2021
ANNUAL REPORT
Canada Post Corporation

FINANCIAL SECTION

For the period ended December 31, 2021

Financial Performance

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) of the financial condition and results of operations is prepared for the year ended December 31, 2021, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Segments are based on the legal entities, Canada Post, Purolator, SCI and Innovapost.

This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes. Unless otherwise indicated, all financial information in this report was prepared using International Financial Reporting Standards (IFRSs). Amounts are presented in Canadian dollars, rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. Percentages in this report are adjusted for differences in business or paid days, which varied by company. In 2021, for the consolidated results of the Group of Companies there was one less business day (which resulted in decreased revenue) and one less paid day (which resulted in decreased cost of operations) compared to 2020. Where these differences were material to our financial results, they have been highlighted in this report.

Management is responsible for the information presented in the Annual Report. All references to *our* or *we* mean, as the context may require, either Canada Post or, collectively, Canada Post and its subsidiaries. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the audited consolidated financial statements March 24, 2022.

Forward-looking statements

This Annual Report, including the MD&A, contains forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as *plans, anticipates, expects, believes, estimates, intends* and other similar expressions. These statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to 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 set forth in Section 8 – Risks and Risk Management of this MD&A (risks).

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

1. Executive Summary

An overview of the Canada Post Group of Companies and summary of 2021 financial results

The Group of Companies is one of Canada's largest employers with over 84,500 people (full-time and part-time employees, including temporary, casual and term employees). During 2021, employees delivered approximately 6.9 billion pieces of mail, parcels and messages to 17 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with almost

6,000 retail post offices across the country. Canada Post is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement.

Under the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians in a secure and financially self-sustaining manner. Canada Post's universal service obligation (USO) is set out in the *Canadian Postal Service Charter* established by the Government of Canada in 2009, which states the following:

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

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

Canada Post is part of the global postal industry comprising foreign postal administrations (posts). All posts have traditionally financed their USO through a legislated exclusive privilege, or monopoly, over a portion of the postal market. However, posts have experienced a structural decline in mail volumes as customers shift to digital alternatives.

The widespread adoption of ecommerce has created a highly competitive parcel delivery landscape. We are proud to deliver ecommerce parcels to Canadians. Revenue from the Parcels line of business is now half of our business, however, in the last five years, our market share has decreased.

Declining Lettermail™ volumes, financial commitments, expanding the delivery network, and maintaining success in a highly competitive parcel industry are challenges that may put the Corporation's long-term financial self-sustainability at risk. The Corporation is aware of these structural challenges, the inherent risks in its business model and the magnitude and significance of recurring financial losses over the past four years. We are moving forward with a plan to build capacity, improve service and support small businesses. At the same time, we're investing in our people and to protect the environment. We are also investing to support innovation and grow the business, and we are pursuing improved efficiency, productivity and cost competitiveness in our operations.

We continue to work on securing our long-term financial self-sustainability by investing and evolving to provide the postal system Canadians need. The Corporation has submitted to the Government of Canada a strategic plan that is grounded in the evolving needs of Canadians and Canadian businesses.

Financial and business highlights

For the fourth consecutive year, the Canada Post Group of Companies posted a loss in 2021. The loss before tax was $246 million in 2021 compared to a loss before tax of $626 million in 2020. The 2021 results were attributable to a loss in the Canada Post segment partially offset by profit in the Purolator and SCI segments. The factors causing the Canada Post segment's financial results are recurring and a loss would have been incurred, even without the impact of COVID-19.

2021 was another challenging year for the Canada Post segment, which reported a loss before tax of $490 million, an improvement of $289 million compared to 2020. Revenue increases of $407 million (+6.3%)[1] over 2020, was the result of parcel growth, a partial recovery of Direct Marketing and the positive impact of the effects of the 2021 Census and the federal election on the Transaction Mail business. This revenue growth was partially offset by continued erosion in this line of business as consumers and mailers migrated to digital alternatives, a trend which COVID-19 has accelerated. Cost of operations increased by $127 million (+2.0%) in 2021, largely due to annual wage increases and higher labour and non-labour collection, processing and delivery costs.

The Purolator segment recorded a profit before tax of $269 million in 2021, compared to a profit before tax of $176 million in 2020, an increase of $93 million. The Logistics segment recorded a profit before tax of $24 million in 2021, $4 million more than 2020.

Financial results for 2021 were affected by the following factors, in the Canada Post segment.

COVID-19

The impact of COVID-19 on revenue and volumes affected the current and comparative periods in different ways. As the pandemic took hold in March 2020, Direct Marketing and Transaction Mail volumes declined substantially, while significant and unsustainable parcel volume growth was constrained by available capacity. Year-over-year comparisons in this report are, therefore, greatly influenced by the unique circumstances of the prior year. Consumers accelerated their adoption and frequency of online shopping by several years, while businesses continued to migrate to digital communication instead of Lettermail. Compared to pre-pandemic financial results, higher labour costs were incurred due to special employee leave and increased parcel volumes. Higher costs will persist to ensure best practices for health and safety are followed for our employees and Canadians.

