for other benefit plans	35	31	77	69
Employer regular contributions to pension benefit plans	104	64	195	137
Employer special contributions to pension benefit plans	13	1	26	13
Cash payments for defined benefit plans	152	96	298	219
Contributions to defined contribution plans	8	7	16	13
Total cash payments	**160**	103	**314**	232

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

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

7. Lease Liabilities

(a) Lease liabilities

(in millions)

	As at July 3, 2021	As at December 31, 2020
Maturity analysis – contractual undiscounted cash flows[1,2]		
Less than one year	161	157
One to five years	547	527
More than five years	1,256	1,197
Total undiscounted lease liabilities	**1,964**	1,881
Lease liabilities in the consolidated statement of financial position	**1,488**	1,414
Current lease liabilities	**128**	122
Non-current lease liabilities	**1,360**	1,292

1. Included in the above table are lease payments (undiscounted cash flows) to be made to related parties in the normal course of business, in the amount of $23 million for premises used in postal operations (December 31, 2020 – $26 million).
2. Leases that have not yet commenced, but which have been committed to as at July 3, 2021, have future cash outflows of $43 million that are included in the above maturity analysis, but they are excluded from the measurement of lease liabilities (December 31, 2020 – $74 million).

(b) Changes in liabilities arising from financing activities

(in millions)

	December 31, 2020	Payments	Interest	Net lease additions	July 3, 2021
Lease liabilities	1,414	(79)	20	133	**1,488**

8. Other Comprehensive Income

(in millions)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 26 weeks ended July 3, 2021	Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2020	88	4	92		
Gains (losses) arising	(37)	(2)	(39)	4,387	4,348
Income taxes	9	–	9	(1,099)	(1,090)
Net	**(28)**	**(2)**	**(30)**	**3,288**	**3,258**
Accumulated balance as at July 3, 2021	**60**	**2**	**62**		

9. Contingent Liabilities

There have been no significant changes to the contingent liabilities as disclosed in Note 16 of the Corporation's December 31, 2020 consolidated financial statements except as noted below.

Accelerated delivery service – Class-action lawsuit

An application was made to the Superior Court of Québec 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 that Canada Post, nevertheless, continued to promote the delivery guarantees for expedited services while refusing to honour them. The proposed class action has now been limited to consumers (as opposed to commercial accounts) in the province of Quebec only, and is seeking full refunds, compensatory damages and punitive damages. The class action has not yet been certified by the Court.

Co-payments for prescription drugs – Class-action lawsuit

In June 2017, the Superior Court of Québec authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in Quebec may have made, between July 2013 and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation that regulates the Régie de l'assurance maladie du Québec (RAMQ). On June 9, 2021, the Superior Court of Québec approved a settlement agreement reached by the parties. The class action has been settled i) without any money being paid out by Canada Post and ii) on Canada Post sending a letter to its employees and retirees in Quebec explaining the different options in terms of coverage. This letter, requested by the class and aimed at educating our employees and retirees with respect to already existing policies, is the only concession that was made by Canada Post. The letter, a copy of which is also available on Intrapost, has already been sent out.

10. Fair Values and Risk Arising from Financial Instruments

Fair values of financial instruments

The fair values of 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 26 weeks ended July 3, 2021.

Financial risk factors

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

(a) Market risk

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

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. COVID-19 has led to additional market volatility, including foreign exchange; however, the mark-to-market adjustment on outstanding forward contracts held at July 3, 2021, was not significant.

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

	For the 13 weeks ended July 3, 2021			For the 13 weeks ended June 27, 2020		
	Foreign exchange gains (losses)	**Derivative gains**	**Total**	Foreign exchange gains (losses)	Derivative gains (losses)	Total
Unrealized	1	2	3	(14)	8	(6)
Realized	(4)	1	(3)	3	(1)	2
Total	**(3)**	**3**	**–**	(11)	7	(4)

	For the 26 weeks ended July 3, 2021			For the 26 weeks ended June 27, 2020		
	Foreign exchange losses	Derivative gains	Total	Foreign exchange gains	Derivative losses	Total
Unrealized	(3)	7	4	3	(8)	(5)
Realized	(6)	3	(3)	8	(1)	7
Total	**(9)**	**10**	**1**	11	(9)	2

(b) Credit risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations, resulting in financial loss to the Group of Companies. Credit risk arises from investments in corporations and financial institutions, as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards. Additional measurement uncertainty exists given that the magnitude and duration of COVID-19 are unknown.

