2019

CANADA POST CORPORATION

First Quarter Financial Report

For the period ended March 30, 2019

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 first quarter (13-week period) ended March 30, 2019, 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 (IFRS) issued by the International Accounting Standards Board (IASB). As required by IFRS, we adopted IFRS 16 "Leases" effective January 1, 2019, following the full retrospective approach. This represents a significant accounting policy change that required a restatement of previously published results for the comparative period. Amounts are presented in Canadian dollars, rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to May 24, 2019, unless otherwise noted.

This discussion should be read with the unaudited interim condensed consolidated financial statements (interim financial statements) for the first quarter of 2019, which were prepared in accordance with the Treasury Board of Canada *Standard on Quarterly Financial Reports for Crown Corporations* and International Accounting Standard 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, 2018.

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

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Caution regarding 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 words or phrases such as *plans*, *anticipates*, *expects*, *believes*, *estimates*, *intends*, and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities. While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 8 Risks and Risk Management of this MD&A (risks).

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

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

The forward-looking statements included in the interim financial statements and MD&A are made as of May 24, 2019, 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.

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 over 67,000 people. During 2018, employees delivered almost 8.1 billion pieces of mail, parcels and messages to 16.4 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,100 retail post offices in the country.

A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Public Services and Procurement and Accessibility and has a single shareholder, the Government of Canada. 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. The Corporation provides quality postal services to all Canadians – rural and urban, individuals and businesses – in a secure and financially self-sustaining manner.

Canada Post is the largest segment with revenue of $1.7 billion for the first quarter of 2019 (76.6% after excluding intersegment revenue) and $6.6 billion for the full year ended December 31, 2018 (75.6% after excluding intersegment revenue).

Significant changes and business developments

Canada Post plays a role in the lives of Canadians as the country's number one parcel delivery company for online purchases, which it achieved through innovation and investments in capacity projects, adapting operations to enable access closer to the final delivery point and focusing on providing a superior customer experience. There are no significant changes to our strategy for 2019. We remain focused on growing our Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs and ensuring we meet our service commitments. However, the risk remains that revenue from these two lines of business will not offset declining revenue from our core Lettermail business.

Labour matters

Labour negotiations

Arbitration to replace expired collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC) continues in 2019. The ongoing financial impact from the 2018 labour disruption has negatively affected growth in the first quarter of 2019.

Health and safety

Safety is important to our people and our business. Compared to the first quarter of 2018, we were able to reduce total injury frequency and lost time injury frequency, but not as much as we had hoped. The Corporation believes that all occupational injuries, illnesses and incidents are preventable. We remain committed to making improvements, introducing several new initiatives to ensure a safe and healthy workplace for our employees, including a High Injury Frequency Site Program and a National Dog Bite Prevention Campaign.

Financial highlights

For the first quarter ended March 30, 2019, the Canada Post Group of Companies reported a profit before tax of $39 million, compared to a profit before tax of $94 million[1] in the same period in 2018. The $55-million decrease was driven primarily by results in the Canada Post segment, which reported a profit before tax of $23 million, a decline of $45 million in the first quarter of 2019, compared to the same period in 2018. For the first quarter of 2019, the Purolator segment's profit before tax was $12 million, compared to a profit before tax of $20 million[1] for the same period in 2018. Results for the Group of Companies are attributed in part to a softening of the Canadian economy in late 2018 and in early 2019. Leading Canadian banks expect growth of the gross domestic product to improve over the balance of 2019, though significant risks remain.

The Canada Post segment generated revenue of $1,672 million in the first quarter of 2019, a decrease of $26 million or 1.5%, compared to the same period in 2018. The decrease was primarily due to the ongoing impact of the labour disruption as well as a decline in Transaction Mail and Direct Marketing, partially offset by modest growth in Parcels.

Parcels revenue and volumes saw much lower increases in the first quarter of 2019 compared to the same period in 2018. Revenue and volumes increased by $20 million or 3.4%, and 1 million pieces or 2.6%, respectively, over the same period in 2018, led by top e-commerce customers. Parcels growth rates, however, were lower than expected due to the slow recovery from the labour disruption in the fourth quarter of 2018. While there's still potential for Parcels growth based on trends in the general and highly competitive Canadian e-commerce delivery market, challenges remain.

Transaction Mail revenue and volumes continued to decline in the first quarter of 2019, as electronic methods of delivery are increasingly preferred. Compared to the same period in 2018, revenue and volumes decreased by $31 million or 4.0%, and 68 million pieces or 8.1%, respectively. The revenue decline was net of a regulated rate increase early in the first quarter for Domestic Lettermail items, International Letter-post items, and special services and fees.

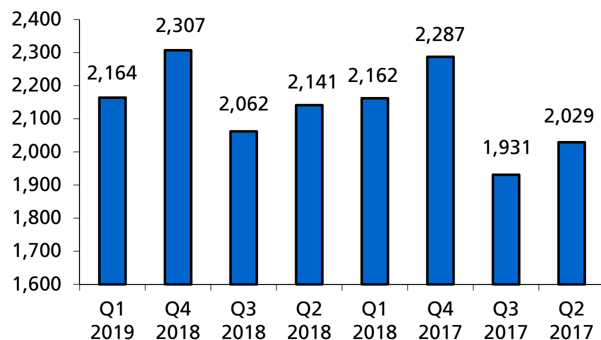
Direct Marketing revenue was also impacted by the 2018 labour disruption as customers made alternate delivery arrangements, declining by $17 million in the first quarter of 2019, compared to a decline of $3 million during the same period in 2018. The volume decline in the first quarter of 2019 was 70 million pieces compared to a decline of 23 million pieces during the first quarter of 2018.

The cost of operations in the Canada Post segment increased by $25 million, or 3.1%,[2] in the first quarter of 2019 compared to the first quarter in 2018, mostly due to increased labour costs.

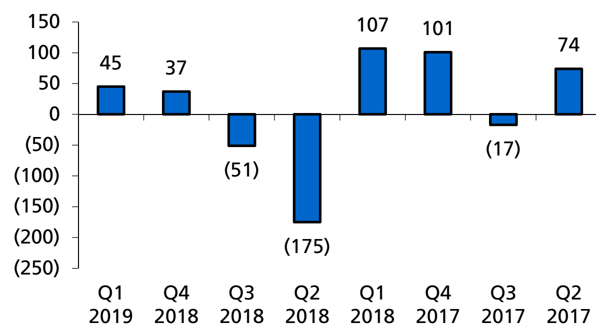
Significant obligations of the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment and long-term benefits continued to be a concern for the Corporation. The Corporation will not have to make special payments to the RPP in 2019 but under current regulations projects that payments will be required beginning in 2020. We are reviewing options for managing solvency payments and will consult with affected parties. During the first quarter of 2019, volatility resulting from a decrease in discount rates, offset by positive investment returns, caused remeasurement losses for the Group of Companies' defined benefit plans of $811 million, net of tax, recorded in other comprehensive income, compared to remeasurement losses of $6 million in the first quarter of 2018.

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.

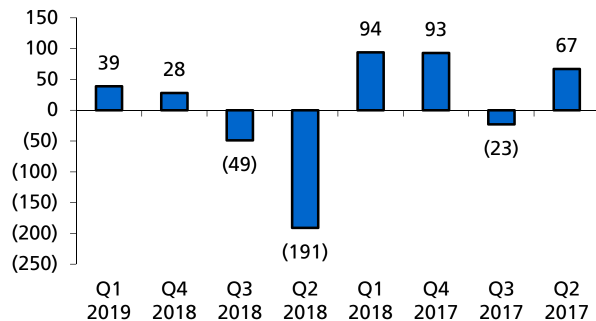
Quarterly consolidated revenue from operations
(in millions of dollars)



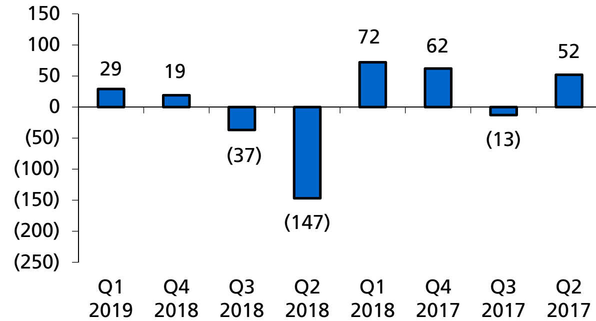
Quarterly consolidated profit (loss) from operations[1]
(in millions of dollars)



Quarterly consolidated profit (loss) before tax[1]
(in millions of dollars)



Quarterly consolidated net profit (loss)[1]
(in millions of dollars)



The following table presents the Corporation's consolidated performance for the first quarter of 2019, compared to the same period in the prior year.