As public health measures evolved at the national, provincial or local level, Canada Post adapted its own measures to align with public health authorities. For example, in the fourth quarter, Canada Post formalized a mandatory vaccination practice in line with the federal government's approach, after consultations with all bargaining agents.

A Stronger Canada – Delivered

In 2021, Canada Post adopted and communicated its new plan and overarching purpose, A Stronger Canada – Delivered, to meet Canadians' changing needs for service, such as growth in ecommerce; meet Canadians' heightened expectations for environmental and social leadership; and do the right thing for employees. Highlights of key achievements in each of the three pillars in 2021 are summarized below.

Providing a service all Canadians can count on

- Deployed a new parcel sorter in Kitchener and began the Calgary processing facility expansion.
- Launched a market test of a Canada Post MyMoney™ Loan service in partnership with TD Bank.
- Opened a postal service hub in an Indigenous community.

Committed to social and environmental leadership

- Launched a five-year strategy and a 2021 Action Plan for Equity and Diversity.
- Set equity targets for women, Indigenous Peoples, persons with disabilities and visible minorities.
- Launched our Accessibility Strategy and conducted 261 accessibility audits of our facilities.
- Launched our Environmental Action Plan and adopted ambitious science-based targets.

Doing right by our people

- Reduced total injury frequency by 4% and lost-time injury frequency by 1%.
- Reached collective agreements with three bargaining units before they expired.
- Improved the 2021 Employee Engagement Survey response rate and overall score compared to 2020.

Parcels growth slows compared to 2020

In 2021, Parcels revenue neared $3.7 billion (+7.4%), while total parcel volume declined compared to 2020 (-7.0%) when our capacity was constrained by record volumes due to in-person shopping restrictions. Domestic Parcels revenue, the largest product category, increased over 2020 by $231 million (+9.1%), while volumes decreased by 13 million pieces (-4.2%). Our Domestic Parcels revenue was positively affected by proactively managing our use of available capacity through our commercial customer and product mix. Global supply chain and air capacity issues negatively affected inbound revenue and volumes (-4.9% and -17.6%, respectively). Since it costs more to process and deliver parcels than it does letters, we are investing to improve processing efficiencies, while increasing capacity to meet Canadians' needs and support growth in the Parcels business.

Transaction Mail volume erosion continues

In 2021 and compared to 2020, Transaction Mail revenue of $2.5 billion (+0.8%) was positively impacted by the 2021 Census and 2021 federal election, as well as by stronger retail usage, while volumes declined by 62 million pieces (-2.0%) as our traditional Lettermail service was replaced by digital communications. Revenue for Domestic Lettermail, the largest product category, increased over 2020 by $33 million (+1.8%), while volumes declined by 46 million pieces (-1.5%) over the same period. Without the 2021 government mailings for the 2021 Census and the federal election, erosion for this line of business would have been significantly worse. Unlike previous years, regulated stamp prices were maintained at 2020 levels through 2021, while the impact of other price changes was minimized, due to COVID-19.

Partial recovery of Direct Marketing

Direct Marketing revenue of $922 million increased $113 million (+14.4%) in 2021 compared to 2020. This partial recovery follows significant declines in Canada Post Personalized Mail™ and Canada Post Neighbourhood Mail™ results in 2020 as customers postponed or cancelled marketing campaigns due to COVID-19. In the second half of 2021, we began to see this behaviour again as global supply chain issues caused retailers to make changes to their marketing plans. Although we began to see some recovery in this line of business in 2021, volumes have not yet returned to their pre-pandemic level.

Costs continue to increase

The cost of operations in the Canada Post segment increased by $127 million (+2.0%) in 2021, compared to 2020. These increases were driven by annual wage increases, non-labour collection, processing and delivery costs and non-capital investment spending to sustain the network and improve capacity. The 2020 arbitrator's decision for collective agreements (expired December 31, 2021, and January 31, 2022) with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC) contributed $127 million toward 2020 costs. Excluding the impact of the 2020 arbitrator's decision, cost of operations increased by $254 million in 2021. The accelerated shift in our business from mail to parcels continues to put pressure on capacity, processing and delivery costs, while Canadian addresses increased by approximately 226,000 in 2021, contributing to higher costs due to the obligation to deliver to more addresses.

Investments

In 2021, we invested $635 million, with a focus on implementing solutions to address operational capacity to support ecommerce growth. Of this amount, we made capital investments of $438 million, and non-capital investments of $197 million. In addition to supporting our operational capacity, capital investments were made to modernize our retail network, launch a market test of financial services in retail sites, open a community postal service hub, address aging street furniture and vehicles, expand our delivery capacity with parcel lockers, continue investing in health and safety initiatives, and explore clean energy alternatives.