(b.1) Cash equivalents, marketable securities and segregated securities • COVID-19 has caused volatility in global market conditions. Bond yield spreads widened and default rates increased, resulting in an increased credit risk. We assessed and increased our estimate of the 12-month expected credit loss on certain marketable securities and segregated asset investments for investment categories with maturities greater than 12 months. There were no changes to this assessment in the period ended July 3, 2021.

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

(c) Liquidity risk

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

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

11. Other Operating Costs

(in millions)

	For the 13 weeks ended		For the 26 weeks ended	
	July 3, 2021	June 27, 2020	**July 3, 2021**	June 27, 2020
Non-labour collection, processing and delivery	490	412	1,022	812
Property, facilities and maintenance	78	72	164	147
Selling, administrative and other	171	148	322	289
Other operating costs	**739**	632	**1,508**	1,248

12. Investing and Financing Income (Expense)

(in millions)

	For the 13 weeks ended		For the 26 weeks ended	
	July 3, 2021	June 27, 2020	**July 3, 2021**	June 27, 2020
Interest income	4	8	9	22
Gain on sale of capital assets and assets held for sale	1	–	9	–
Other Income	–	1	–	1
Investment and other income	**5**	9	**18**	23
Interest expense	(21)	(20)	(42)	(41)
Other expense	(6)	(4)	(12)	(7)
Finance costs and other expense	**(27)**	(24)	**(54)**	(48)
Investing and financing expense, net	**(22)**	(15)	**(36)**	(25)

13. 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

(in millions)

	For the 13 weeks ended		For the 26 weeks ended	
	July 3, 2021	June 27, 2020	**July 3, 2021**	June 27, 2020
Related party revenue	**82**	66[1]	**160**	130[1]
Compensation payments for programs				
Government mail and mailing of materials for persons who are blind	**5**	6	**11**	12
Payments from related parties for premises leased from the Corporation	**1**	2	**3**	4
Related party expenditures	**8**	4	**14**	10

1. Due to the availability of additional information in the Purolator segment, disclosure of related party revenue increased by $6 million and $9 million for the 13 and 26 weeks ended June 27, 2020, respectively.

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:

(in millions)

	As at July 3, 2021	As at December 31, 2020
Due to/from related parties		
Included in trade and other receivables	**18**	15
Included in trade and other payables	**10**	20
Deferred revenue from related parties	**1**	1

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 26 weeks ended July 3, 2021, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $3 million and $6 million for the 13 and 26 weeks ended July 3, 2021, respectively (June 27, 2020 – $3 million and $6 million, respectively). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 and 26 weeks ended July 3, 2021, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million and $6 million, respectively (June 27, 2020 – $3 million and $6 million, respectively). As at July 3, 2021, $11 million (December 31, 2020 – $11 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables. Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 6 (c).

14. 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 July 3, 2021
(in millions)

	Canada Post	Purolator	SCI	Other	Total
Revenue from external customers	1,791	644	86	–	2,521
Intersegment revenue	30	9	10	(49)	–
Revenue from operations	1,821	653	96	(49)	2,521
Labour and employee benefits	1,356	282	47	27	1,712
Other operating costs	521	267	29	(78)	739
Depreciation and amortization	80	21	10	1	112
Cost of operations	1,957	570	86	(50)	2,563
Profit (loss) from operations	(136)	83	10	1	(42)
Investment and other income	4	1	–	–	5
Finance costs and other expense	(19)	(7)	(1)	–	(27)
Profit (loss) before tax	(151)	77	9	1	(64)
Tax expense (recovery)	(38)	21	3	(1)	(15)
Net profit (loss)	(113)	56	6	2	(49)
Total assets	8,935	1,683	295	(321)	10,592
Total liabilities	7,363	770	169	(26)	8,276

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

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

As at and for the 26 weeks ended July 3, 2021
(in millions)