(in millions of dollars)	First quarter ended				
	March 30, 2019	March 31, 2018[1]	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	2,164	2,162	2	0.1	Growth in the Purolator and Logistics segments, mostly offset by declines in the Canada Post segment due to slow recovery from the 2018 labour disruption.
Cost of operations	2,119	2,055	64	4.7[2]	Mainly a result of wage increases, including higher wages for CUPW-RSMC due to the arbitrator's RSMC pay equity decision, in the Canada Post segment, and higher expenses in the Purolator and Logistics segments due to volume growth.
Profit from operations	45	107	(62)	(58.2)	Mainly due to results in the Canada Post segment.
Profit before tax	39	94	(55)	(58.8)	
Net profit	29	72	(43)	(60.0)	
Comprehensive income	(766)	63	(829)	*	Mainly due to remeasurement losses on pension and other post-employment plans resulting from a decrease in discount rates, partially offset by positive investment returns.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	117	294	(177)	(60.0)	Primarily driven by lower profits in the Canada Post segment and changes in non-cash working capital, partially offset by lower income taxes paid and higher interest received.
Cash used in investing activities	(53)	(385)	332	86.2	Mainly due to increased proceeds from the sales of securities in the Canada Post segment, partially offset by higher acquisitions of capital assets in the Canada Post and Purolator segments.
Cash used in financing activities	(29)	(26)	(3)	(15.9)	Mainly due to higher repayments on lease liabilities in the Canada Post and Purolator segments.

* Calculation is not mathematically meaningful.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

The Canadian postal system must continue to evolve as Canadians change the way they use postal services. There were no significant changes to our strategy during the first quarter of 2019. On March 4, 2019, a new President and Chief Executive Officer was appointed, completing the process to renew leadership at Canada Post.

We are determined to grow our Parcels business, provide a superior customer experience and meet our service commitments through our five strategic priorities: adapting our network; achieving leadership in e-commerce through delivery excellence and innovation; developing winning marketing solutions; creating a more engaged and commercially oriented workforce; and enhancing the brand through service performance and customer service. Though Parcels represents an opportunity for Canada Post, its growth alone is not expected to entirely offset the financial impact of the decline in the core Lettermail™ business.

3 Key Performance Drivers

A discussion of our key achievements in 2019

Performance scorecards monitoring progress against strategic priorities are reported monthly to senior management of the Canada Post segment. Performance results for 2019 will be reported as part of the 2019 Annual MD&A.

4 Capabilities

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

4.1 Labour relations

An update of 2019 collective bargaining activity by segment is provided below.

Canada Post segment

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

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. Arbitration commenced in January 2019 and the parties have agreed that it will be interest-based arbitration. Meetings continued to be held throughout the first quarter, with further meetings scheduled in the second and third quarters. The arbitrator has requested, and the Minister of Labour has granted, an extension of the arbitrator's mandate to December 31, 2019. Under the 2018 back-to-work legislation, (Bill C-89), for the resumption and continuation of postal services, the mediation-arbitration process can continue for any period that the Minister allows.

Canadian Postmasters and Assistants Association (CPAA)

The collective agreement with the CPAA expired December 31, 2018. This collective agreement provides for final offer selection. A notice to bargain has not yet been served. The CPAA represents rural post office postmasters and assistants.

Purolator segment

Bargaining continues with Unifor, which represents clerical employees in Quebec, for a renewal of the agreement that expired December 31, 2018.

4.2 Internal controls and procedures

Changes in internal control over financial reporting

During the first quarter of 2019, there were no changes in internal control over financial reporting that materially affected, or were reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Discussion of Operations

A detailed discussion of our financial performance

5.1 Summary of quarterly results

Consolidated results by quarter

The Group of Companies' results for the last eight quarters are presented below, highlighting the seasonal nature of our business. Demand for services is highest during the holiday season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level in the third quarter. The Group of Companies' significant fixed costs do not vary in the short term. Further, additional business days result in increased revenue, while additional paid days result in increased cost of operations. In the first quarter of 2019, there was no difference in the number of business days and one less paid day compared to the first quarter in 2018.

(in millions of dollars)	Q1 2019	Q4 2018[1]	Q3 2018[1]	Q2 2018[1]	Q1 2018[1]	Q4 2017[1]	Q3 2017[1]	Q2 2017[1]
Revenue from operations	2,164	2,307	2,062	2,141	2,162	2,287	1,931	2,029
Cost of operations	2,119	2,270	2,113	2,316	2,055	2,186	1,948	1,955
Profit (loss) from operations	**45**	**37**	**(51)**	**(175)**	**107**	**101**	**(17)**	**74**
Investing and financing income (expense), net	(6)	(9)	2	(16)	(13)	(8)	(6)	(7)
Profit (loss) before tax	**39**	**28**	**(49)**	**(191)**	**94**	**93**	**(23)**	**67**
Tax expense (recovery)	10	9	(12)	(44)	22	31	(10)	15
Net profit (loss)	**29**	**19**	**(37)**	**(147)**	**72**	**62**	**(13)**	**52**

5.2 Consolidated results from operations

Consolidated results for the first quarter of 2019

	First quarter ended			
(in millions of dollars)	March 30, 2019	March 31, 2018[1]	Change	%
Revenue from operations	2,164	2,162	2	0.1
Cost of operations	2,119	2,055	64	4.7[2]
Profit from operations	**45**	**107**	**(62)**	**(58.2)**
Investing and financing income (expense), net	(6)	(13)	7	53.9
Profit before tax	**39**	**94**	**(55)**	**(58.8)**
Tax expense	10	22	(12)	(54.9)
Net profit	**29**	**72**	**(43)**	**(60.0)**
Other comprehensive loss	(795)	(9)	(786)	†
Comprehensive income (loss)	**(766)**	**63**	**(829)**	*

† Large percentage change is not meaningful.

* Calculation is not mathematically meaningful.

The Canada Post Group of Companies reported a profit before tax of $39 million for the first quarter of 2019, compared to a profit before tax of $94 million[1] in the first quarter of 2018. The decrease in profit before tax was driven primarily by the Canada Post segment.

Consolidated revenue from operations

For the first quarter of 2019, revenue from operations increased by $2 million when compared to the first quarter in 2018 due to growth in the Purolator and Logistics segments, which was mostly offset by lower revenue in the Canada Post segment.

Consolidated cost of operations

The cost of operations grew by $64 million in the first quarter of 2019 when compared to the first quarter in 2018. The increase was mainly the result of wage increases and higher wages for CUPW-RSMC employees as a result of the 2018 pay equity ruling for the Canada Post segment. Similarly, costs increased in the Purolator and Logistics segments due to volume growth resulting in higher labour and operating expenses.

Consolidated tax expense

The consolidated tax expense decreased by $12 million in the first quarter of 2019 compared with the same quarter in 2018. This was mainly due to a decrease in the profit before tax for the Group of Companies compared to the same period in the prior year.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss for the first quarter of 2019 amounted to $795 million, mainly due to remeasurement losses on pension and other post-employment plans resulting from a decrease in discount rates, partially offset by positive investment returns.

5.3 Operating results by segment

Segmented results – Profit before tax

	First quarter ended			
(in millions of dollars)	March 30, 2019	March 31, 2018[1]	Change	%
Canada Post	23	68	(45)	(66.0)
Purolator	12	20	(8)	(39.6)
Logistics	2	5	(3)	(64.9)
Other	2	1	1	215.0
Canada Post Group of Companies	**39**	**94**	**(55)**	**(58.8)**

5.4 Canada Post segment

The Canada Post segment recorded a profit before tax of $23 million in the first quarter of 2019, compared to a profit before tax of $68 million[1] in the first quarter of 2018.

Canada Post results for the first quarter of 2019

	First quarter ended			
(in millions of dollars)	March 30, 2019	March 31, 2018[1]	Change	%
Revenue from operations	1,672	1,698	(26)	(1.5)
Cost of operations	1,646	1,621	25	3.1[2]
Profit from operations	**26**	**77**	**(51)**	**(66.3)**
Investing and financing income (expense), net	(3)	(9)	6	68.1
Profit before tax	**23**	**68**	**(45)**	**(66.0)**
Tax expense	6	14	(8)	(59.5)
Net profit	**17**	**54**	**(37)**	**(67.8)**

Revenue from operations

Canada Post earned revenue from operations of $1,672 million in the first quarter of 2019 – a decrease of $26 million or 1.5% when compared to the same quarter in 2018. The decrease was due primarily to ongoing mail erosion, as well as the continued impact of the 2018 labour disruption that resulted in customers making alternate delivery arrangements, partially offset by growth in Parcels.

Quarterly revenue by line of business

	First quarter ended			
(in millions of dollars)	March 30, 2019	March 31, 2018	Change	%
Transaction Mail	745	776	(31)	(4.0)
Parcels	613	593	20	3.4
Direct Marketing	256	273	(17)	(6.3)
Other revenue	58	56	2	3.4
Total	**1,672**	**1,698**	**(26)**	**(1.5)**

Transaction Mail

Revenue and volume declines were primarily driven by ongoing erosion due to substitution of digital alternatives by households and businesses, partially offset by the impact of a regulated rate increase for Lettermail™ items, International Letter-post items and special services and fees in the first quarter.