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

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

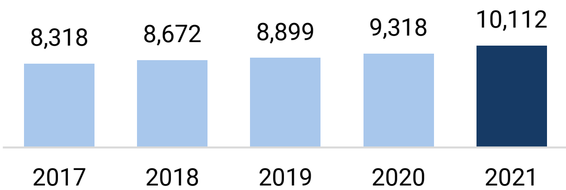
At the end of 2021, market-driven volatility continued to have an impact on the RPP and other post-employment and long-term benefits. Remeasurement gains of $4.2 billion, net of tax, were recorded in other comprehensive income on the Group of Companies' defined benefit plans, contributing to the Group of Companies' positive equity balance of $3.1 billion as at December 31, 2021. The gains were mostly the result of an increase in discount rates and higher than expected asset returns slightly offset by experience adjustments. The solvency deficit to be funded for the RPP improved during the year to an estimated $4.9 billion (using the three-year average solvency ratio basis) and $2.5 billion (using market value of plan assets) as at December 31, 2021, compared to the December 31, 2020, valuations of $6.4 billion and $7.4 billion, respectively, mainly due to an increase in the discount rate and higher than expected asset returns. For the period ended December 31, 2021, the actuarially determined expense recorded in the statement of comprehensive income and regular payments were not affected by these remeasurements.

Under current regulations, Canada Post did not have to make solvency special payments in 2021. In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. These proposed regulations have not been finalized. Without this relief, the Corporation is expected to make estimated special solvency payments of $796 million for 2022, based on the 2021 funding valuation, which will be filed by June 2022.

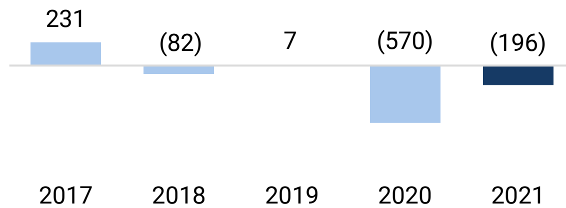
Canada Post Group of Companies – 2021

The charts below present a summary of the 2021 consolidated results for the Canada Post Group of Companies.

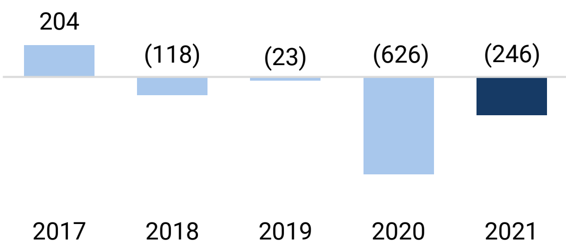
Consolidated revenue from operations
(in millions of dollars)



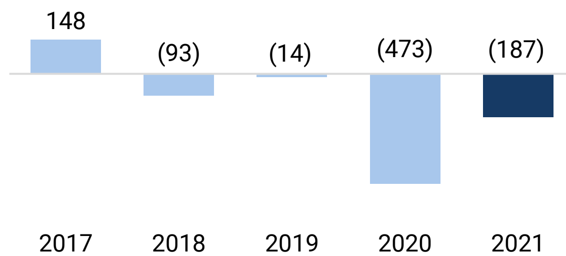
Consolidated profit (loss) from operations
(in millions of dollars)



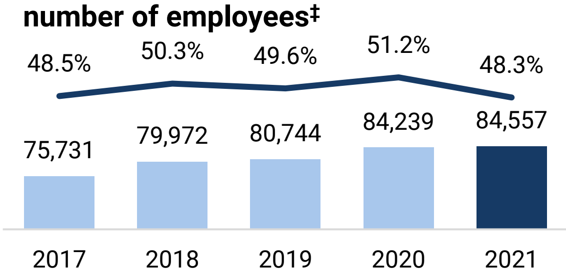
Consolidated profit (loss) before tax
(in millions of dollars)



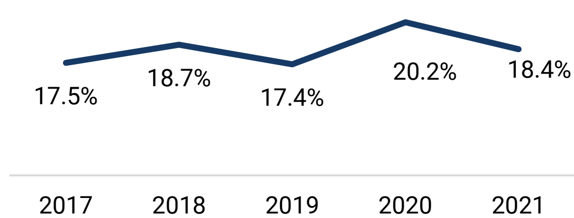
Consolidated net profit (loss)
(in millions of dollars)



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



Employee benefits as a percentage of revenue from operations



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

The following table presents the Group of Companies consolidated performance for the 2021 fiscal year compared to 2020.