	Canada Post	**Purolator**	**SCI**	**Other**	**Total**
Revenue from external customers	3,720	1,260	161	–	5,141
Intersegment revenue	56	19	19	(94)	–
Revenue from operations	3,776	1,279	180	(94)	5,141
Labour and employee benefits	2,748	566	89	56	3,459
Other operating costs	1,077	530	54	(153)	1,508
Depreciation and amortization	158	42	20	1	221
Cost of operations	3,983	1,138	163	(96)	5,188
Profit (loss) from operations	(207)	141	17	2	(47)
Investment and other income	17	1	–	–	18
Finance costs and other expense	(38)	(14)	(2)	–	(54)
Profit (loss) before tax	(228)	128	15	2	(83)
Tax expense (recovery)	(57)	35	4	(1)	(19)
Net profit (loss)	(171)	93	11	3	(64)
Total assets	8,935	1,683	295	(321)	10,592
Total liabilities	7,363	770	169	(26)	8,276

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

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

(b) Geographic area revenue information

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

	For the 13 weeks ended		**For the 26 weeks ended**	
	July 3, 2021	June 27, 2020	**July 3, 2021**	June 27, 2020
Canada	2,403	2,075	4,880	4,127
United States	71	54	156	120
Rest of the world	47	49	105	113
Total revenue	**2,521**	2,178	**5,141**	4,360

(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.

(in millions)

	For the 13 weeks ended July 3, 2021			For the 13 weeks ended June 27, 2020		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Parcels	1,646	(48)	1,598	1,428	(41)[1]	1,387
Transaction Mail	467	(1)	466	428	(1)	427
Direct Marketing	218	–	218	146	–	146
Other revenue	153	(85)	68	121	(73)[1]	48
	2,484	**(134)**	**2,350**	2,123	(115)	2,008
Unattributed revenue						
Stamp postage	71	–	71	79	–	79
Meter postage	100	–	100	91	–	91
	171	**–**	**171**	170	–	170
Total	**2,655**	**(134)**	**2,521**	2,293	(115)	2,178

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $4 million was reclassified to Parcels from the Other revenue category.

	For the 26 weeks ended July 3, 2021			For the 26 weeks ended June 27, 2020		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Parcels	3,289	(93)	3,196	2,602	(69)[1]	2,533
Transaction Mail	1,008	(1)	1,007	965	(1)	964
Direct Marketing	434	–	434	376	(1)	375
Other revenue	291	(160)	131	243	(142)[1]	101
	5,022	**(254)**	**4,768**	4,186	(213)	3,973
Unattributed revenue						
Stamp postage	162	–	162	167	–	167
Meter postage	211	–	211	220	–	220
	373	**–**	**373**	387	–	387
Total	**5,395**	**(254)**	**5,141**	4,573	(213)	4,360

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $7 million was reclassified to Parcels from the Other revenue category.

(d) Sales channel revenue information

Sales channel revenue is reported for domestic revenue from commercial customers and for domestic retail from sales to consumers. International revenue includes revenue from the United States and the rest of the world as defined in Note 14 (b).

(in millions)

	For the 13 weeks ended July 3, 2021			For the 13 weeks ended June 27, 2020		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	1,795	(49)	1,746	1,504	(42)[1]	1,462
Retail	655	–	655	613	–	613
	2,450	(49)	2,401	2,117	(42)	2,075
International	118	–	118	104	–	104
Other	87	(85)	2	72	(73)[1]	(1)
Total	**2,655**	**(134)**	**2,521**	2,293	(115)	2,178

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $4 million was reclassified to Commercial Domestic Parcels from the Other revenue category.

	For the 26 weeks ended July 3, 2021			For the 26 weeks ended June 27, 2020		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	3,566	(94)	3,472	3,046	(71)[1]	2,975
Retail	1,405	–	1,405	1,149	–	1,149
	4,971	(94)	4,877	4,195	(71)	4,124
International	261	–	261	234	–	234
Other	163	(160)	3	144	(142)[1]	2
Total	**5,395**	**(254)**	**5,141**	4,573	(213)	4,360

1. Reclassified to conform to current year presentation and a realignment of products and services between lines of business, an amount of $7 million was reclassified to Commercial Domestic Parcels from the Other revenue category.

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