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	Q1 2019	Q1 2018	Change	%	Q1 2019	Q1 2018	Change	%
Domestic Lettermail	701	723	(22)	(3.1)	744	805	(61)	(7.6)
Outbound Letter-post	27	29	(2)	(8.8)	13	14	(1)	(11.0)
Inbound Letter-post	17	24	(7)	(27.3)	23	29	(6)	(21.2)
Total Transaction Mail	**745**	**776**	**(31)**	**(4.0)**	**780**	**848**	**(68)**	**(8.1)**

Parcels

The increases in revenue and volume in the first quarter of 2019 were significantly less than the increases in the first quarter of 2018, which was generally due to the ongoing impact of the 2018 labour disruption. Some of the declines in Inbound Parcels revenue and volumes are related to increases in Domestic Parcels revenue and volumes, as some customers changed their patterns in response to the labour disruption. During this time, some customer used consolidators, to bring their mail directly into Canada instead of sending it through foreign postal administrations.

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	Q1 2019	Q1 2018	Change	%	Q1 2019	Q1 2018	Change	%
Domestic Parcels	466	426	40	9.4	51	45	6	14.4
Outbound Parcels	58	61	(3)	(5.0)	2	3	(1)	(4.2)
Inbound Parcels	84	98	(14)	(14.5)	18	22	(4)	(20.0)
Other	5	8	(3)	(33.5)	–	–	–	–
Total Parcels	**613**	**593**	**20**	**3.4**	**71**	**70**	**1**	**2.6**

Direct Marketing

The declines in Direct Marketing revenue and volumes resulted from the ongoing impact of the 2018 labour disruption, as well as from customers reducing marketing expenditures or redirecting them to other mailers or media channels.

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	Q1 2019	Q1 2018	Change	%	Q1 2019	Q1 2018	Change	%
Personalized Mail™	123	131	(8)	(6.5)	222	236	(14)	(6.1)
Neighbourhood Mail™	90	96	(6)	(6.2)	775	825	(50)	(6.0)
Total Smartmail Marketing™	**213**	**227**	**(14)**	**(6.3)**	**997**	**1,061**	**(64)**	**(6.0)**
Publications Mail™	35	38	(3)	(7.7)	51	57	(6)	(9.6)
Business Reply Mail™ and Other Mail	5	5	–	(4.2)	4	4	–	(8.4)
Other	3	3	–	7.4	–	–	–	–
Total Direct Marketing	**256**	**273**	**(17)**	**(6.3)**	**1,052**	**1,122**	**(70)**	**(6.2)**

Other revenue

Other revenue totalled $58 million in the first quarter of 2019 – an increase of $2 million or 3.4%, when compared to the first quarter in the prior year, mainly due to a gain in foreign exchange, partially offset by a decrease in consumer products and services.

Cost of operations

Cost of operations for the Canada Post segment amounted to $1,646 million in the first quarter of 2019 – an increase of $25 million or 3.1%[2] when compared to the same quarter last year. The increases were mainly due to wage increases and higher wages for CUPW-RSMC employees as a result of the 2018 pay equity ruling, partly offset by the positive impact of one less paid day during the first quarter of 2019.

			First quarter ended	
(in millions of dollars)	March 30, 2019	March 31, 2018[1]	Change	%[2]
Labour	816	795	21	4.3
Employee benefits	325	324	1	1.9
Total labour and employee benefits	**1,141**	**1,119**	**22**	**3.6**
Non-labour collection, processing and delivery	256	257	(1)	(1.0)
Property, facilities and maintenance	54	56	(2)	(3.1)
Selling, administrative and other	119	115	4	5.8
Total other operating costs	**429**	**428**	**1**	**1.8**
Depreciation and amortization	76	74	2	3.9
Total	**1,646**	**1,621**	**25**	**3.1**

Labour

Labour costs increased by $21 million or 4.3%[2] in the first quarter of 2019 when compared to the first quarter in the previous year. The change was primarily due to wage increases and higher wages for CUPW-RSMC employees as a result of the 2018 pay equity ruling, partly offset by the positive impact of one less paid day during the first quarter of 2019.

Employee benefits

In the first quarter of 2019, benefit costs were relatively flat compared to the first quarter in 2018.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs were mostly unchanged compared to the first quarter in 2018.

Property, facilities and maintenance

The cost of facilities decreased slightly by $2 million or 3.1%[2] for the first quarter of 2019 when compared to the first quarter in 2018, mainly due to restoration costs incurred in 2018 relating to a fire at head office campus in 2017.

Selling, administrative and other

Selling, administrative and other expenses increased by $4 million or 5.8%[2] for the first quarter of 2019 when compared to the first quarter in 2018, mainly due to an increase in customer service costs by the outsourced provider and call volumes, as well as higher spending on program expenses.

Depreciation and amortization

Depreciation and amortization expenses increased by $2 million in the first quarter of 2019 compared to 2018 due to higher investment in capital assets.

5.5 Purolator segment

The Purolator segment recorded a net profit of $9 million for the first quarter of 2019, a decrease of $6 million or 40.7% when compared to the first quarter in 2018.

Purolator results for the first quarter of 2019

				First quarter ended
(in millions of dollars)	March 30, 2019	March 31, 2018[1]	Change	%
Revenue from operations	441	418	23	5.4
Cost of operations	426	394	32	9.7[2]
Profit from operations	**15**	**24**	**(9)**	**(37.8)**
Investing and financing income (expense), net	(3)	(4)	1	28.4
Profit before tax	**12**	**20**	**(8)**	**(39.6)**
Tax expense	3	5	(2)	36.8
Net profit	**9**	**15**	**(6)**	**(40.7)**

Revenue from operations

Purolator generated revenue from operations of $441 million in the first quarter of 2019 – an increase of $23 million or 5.4% when compared to the first quarter in 2018. The increases were mainly due to increased volumes from new and existing business.

Cost of operations

Total labour costs

Total labour costs were $221 million in the first quarter of 2019, an increase of $21 million or 12.0%[2] compared to the first quarter in 2018. Increases were driven by annual salary increases and business growth.

Total non-labour costs

Total non-labour costs were $205 million in the first quarter of 2019 – an increase of $11 million or 7.4%[2] compared to the first quarter in 2018. The increases were driven primarily by business growth.

5.6 Logistics segment

The Logistics segment contributed $1 million of net profit to the consolidated results for the first quarter of 2019, a decrease of 64.9% when compared to the first quarter of 2018.

Logistics results for the first quarter of 2019

	First quarter ended			
(in millions of dollars)	March 30, 2019	March 31, 2018[1]	Change	%
Revenue from operations	80	71	9	13.6
Cost of operations	78	66	12	20.7[2]
Profit from operations	**2**	**5**	**(3)**	**(56.9)**
Investing and financing income (expense), net	–	–	–	42.1
Profit before tax	**2**	**5**	**(3)**	**(64.9)**
Tax expense	1	2	(1)	(64.9)
Net profit	**1**	**3**	**(2)**	**(64.9)**

Revenue from operations

SCI generated revenue from operations of $80 million in the first quarter of 2019 – an increase of $9 million or 13.6% when compared to the first quarter in 2018. The increases were primarily the result of growth in volumes and new business.

Cost of operations

Total labour costs

Total labour costs were $42 million in the first quarter of 2019 – an increase of $6 million or 18.5%[2] when compared to the first quarter in 2018. Increases were primarily the result of growth in volumes and new business.

Total non-labour costs

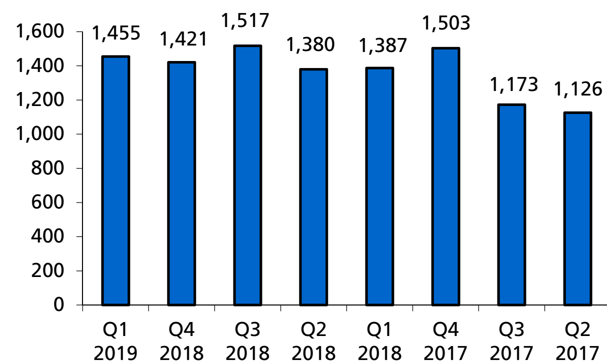
Total non-labour costs were $36 million in the first quarter of 2019 – an increase of $6 million or 23.4%[2] when compared to the first quarter in 2018. Increases were primarily the result of growth in volumes and new business.

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 $1,455 million as at March 30, 2019 – an increase of $34 million compared to December 31, 2018, mainly due to an increase in cash provided from operating activities, partially offset by a decrease in cash from investing and financing activities.

6.2 Operating activities

(in millions of dollars)	First quarter ended March 30, 2019	March 31, 2018[1]	Change
Cash provided by operating activities	117	294	(177)

Cash provided by operations in the first quarter of 2019 decreased by $177 million compared to the same period in 2018. The negative change in 2019 cash flow was primarily due to the Canada Post segment's lower profits and changes in non-cash operating working capital, partially offset by lower income taxes paid and higher interest received.

6.3 Investing activities

(in millions of dollars)	First quarter ended March 30, 2019	March 31, 2018	Change
Cash used in investing activities	(53)	(385)	332

Cash used in investing activities improved by $332 million in the first quarter of 2019 compared to the same period in 2018, mainly due to increased proceeds from sales of securities in the Canada Post segment, partially offset by higher acquisitions of capital assets in the Canada Post and Purolator segments.

Capital expenditures

(in millions of dollars)	First quarter ended March 30, 2019	March 31, 2018	Change
Canada Post	56	32	24
Purolator	13	3	10
Logistics	7	2	5
Canada Post Group of Companies	**76**	**37**	**39**

Capital expenditures for the Group of Companies increased by $39 million in the first quarter of 2019 when compared to the first quarter in 2018. The increase in 2019 was mainly due to increased spending on infrastructure capacity in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	First quarter ended March 30, 2019	March 31, 2018[1]	Change
Cash used in financing activities	(29)	(26)	(3)

Cash used in financing activities increased by $3 million in the first quarter of 2019 compared to the same period in 2018, mainly due to higher repayments on lease liabilities in the Canada Post and Purolator segments.

6.5 Canada Post Corporation Registered Pension Plan

At the end of the first quarter, there was no material change to the going-concern and solvency position estimates from those disclosed for the year ended December 31, 2018. Canada Post will not have to make special payments in 2019, but under current regulations, payments will be required beginning in 2020. Canada Post is reviewing options for managing solvency payments and will consult with affected parties.

Current service contributions amounted to $68 million and $67 million, respectively, for the first quarters of 2019 and 2018. In 2019, solvency payments related to the RSMC pay equity decision will also be made.

Canada Post recorded remeasurement losses of $535 million for the RPP, net of tax, in other comprehensive income for the first quarter of 2019, due to a decrease in discount rates, offset by positive investment returns.

6.6 Liquidity and capital resources

Liquidity

The Canada Post segment had $2,549 million of unrestricted liquid investments on hand as at March 30, 2019, and $100 million of lines of credit.

Canada Post does not expect to make solvency special payments in 2019 and therefore 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 $293 million of unrestricted cash on hand and undrawn credit facilities of $112 million as at March 30, 2019, ensuring sufficient liquidity to support their operations for at least the next 12 months.

Access to capital markets

Borrowings for the Canada Post segment as at March 30, 2019, 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 2018 Annual MD&A.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between March 30, 2019, and December 31, 2018

(in millions of dollars)

ASSETS	March 30, 2019	Dec. 31, 2018[1]	Change	%	Explanation of change
Cash and cash equivalents	1,455	1,421	34	2.4	Refer to Section 6 Liquidity and Capital Resources.
Marketable securities	1,387	1,338	49	3.7	Due to purchases of new corporate bonds.
Trade and other receivables	881	979	(98)	(10.0)	Mainly due to lower trade and international settlement receivables in the Canada Post segment, combined with lower trade receivables in the Purolator segment.
Other assets	187	103	84	81.9	Mainly due to higher prepaid expenses in the Canada Post and Purolator segments, as well as higher income tax instalments in the Canada Post segment.
Total current assets	**3,910**	**3,841**	**69**	**1.8**	
Marketable securities	49	132	(83)	(62.7)	Due to maturity of corporate bonds.
Property, plant and equipment	2,684	2,687	(3)	(0.1)	No material change.
Intangible assets	111	106	5	4.6	No material change.
Right-of-use assets	1,000	982	18	1.8	Mainly due to acquisitions exceeding depreciation in the Canada Post segment.
Segregated securities	525	495	30	6.1	Mainly due to unrealized gains in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	78	95	(17)	(18.4)	Mainly due to remeasurement losses resulting from a decrease in discount rates partially offset by positive investment returns.
Deferred tax assets	1,939	1,680	259	15.4	Mainly due to the increase of temporary differences related to Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	73	63	10	16.0	Mainly due to a long-term receivable related to a change in the timing of when CUPW employees are paid.
Total non-current assets	**6,589**	**6,370**	**219**	**3.4**	
Total assets	**10,499**	**10,211**	**288**	**2.8**	

(in millions of dollars)

LIABILITIES	March 30, 2019	Dec. 31, 2018[1]	Change	%	Explanation of change
Trade and other payables	539	648	(109)	(16.8)	Mainly due to lower trade and other payables and accruals in the Canada Post and Purolator segments.
Salaries and benefits payable and related provisions	1,007	988	19	1.8	Mainly due to increased payroll clearing, remittances and deductions at source in the Canada Post segment, mostly due to timing.
Provisions	60	61	(1)	(0.2)	No material change.
Income tax payable	–	8	(8)	(100.0)	Primarily due to the payment of a tax liability for the Purolator segment.
Deferred revenue	137	153	(16)	(10.8)	Mainly related to lower deferred stamp revenue in the Canada Post segment.
Lease liabilities	108	109	(1)	(1.3)	No material change.
Other long-term benefit liabilities	68	68	–	(0.6)	No material change.
Total current liabilities	**1,919**	**2,035**	**(116)**	**(5.7)**	
Lease liabilities	1,072	1,054	18	1.7	Mainly due to acquisitions (lease renewals) in the Canada Post and Logistics segment net of lease payments.
Loans and borrowings	997	997	–	–	No change.
Pension, other post-employment and other long-term benefit liabilities	7,429	6,277	1,152	18.4	Mainly due to remeasurement losses resulting from a decrease in discount rates, partially offset by positive investment returns.
Other liabilities	22	22	–	6.8	No material change.
Total non-current liabilities	**9,520**	**8,350**	**1,170**	**14.0**	
Total liabilities	**11,439**	**10,385**	**1,054**	**10.2**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	59	43	16	37.5	Mainly due to unrealized gains on dental, term life and death benefits in the Canada Post segment.
Accumulated deficit	(2,188)	(1,408)	(780)	(55.5)	Mainly driven by remeasurement losses in the Canada Post segment.
Equity of Canada	**(974)**	**(210)**	**(764)**	**(366.2)**	
Non-controlling interests	34	36	(2)	(6.2)	
Total equity	**(940)**	**(174)**	**(766)**	**(443.7)**	
Total liabilities and equity	**10,499**	**10,211**	**288**	**2.8**	

8 Risks and Risk Management

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

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

Developments in the first quarter of 2019 are as follows.

Labour agreements

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

CPAA pay equity complaint

The Canadian Postmasters and Assistants Association (CPAA) initially filed complaints with the Canadian Human Rights Commission (Commission) in 1982 and 1992, alleging discrimination by the Corporation concerning work of equal value. Both complaints were settled by the parties. However, in 2012, the CPAA requested reactivation of the 1992 complaint and in 2014, the Commission investigator concluded that the period 1992-97 remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal). In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. On September 1, 2016, the Tribunal directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016 in order for the matter to proceed to its merits. Statements of particulars have been exchanged.

In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, and by decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability. The parties agreed to mediation and on May 12, 2019, reached an agreement.

Health and safety obligation under the *Canada Labour Code* – Burlington points of call

The Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada, which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. Although the order in question is limited to all points of call in Burlington, Ontario, the rationale is applicable to all points of call in Canada. The appeal of the decision of the Court of Appeal of Ontario was heard by the Supreme Court of Canada on December 10, 2018. The decision of the Supreme Court is expected sometime in 2019.

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

In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in the province of Quebec may have made, between July 1, 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 regulating the Régie de l'assurance maladie du Québec. Discussions ended in April 2019. The next steps are for Canada Post to file its statement of defence and for the parties to determine a case management protocol. The outcome of this class action is currently not determinable.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2019 and future years

9.1 Critical accounting estimates and estimation uncertainties

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.

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

The Group of Companies' critical accounting estimates remain substantially unchanged from the prior year. For additional information, refer to our discussion of critical accounting estimates in the 2018 Annual MD&A and Note 4 Critical Accounting Estimates and Judgments of the 2018 consolidated financial statements, which are contained in the *Canada Post Corporation 2018 Annual Report*.

9.2 Accounting pronouncements

(a) New standards, amendments and interpretations adopted

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2019.

The following standards were adopted by the Group of Companies January 1, 2019.

IFRS 16 "Leases" (IFRS 16) • The Group of Companies applied IFRS 16, effective January 1, 2019, following the full retrospective approach and in accordance transitional provisions. Full retrospective application required the Group of Companies to adjust the opening balance of retained earnings as at January 1, 2018, and the other comparative amounts disclosed for each prior period presented as if IFRS 16 had always been applied. This represents a significant accounting policy change given the volume of lease agreements held within the Group of Companies.

The quantitative impact includes the following:

- Recognition, as at January 1, 2018 of right-of-use assets of $944 million and lease liabilities of $1,102 million for leases previously classified as operating leases under IAS 17 and other contracts assessed as containing a lease under IFRS 16 that were previously expensed to other operating costs.
- Vehicles and plant equipment of $38 million held under finance lease arrangements previously recognized as property, plant and equipment, which will be presented with right-of-use assets as at January 1, 2018. The lease liability on leases previously classified as financing leases under IAS 17 and previously presented within loans and borrowings of $41 million will be presented with lease liabilities.
- A restatement of the statement of comprehensive income for the first quarter of 2018, including a decrease in other operating costs of $30 million since IFRS 16 replaces operating lease expenses with a depreciation charge of $24 million for the right-of-use asset and an interest expense of $8 million on the lease liability. This will result in a net decrease to profit before tax of $2 million for the first quarter of 2018.
- An increase in cash used in financing activities because payments for the principal component will be presented as a financing outflow; payments under operating leases under IAS 17 were presented as an operating outflow.

IFRIC 23 "Uncertainty over Income Tax Treatments" (IFRIC 23) • This IFRIC clarifies the accounting for uncertainties in income taxes. The adoption of this IFRIC had no impact on these interim financial statements.

Annual Improvements to IFRS – 2015-2017 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. The adoption of these improvements had no impact on these interim financial statements.

Amendments to IAS 19 "Employee Benefits" (IAS 19) • The IASB issued amendments to IAS 19 "Employee Benefits" requiring the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement. The adoption of these amendments had no impact on these interim financial statements.

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

During the first quarter ended March 30, 2019, there were no new standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2018.

Endnotes

1. Amounts for 2018 were restated as a result of new or revised accounting standards. Amounts for 2017 were not restated and, therefore, they may not be comparable. For more details, see section 9.2 Accounting pronouncements in this MD&A and Note 5 Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2. Adjusted for paid days.

Management's Responsibility for Interim Financial Reporting

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

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

President and CEO

Chief Financial Officer

May 24, 2019

Interim Condensed Consolidated Statement of Financial Position

As at (Unaudited – in millions of Canadian dollars)	**Notes**	**March 30, 2019**	December 31, 2018 (Restated – Note 5)	January 1, 2018 (Restated – Note 5)
Assets				
Current assets				
Cash and cash equivalents		**$ 1,455**	$ 1,421	$ 1,503
Marketable securities		**1,387**	1,338	821
Trade and other receivables		**881**	979	946
Other assets	**6**	**187**	103	125
Total current assets		**3,910**	3,841	3,395
Non-current assets				
Marketable securities		**49**	132	–
Property, plant and equipment	**7**	**2,684**	2,687	2,589
Intangible assets	**7**	**111**	106	119
Right-of-use assets	**7**	**1,000**	982	944
Segregated securities		**525**	495	526
Pension benefit assets	**8**	**78**	95	116
Deferred tax assets		**1,939**	1,680	1,605
Goodwill		**130**	130	130
Other assets	**6**	**73**	63	11
Total non-current assets		**6,589**	6,370	6,040
Total assets		**$ 10,499**	$ 10,211	$ 9,435
Liabilities and equity				
Current liabilities				
Trade and other payables		**$ 539**	$ 648	$ 579
Salaries and benefits payable and related provisions		**1,007**	988	600
Provisions		**60**	61	77
Income tax payable		**–**	8	38
Deferred revenue		**137**	153	135
Lease liabilities	**9**	**108**	109	106
Other long-term benefit liabilities		**68**	68	63
Total current liabilities		**1,919**	2,035	1,598
Non-current liabilities				
Lease liabilities	**9**	**1,072**	1,054	996
Loans and borrowings	**9**	**997**	997	997
Pension, other post-employment and other long-term benefit liabilities	**8**	**7,429**	6,277	6,297
Other liabilities		**22**	22	23
Total non-current liabilities		**9,520**	8,350	8,313
Total liabilities		**11,439**	10,385	9,911
Equity				
Contributed capital		**1,155**	1,155	1,155
Accumulated other comprehensive income	**11**	**59**	43	54
Accumulated deficit		**(2,188)**	(1,408)	(1,713)
Equity of Canada		**(974)**	(210)	(504)
Non-controlling interests		**34**	36	28
Total equity		**(940)**	(174)	(476)
Total liabilities and equity		**$ 10,499**	$ 10,211	$ 9,435
Contingent liabilities	**13**			

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**March 30, 2019**	March 31, 2018 (Restated – Note 5)
Revenue from operations	**18**	**$ 2,164**	$ 2,162
Cost of operations			
Labour		**1,050**	1,006
Employee benefits	**8**	**382**	379
		1,432	1,385
Other operating costs	**15**	**582**	565
Depreciation and amortization	**7**	**105**	105
Total cost of operations		**2,119**	2,055
Profit from operations		**45**	107
Investing and financing income (expense)			
Investment and other income	**16**	**17**	8
Finance costs and other expense	**16**	**(23)**	(21)
Investing and financing expense, net		**(6)**	(13)
Profit before tax		**39**	94
Tax expense	**10**	**10**	22
Net profit		**$ 29**	$ 72
Other comprehensive income (loss)			
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of financial assets	**11**	**$ 23**	$ (3)
Reclassification adjustments for gains included in net profit	**11**	**(7)**	–
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans	**11**	**(811)**	(6)
Other comprehensive loss		**(795)**	(9)
Comprehensive income (loss)		**$ (766)**	$ 63
Net profit attributable to			
Government of Canada		**$ 28**	$ 71
Non-controlling interests		**1**	1
		$ 29	$ 72
Comprehensive income (loss) attributable to			
Government of Canada		**$ (764)**	$ 61
Non-controlling interests		**(2)**	2
		$ (766)	$ 63

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

Interim Condensed Consolidated Statement of Changes in Equity

For the 13 weeks ended March 30, 2019 (Unaudited – in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2018, as previously reported	**$ 1,155**	**$ 43**	**$ (1,300)**	**$ (102)**	**$ 40**	**$ (62)**
Effects of adopting new standards (Note 5)	**–**	**–**	**(108)**	**(108)**	**(4)**	**(112)**
Balance at December 31, 2018, as restated	**$ 1,155**	**$ 43**	**$ (1,408)**	**$ (210)**	**$ 36**	**$ (174)**
Net profit	**–**	**–**	**28**	**28**	**1**	**29**
Other comprehensive income (loss) (Note 11)	**–**	**16**	**(808)**	**(792)**	**(3)**	**(795)**
Comprehensive income (loss)	**–**	**16**	**(780)**	**(764)**	**(2)**	**(766)**
Balance at March 30, 2019	**$ 1,155**	**$ 59**	**$ (2,188)**	**$ (974)**	**$ 34**	**$ (940)**

For the 13 weeks ended March 31, 2018 (Unaudited – in millions of Canadian dollars) (Restated – Note 5)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2017, as previously reported	$ 1,155	$ 54	$ (1,611)	$ (402)	$ 32	$ (370)
Effects of adoption of new standards (Note 5)	–	–	(102)	(102)	(4)	(106)
Balance at beginning of year, as restated	$ 1,155	$ 54	$ (1,713)	$ (504)	$ 28	$ (476)
Net profit	–	–	71	71	1	72
Other comprehensive income (loss) (Note 11)	–	(3)	(7)	(10)	1	(9)
Comprehensive income (loss)	–	(3)	64	61	2	63
Balance at March 31, 2018	$ 1,155	$ 51	$ (1,649)	$ (443)	$ 30	$ (413)

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

Interim Condensed Consolidated Statement of Cash Flows

For the 13 weeks ended (Unaudited – in millions of Canadian dollars)	**Notes**	**March 30, 2019**	March 31, 2018 (Restated – Note 5)
Cash flows from operating activities			
Net profit		**$ 29**	$ 72
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**7**	**105**	105
Pension, other post-employment and other long-term benefit expense	**8**	**228**	226
Pension, other post-employment and other long-term benefit payments	**8**	**(141)**	(138)
Loss on sale of capital assets		**–**	1
Tax expense	**10**	**10**	22
Net interest expense	**16**	**3**	9
Change in non-cash operating working capital:			
Decrease in trade and other receivables		**98**	35
Decrease in trade and other payables		**(97)**	(76)
Increase in salaries and benefits payable and related provisions		**18**	140
Increase in provisions		**–**	3
Net increase in other non-cash operating working capital		**(49)**	(2)
Other income not affecting cash, net		**(11)**	(5)
Cash provided by operations before interest and tax		**193**	392
Interest received		**18**	10
Interest paid		**(31)**	(30)
Tax paid		**(63)**	(78)
Cash provided by operating activities		**117**	294
Cash flows from investing activities			
Acquisition of securities		**(509)**	(553)
Proceeds from sale of securities		**621**	250
Acquisition of capital assets		**(76)**	(37)
Increase in long-term receivables		**(89)**	(45)
Cash used in investing activities		**(53)**	(385)
Cash flows from financing activities			
Principal repayments of lease liabilities	**9**	**(29)**	(27)
Other financing activities, net		**–**	1
Cash used in financing activities		**(29)**	(26)
Net increase (decrease) in cash and cash equivalents		**35**	(117)
Cash and cash equivalents, beginning of period		**1,421**	1,503
Effect of exchange rate changes on cash and cash equivalents		**(1)**	1
Cash and cash equivalents, end of period		**$ 1,455**	$ 1,387

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

Notes to Interim Condensed Consolidated Financial Statements

For the 13 weeks ended March 30, 2019
(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, 2018. There is no change to the status of these objectives.

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 condensed consolidated financial statements do not include all of the disclosures required for annual consolidated financial statements, and should be read in conjunction with the Corporation's audited consolidated financial statements for its fiscal year ended December 31, 2018.

These interim financial statements have been prepared based on International Financial Reporting Standards (IFRS) issued and effective as at the reporting date. They were approved and authorized for issue by the Board of Directors May 24, 2019.

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

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

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

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.

3 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, 2018, except for the application of new standards, amendments and interpretations effective January 1, 2019, disclosed below and in Note 5 of these interim financial statements. The accounting policies have been applied consistently to all periods presented.

Leases

The application of IFRS 16 "Leases" (IFRS 16), effective January 1, 2019, following the full retrospective approach represents a significant accounting policy change.

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

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

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

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

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

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

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

(a.1) Recognition and measurement • At the commencement date of leases, when the underlying right-of-use asset is made available, right-of-use assets are recognized at cost, which comprise the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease inducements in the form of commission rebates and incentives toward fit-ups, if applicable. These inducements are treated as a reduction of the right-of-use asset. Initial direct costs to negotiate and secure lease agreements and costs to dismantle and remove the underlying asset are not significant to the Group of Companies and, therefore, they are expensed as incurred.

(a.2) Subsequent measurement • Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability due to a lease modification (see b.4 below). Depreciation is calculated over the lease term of the underlying asset. Depreciation starts at the commencement date of the lease and is recognized on a straight-line basis. The Group of Companies accounts for any identified impairment loss in profit or loss.

(b) Lease liabilities • Obligations that arise from lease contracts are collectively referred to as lease liabilities and are presented as a separate line in the consolidated statement of financial position. The present value of lease liabilities is calculated as follows:

(b.1) Recognition and measurement • At the commencement date, lease liabilities are initially measured at the present value of lease payments that are not paid at that date. Fixed lease payments, including fixed base rent increases, are included in the initial measurement of the lease liability. Lump sum variable lease payments that depend on an index or rate, residual value guarantees, purchase options and termination penalties are not significant to the Group of Companies and are generally expensed if incurred. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs.

(b.2) Subsequent measurement • Lease liabilities are subsequently measured at amortized cost by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect lease payments.

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

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

(c) Lessor accounting • As a lessor, the Group of Companies determines at contract inception whether the lease is a finance lease or operating lease. This classification is with reference to the right-of-use asset, not the underlying asset. To classify a sublease, the Group of Companies makes an overall assessment of whether the lease transfers substantially of the risks and rewards incidental to ownership of the underlying asset and as a result considered a finance lease; if not, then it is an operating lease. If a contract contains lease and non-lease components, the Group of Companies applies IFRS 15 to allocate the consideration in the contract. The Group of Companies recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as an offset to other operating costs. Finance income from subleases is recorded to Investment and other income. Subleasing is not a significant source of revenue for the Group of Companies.

4 Critical Accounting Estimates and Judgments

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, 2018, except for the application of new standards, amendments and interpretations effective January 1, 2019, disclosed below and in Note 5 of these interim financial statements.

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

(a.1) Leases • The Group of Companies is party to many contracting arrangements, which requires judgment to assess, at inception of a contract, whether such contract contains a lease or a service, and whether it conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration. Factors used by management to determine whether a contract meets the definition of a lease include, but are not limited to, whether an identified asset exists, whether a right exists to obtain substantially all the economic benefits and whether the Group of Companies directs how and for what purpose the asset is used throughout the period of use.

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

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

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

(b.1) Leases • Right-of-use assets, comprising land, buildings, vehicles and plant equipment, are valued using, and depreciated over, their estimated lease term. Lease terms are based on management's best estimate of whether it is reasonably certain that renewal and termination options will be exercised in future periods. The appropriateness of lease terms used in the calculation of these right-of-use assets and lease liabilities is reassessed annually and based on historical use of available options, operational requirements and strategic decisions about asset use. Changes to management's assessment of lease terms would affect future carrying values of right-of-use assets and lease liabilities.

Right-of-use assets are reviewed for impairment. Refer to Note 4 (b.1) of the Corporation's annual consolidated financial statements.

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

(b.2) Deferred Revenue • The Group of Companies estimates deferred revenue at the end of the reporting period for all finance lease receivables. The estimate of deferred finance lease revenue is established using the incremental borrowing rate determined for each lease at commencement date and is recognized over the term of the lease contract.

5 Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations adopted

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2019.

The following standards were adopted by the Group of Companies January 1, 2019.

IFRS 16 "Leases" (IFRS 16)• The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17) and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" (IFRIC 4), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification.

(a.1) General impact of application • The Group of Companies applied IFRS 16 using the full retrospective approach and in accordance with transitional provisions. Full retrospective application required the Group of Companies to adjust the opening balance of retained earnings as at January 1, 2018, and the other comparative amounts disclosed for each prior period presented as if IFRS 16 had always been applied.

(a.2) Definition of a lease • The Group of Companies performed a comprehensive review to determine which existing contracts could contain a lease. This review included those contracts previously identified as a lease in accordance with IAS 17 and IFRIC 4, as well as contracts previously identified as not containing a lease. The Group of Companies then applied IFRS 16 to all contracts identified as containing a lease. Criteria used in the determination of whether identified contracts contain or do not contain a lease, included whether an identified asset exists, whether the right to obtain substantially all of the economic benefits from use of the asset exists, whether the right to direct how and for what purpose the asset is used exists, whether the right to operate the asset throughout the period of use without the vendor having the right to change those operating instructions exists and whether the purpose of the asset and the manner in which it will be used has been predetermined. This comprehensive review resulted in the identification of short-term lease contracts for vehicles governed by certain owner-operator agreements. The review did not yield a substantially different lease population had the old definition been applied. The Group of Companies applies the definition of a lease and related guidance set out in IFRS 16 to all contracts identified as containing a lease as if IFRS 16 had always been applied.

(a.3) Impact on lessee accounting • As a lessee, the Group of Companies previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group of Companies. Under IFRS 16, the Group of Companies:

- recognized right-of-use assets and lease liabilities in the interim statement of financial position, measured at the present value of future lease payments and discounted using the incremental borrowing rate;
- recognized depreciation of right-of-use assets and interest on lease liabilities in the interim statement of comprehensive Income;
- separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the interim statement of cash flows.

The Group of Companies applied recognition exemptions to low-value assets (value of $5,000 or less when new, including items such as computer hardware and office equipment) and short-term leases (defined as leases with a lease term of 12 months or less for all right-of-use asset classes). Payments for such leases are expensed over the term as disclosed in Note 9 (b).

Lease incentives such as free rent periods are recognized as part of the measurement of the right-of-use assets and lease liabilities. Under IAS 17 they resulted in the recognition of a lease incentives liability, amortized as a reduction of rental expense on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 "Impairment of Assets" to replace the previous requirement recognizing a provision for onerous lease contracts.

(a.4) Impact on lessor accounting • The Group of Companies will continue to classify subleases as operating or financing in nature after reassessing the nature of subleases as part of the IFRS 16 transition. Under IFRS 16, this classification is determined with reference to the right-of-use asset rather than the underlying asset. Lessor accounting has also remained substantially unchanged from IAS 17, and the Group of Companies will continue to record letting income for operating leases as an offset to other operating costs while any income from finance subleases will be recognized as investment and other income.

The overall impact of these changes on the financial position and comprehensive income was as follows:

Consolidated statement of financial position

As at January 1, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Other assets (current)	$ 126	$ (1)	$ 125
Property, plant and equipment	2,627	(38)	2,589
Right-of-use assets	–	944	944
Deferred tax asset	1,568	37	1,605
Other assets (non-current)	7	4	11
Trade and other payables	583	(4)	579
Deferred revenue	138	(3)	135
Lease liabilities (current)	–	106	106
Loans and borrowings (current)	13	(13)	–
Lease liabilities (non-current)	–	996	996
Loans and borrowings (non-current)	1,025	(28)	997
Other liabilities (non-current)	25	(2)	23
Accumulated deficit	(1,611)	(102)	(1,713)
Non-controlling interests	32	(4)	28

Consolidated statement of financial position

As at December 31, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Other assets (current)	$ 102	$ 1	$ 103
Property, plant and equipment	2,709	(22)	2,687
Right-of-use assets	–	982	982
Deferred tax asset	1,641	39	1,680
Other assets (non-current)	49	14	63
Trade and other payables	653	(5)	648
Deferred revenue	154	(1)	153
Lease liabilities (current)	–	109	109
Loans and borrowings (current)	12	(12)	–
Lease liabilities (non-current)	–	1,054	1,054
Loans and borrowings (non-current)	1,013	(16)	997
Other liabilities (non-current)	25	(3)	22
Accumulated deficit	(1,300)	(108)	(1,408)
Non-controlling interests	40	(4)	36

Consolidated statement of comprehensive income

For the 13 weeks ended March 31, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Other operating costs	$ 595	$ (30)	$ 565
Depreciation and amortization	81	24	105
Finance cost and other expense	(13)	(8)	(21)
Profit before tax	96	(2)	94
Net profit	74	(2)	72

Consolidated statement of cash flows

For the 13 weeks ended March 31, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Cash provided by operating activities	$ 270	$ 24	$ 294
Cash used in financing activities	(2)	(24)	(26)

The impact of adopting IFRS 16 is included in notes 6, 7, 9, 10, 15, 16 and 18, and resulting comparative sub-totals and totals of the IFRS 16 restatement are included in the restated consolidated financial statements.

The quantitative assessment of the accounting impact included the following:

- A change in other assets as a prepaid rent expense recognized under IAS 17 is recognized as a reduction of the lease liability. This is offset by the current portion of finance subleases.
- Vehicles and plant equipment held under finance lease arrangements previously recognized as property, plant and equipment are now presented with right-of-use assets. The lease liability on leases previously classified as financing leases under IAS 17 and previously presented within loans and borrowings is now presented with lease liabilities.
- Recognition of right-of-use assets for leases previously classified as operating leases under IAS 17 and other contracts assessed as containing a lease under IFRS 16 that were previously expensed to other operating costs.
- An increase in other non-current assets due to the recognition of finance subleases.
- An increase in current and long-term lease liabilities as all lease payments are now recognized as a financial liability that represents the obligation to make future lease payments.
- A decrease to profit before tax given that rent expense (recorded under other operating costs) is replaced by depreciation of right-of-use assets and interest expense on the lease liability.
- An increase to cash provided by operating activities and an increase in cash used in financing activities since IFRS 16 requires principal repayments of lease liabilities to be presented as a financing outflow, whereas payments under operating leases under IAS 17 were presented as an operating outflow.

The Minister of Finance reviews and monitors the funding of Crown corporation activities and provides related approvals for their borrowing transactions. IFRS 16 results in the recognition of lease transactions that represent a material and long-term financial commitment with a payment stream that mimics a long-term debt liability and, therefore, they are deemed to be borrowing transactions. As such, the Governor in Council approved amendments to subsection 10(b) of the *Crown Corporation General Regulations, 1995,* made under the *Financial Administration Act*, which sets the threshold over which the Minister of Finance's approval is required on the terms and conditions of lease transactions. The new regulatory threshold for Minister of Finance approval of leases is the lesser of five percent of the total assets of the Corporation and $10 million. The Corporation's total authorized borrowing limit of $2.5 billion under the *Appropriation Act No. 4, 2009-10* has remained unchanged and is not affected by the transition to IFRS 16.

IFRIC 23 "Uncertainty over Income Tax Treatments" (IFRIC 23) • This IFRIC clarifies the accounting for uncertainties in income taxes. The adoption of this IFRIC had no impact on these interim financial statements.

Annual Improvements to IFRS – 2015-2017 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. The adoption of these improvements had no impact on these interim financial statements.

Amendments to IAS 19 "Employee Benefits" (IAS 19) • The IASB issued amendments to IAS 19 "Employee Benefits" requiring the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement. The adoption of these amendments had no impact on these interim financial statements.

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

During the quarter, there were no new standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee that would have a possible effect on the Group of Companies in the future. The standards, amendments and interpretations not yet in effect are disclosed in Note 5 (b) of the Corporation's annual consolidated financial statements for the year ended December 31, 2018.

6 Other Assets

As at (in millions)	March 30, 2019	December 31, 2018 (Restated – Note 5)
Income tax receivable	$ 59	$ 5
Prepaid expenses	129	98
Assets held for sale	1	1
Finance lease receivable	17	19
Other receivables	54	43
Total other assets	**$ 260**	$ 166
Current other assets	**$ 187**	$ 103
Non-current other assets	**73**	63

As at March 30, 2019, the property 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.

Finance lease receivables relate to a dedicated facility sublease within the Group of Companies and income on the financing sublease is recognized in Investment and other income.

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

As at (in millions)	March 30, 2019	December 31, 2018 (Restated – Note 5)
Contractual undiscounted cash flows		
Less than one year	$ 5	$ 5
One to five years	12	14
Total undiscounted finance lease receivable	**$ 17**	$ 19

7 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									
Restated balance at December 31, 2018	$ 347	$ 2,138	$ 318	$ 1,177	$ 503	$ 354	$ 1,058	$ 103	$ 5,998
Additions	–	7	9	3	1	4	2	38	64
Retirements	–	–	–	–	(1)	–	(2)	–	(3)
Transfers	–	14	2	–	–	2	10	(28)	–
March 30, 2019	**$ 347**	**$ 2,159**	**$ 329**	**$ 1,180**	**$ 503**	**$ 360**	**$ 1,068**	**$ 113**	**$ 6,059**
Accumulated depreciation									
Restated balance at December 31, 2018	$ –	$ 1,171	$ 241	$ 723	$ 317	$ 275	$ 584	$ –	$ 3,311
Depreciation	–	14	4	18	11	7	12	–	66
Retirements	–	–	–	–	(1)	–	(1)	–	(2)
March 30, 2019	**$ –**	**$ 1,185**	**$ 245**	**$ 741**	**$ 327**	**$ 282**	**$ 595**	**$ –**	**$ 3,375**
Carrying amounts									
Restated balance at December 31, 2018	$ 347	$ 967	$ 77	$ 454	$ 186	$ 79	$ 474	$ 103	$ 2,687
March 30, 2019	**$ 347**	**$ 974**	**$ 84**	**$ 439**	**$ 176**	**$ 78**	**$ 473**	**$ 113**	**$ 2,684**

(b) Intangible assets

(in millions)	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2018	$ 818	$ 9	$ 23	$ 850
Additions	2	14	–	16
March 30, 2019	**$ 820**	**$ 23**	**$ 23**	**$ 866**
Accumulated amortization				
December 31, 2018	$ 722	$ –	$ 22	$ 744
Amortization	11	–	–	11
March 30, 2019	**$ 733**	**$ –**	**$ 22**	**$ 755**
Carrying amounts				
December 31, 2018	$ 96	$ 9	$ 1	$ 106
March 30, 2019	**$ 87**	**$ 23**	**$ 1**	**$ 111**

(c) Right-of-use assets

(in millions)	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
Restated balance at December 31, 2018	$ 118	$ 230	$ 597	$ 34	$ 3	$ 982
Additions	–	26	20	–	–	46
Depreciation	(1)	(6)	(17)	(3)	(1)	(28)
March 30, 2019	**$ 117**	**$ 250**	**$ 600**	**$ 31**	**$ 2**	**$ 1,000**

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

(a) Net defined benefit liability

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

As at (in millions)	**March 30, 2019**	December 31, 2018
Pension benefit assets	**$ 78**	$ 95
Pension benefit liabilities	$ 3,532	$ 2,701
Other post-employment and other long-term benefit liabilities	3,965	3,644
Total pension, other post-employment and other long-term benefit liabilities	$ 7,497	$ 6,345
Current other long-term benefit liabilities	**$ 68**	$ 68
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,429**	$ 6,277

(b) Defined benefit and defined contribution costs

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

For the 13 weeks ended (in millions)	**March 30, 2019**			March 31, 2018		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 131	$ 28	$ 159	$ 138	$ 28	$ 166
Interest cost	266	35	301	256	35	291
Interest income on plan assets	(241)	–	(241)	(235)	–	(235)
Plan amendments	–	–	–	–	(5)	(5)
Other administration costs	3	–	3	4	–	4
Defined benefit expense	159	63	222	163	58	221
Defined contribution expense	6	–	6	5	–	5
Total expense	165	63	228	168	58	226
Return on segregated securities	–	(11)	(11)	–	(5)	(5)
Component included in employee benefits expense	**$ 165**	**$ 52**	**$ 217**	$ 168	$ 53	$ 221
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (1,549)	$ –	$ (1,549)	$ 74	$ –	$ 74
Actuarial (gains) losses	2,333	298	2,631	(4)	(62)	(66)
Component included in other comprehensive loss	**$ 784**	**$ 298**	**$ 1,082**	$ 70	$ (62)	$ 8

(c) Total cash payments

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

For the 13 weeks ended (in millions)	**March 30, 2019**	March 31, 2018
Benefits paid directly to beneficiaries for other benefit plans	$ 40	$ 38
Employer regular contributions to pension benefit plans	82	86
Employer special contributions to pension benefit plans	13	9
Cash payments for defined benefit plans	135	133
Contributions to defined contribution plans	6	5
Total cash payments	**$ 141**	$ 138

The estimates for the Group of Companies' total contributions to the defined benefit pension plans in 2019 did not change significantly from those disclosed in the Corporation's audited consolidated financial statements for the year ended December 31, 2018.

9 Finance Liabilities

(a) Loans and borrowings

As at (in millions)	**March 30, 2019**		December 31, 2018 (Restated – Note 5)	
	Fair value	**Carrying value**	Fair value	Carrying value
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16	$ 649	$ 498	$ 617	$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16	565	499	553	499
Total loans and borrowings	**$ 1,214**	**$ 997**	$ 1,170	$ 997

(b) Lease liabilities

As at (in millions)	**March 30, 2019**	December 31, 2018 (Restated – Note 5)
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$ 118	$ 117
One to five years	410	570
More than five years	809	641
Total undiscounted lease liabilities	**$ 1,337**	$ 1,328
Lease liabilities in the statement of financial position	**$ 1,180**	$ 1,163
Current lease liabilities	**$ 108**	$ 109
Non-current lease liabilities	**1,072**	1,054

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 $12 million for premises used in postal operations and transportation services (December 31, 2018 – $11 million).

(c) Changes in liabilities arising from financing activities

(in millions)	December 31, 2018 (Restated – Note 5)	Payments	Interest	Net lease additions	**March 30, 2019**
Lease liabilities	$ 1,163	$ (39)	$ 10	$ 46	**$ 1,180**

Interest is accrued to trade and other payables. Interest paid is included in cash flows from operating activities in the interim statement of cash flows.

Leases that have not yet commenced, but which have been committed to as at March 30, 2019, have future cash outflows of $54 million that are excluded from the measurement of lease liabilities.

10 Income Taxes

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

For the 13 weeks ended (in millions)	**March 30, 2019**	March 31, 2018 (Restated – Note 5)
Current tax expense	$ 2	$ 32
Deferred tax expense (recovery) relating to origination and reversal of temporary differences	8	(10)
Tax expense	**$ 10**	$ 22

11 Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
For the 13 weeks ended March 30, 2019 (in millions)	Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at December 31, 2018	$ 38	$ 5	$ 43		
Gains (losses) arising	$ 21	$ –	$ 21	$ (1,082)	$ (1,061)
Income taxes	(5)	–	(5)	271	266
Net	**$ 16**	**$ –**	**$ 16**	**$ (811)**	**$ (795)**
Accumulated balance as at March 30, 2019	**$ 54**	**$ 5**	**$ 59**		

For the 13 weeks ended March 31, 2018 (in millions)	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive loss
Accumulated balance as at December 31, 2017	$ 51	$ 3	$ 54		
Losses arising	$ (4)	$ –	$ (4)	$ (8)	$ (12)
Income taxes	1	–	1	2	3
Net	$ (3)	$ –	$ (3)	$ (6)	$ (9)
Accumulated balance as at March 31, 2018	$ 48	$ 3	$ 51		

12 Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matter has evolved over the 13-week period ended March 30, 2019:

In 2012, the Canadian Postmasters and Assistants Association (CPAA) requested reactivation of a pay equity complaint filed in 1992, which Canada Post asserted had previously been settled. In 2014, a Canadian Human Rights Commission (Commission) investigator concluded that the 1992-97 period remains at issue and the Commission subsequently referred the matter on its merits to the Canadian Human Rights Tribunal. By the end of 2016, statements of particulars had been exchanged by the parties (Canada Post, the CPAA and the Commission). The parties subsequently agreed to mediation in an attempt to reach a settlement for the 1992-97 period. On May 12, 2019, the parties reached an agreement.

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

13 Contingent Liabilities

There have been no significant changes to the contingent liabilities as disclosed in Note 16 of the Corporation's 2018 annual consolidated financial statements, except as noted below.

In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in Quebec may have made, between July 1, 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). Following a series of settlement discussions through to April 2019, Canada Post will now file its statement of defence and the parties will determine a case management protocol. The outcome of this class action remains undeterminable.

14 Fair Values and Risks Arising From Financial Instruments

Fair values of financial instruments

The fair values of cash and cash equivalents, marketable securities, segregated securities, trade and other receivables, trade and other payables and salaries and benefits payable and related provisions are a reasonable approximation of their carrying values as presented on the statement of financial position. For the fair value of loans and borrowings, refer to Note 9 (a).

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 the levels of the fair value hierarchy during the period ended March 30, 2019.

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. The updated disclosure concerning the nature and extent of market and liquidity risk follows.

(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, a basket of currencies comprising the U.S. dollar, euro, British pound, Japanese yen and Chinese renminbi, whereas payment is usually denominated in the U.S. dollar.

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

For the 13 weeks ended (in millions)	**March 30, 2019**			March 31, 2018		
	Foreign exchange losses	**Derivative gains (losses)**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (2)	$ 3	$ 1	$ 8	$ (10)	$ (2)
Realized	–	(1)	(1)	4	(4)	–
Total	**$ (2)**	**$ 2**	**$ –**	$ 12	$ (14)	$ (2)

(b) 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.

15 Other Operating Costs

For the 13 weeks ended (in millions)	**March 30, 2019**	March 31, 2018 (Restated – Note 5)
Non-labour collection, processing and delivery	$ 382	$ 376
Property, facilities and maintenance	74	73
Selling, administrative and other	126	116
Other operating costs	**$ 582**	$ 565

16 Investing and Financing Income (Expense)

For the 13 weeks ended (in millions)	**March 30, 2019**	March 31, 2018 (Restated – Note 5)
Interest revenue	$ 17	$ 9
Loss on sale of capital assets and assets held for sale	–	(1)
Investment and other income	**$ 17**	$ 8
Interest expense	$ (20)	$ (18)
Other expense	(3)	(3)
Finance costs and other expense	**$ (23)**	$ (21)
Investing and financing expense, net	**$ (6)**	$ (13)

17 Related Party Transactions

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

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

For the 13 weeks ended (in millions)	**March 30, 2019**	March 31, 2018
Related party revenue	**$ 62**	$ 68
Compensation payments for programs		
Government mail and mailing of materials for persons who are blind	**$ 6**	$ 6
Payments from related parties for premises leased from the Corporation	**$ 2**	$ 2
Related party expenditures	**$ 7**	$ 10

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.

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

As at (in millions)	**March 30, 2019**	December 31, 2018
Due to/from related parties		
Included in trade and other receivables	**$ 21**	$ 13
Included in trade and other payables	**$ 18**	$ 9
Deferred revenue from related parties	**$ 1**	$ 1

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by key management personnel (KMP) of the Group of Companies. The affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the 13 weeks ended March 30, 2019, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $3 million (March 31, 2018 – $3 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(c) Transactions with the Corporation's pension plans

During the 13 weeks ended March 30, 2019, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $3 million (March 31, 2018 – $3 million). As at March 30, 2019, $11 million (December 31, 2018 – $14 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 8 (c).

18 Segmented and Disaggregation of Revenue Information

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

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

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

As at and for the 13 weeks ended March 31, 2018
(in millions, restated – Note 5)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 1,685	$ 413	$ 64	$ –	$ 2,162
Intersegment revenue	13	5	7	(25)	–
Revenue from operations	$ 1,698	$ 418	$ 71	$ (25)	$ 2,162
Labour and employee benefits	$ 1,119	$ 200	$ 36	$ 30	$ 1,385
Other operating costs	428	169	24	(56)	565
Depreciation and amortization	74	25	6	–	105
Cost of operations	$ 1,621	$ 394	$ 66	$ (26)	$ 2,055
Profit from operations	$ 77	$ 24	$ 5	$ 1	$ 107
Investment and other income	$ 8	$ –	$ –	$ –	$ 8
Finance costs and other expense	(17)	(4)	–	–	(21)
Profit before tax	$ 68	$ 20	$ 5	$ 1	$ 94
Tax expense	14	5	2	1	22
Net profit	$ 54	$ 15	$ 3	$ –	$ 72
Total assets	$ 8,528	$ 1,173	$ 198	$ (309)	$ 9,590
Total liabilities	$ 9,268	$ 633	$ 114	$ (13)	$ 10,002

(b) Geographic area revenue information

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

For the 13 weeks ended (in millions)	**March 30, 2019**	March 31, 2018
Canada	$ 2,051	$ 2,028
United States	60	69
Rest of the world	53	65
Total revenue	**$ 2,164**	$ 2,162

(c) Products and services revenue information

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

For the 13 weeks ended March 30, 2019
(in millions)

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed on sale			
Transaction Mail	$ 544	$ –	$ 544
Parcels	1,119	(25)	1,094
Direct Marketing	255	–	255
Other	115	(66)	49
	$ 2,033	**$ (91)**	**$ 1,942**
Unattributed revenue			
Stamp postage	$ 80	$ –	$ 80
Meter postage	142	–	142
	$ 222	**$ –**	**$ 222**
Total	**$ 2,255**	**$ (91)**	**$ 2,164**

For the 13 weeks ended March 31, 2018
(in millions)

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 548	$ –	$ 548
Parcels	1,063	(22)	1,041
Direct Marketing	273	–	273
Other	105	(55)	50
	$ 1,989	$ (77)	$ 1,912
Unattributed revenue			
Stamp postage	$ 97	$ –	$ 97
Meter postage	153	–	153
	$ 250	$ –	$ 250
Total	$ 2,239	$ (77)	$ 2,162

(d) Sales channel revenue information

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

For the 13 weeks ended March 30, 2019
(in millions)

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Domestic			
Commercial	$ 1,547	$ (26)	$ 1,521
Retail	533	–	533
	$ 2,080	$ (26)	$ 2,054
International	$ 113	$ –	$ 113
Other	$ 62	$ (65)	$ (3)
Total	**$ 2,255**	**$ (91)**	**$ 2,164**

For the 13 weeks ended March 31, 2018
(in millions)

	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 1,531	$ (23)	$ 1,508
Retail	524	–	524
	$ 2,055	$ (23)	$ 2,032
International	$ 134	$ –	$ 134
Other	$ 50	$ (54)	$ (4)
Total	$ 2,239	$ (77)	$ 2,162

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