Years ended December 31, in millions of dollars

	2021	2020	$ change	% change	Explanation
Consolidated statement of comprehensive income					Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	10,112	9,318	794	8.9	Growth in all segments.
Cost of operations	10,308	9,888	420	4.6	Higher expenses in all segments due to labour and employee benefits, and volume growth.
Loss from operations	(196)	(570)	374	65.7	Mainly due to a loss in the Canada Post segment, partially offset by profit in the Purolator and SCI segments.
Loss before tax	(246)	(626)	380	60.7	
Tax recovery	(59)	(153)	94	61.6	Mainly due to a lower loss before tax in the Group of Companies.
Net loss	(187)	(473)	286	60.4	
Comprehensive income (loss)	3,968	(802)	4,770	*	Due to remeasurement gains on pension and other post-employment plans from an increase in discount rates and higher than expected asset returns, slightly offset by experience adjustments.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	664	694	(30)	(4.4)	Primarily due to decline in net loss partially offset by changes in working capital.
Cash used in investing activities	(674)	(585)	(89)	(15.2)	Primarily due to higher acquisitions of capital assets partially offset by higher proceeds from properties sold during the year.
Cash used in financing activities	(125)	(118)	(7)	(5.8)	No material change

* The calculation is not mathematically meaningful.

2. Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

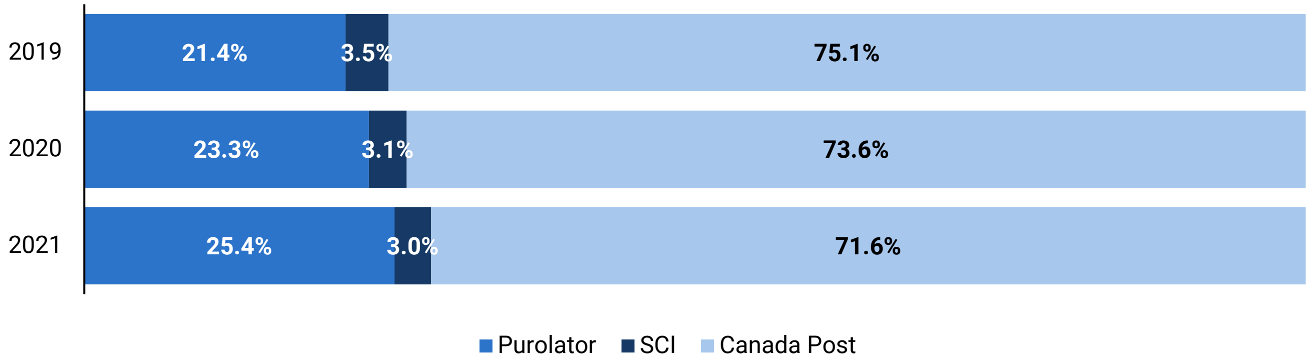
2.1 Our business

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

The Canada Post Group of Companies provides a full range of delivery, logistics and fulfillment services to customers and, combined, has annual revenue of over $10.1 billion. Demand for services is highest during the holiday, or peak, season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level in the third quarter. Significant fixed costs do not vary in the short term. The Group of Companies has the largest retail network in Canada with over 7,700 retail locations, operates a fleet of almost 20,000 vehicles and employs over 84,500 people (paid full-time and part-time employees, including temporary, casual and term employees).

In 2021, our employees delivered approximately 6.9 billion pieces of mail, parcels and messages to 17 million addresses in urban, rural and remote locations across Canada.

Revenue by segment



Canada Post is the largest segment of the Group of Companies, with revenue of over $7.3 billion in 2021. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, direct marketing products and periodicals.

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider whose revenue exceeded $2.6 billion in 2021.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions. Its 2021 revenue was $348 million.

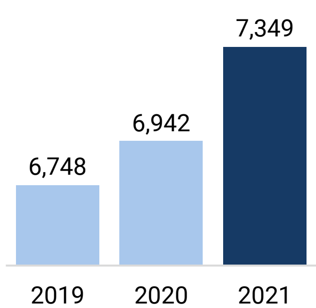
Innovapost Inc., 100% owned by the Group of Companies, is a shared services organization, providing company-specific information systems and information technology services exclusively to the Canada Post Group of Companies.

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

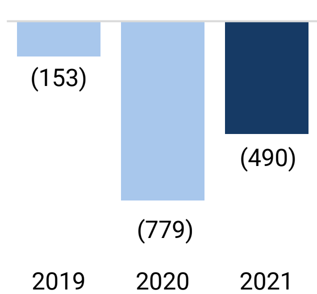
Canada Post segment

Canada Post operates Canada's largest retail network with close to 6,000 retail post offices and a fleet of almost 14,000 vehicles that delivered almost 6.8 billion pieces of mail, parcels and messages in 2021. With over 68,000 employees (full-time and part-time employees, including temporary, casual and term employees), Canada Post provides service to 17 million addresses.

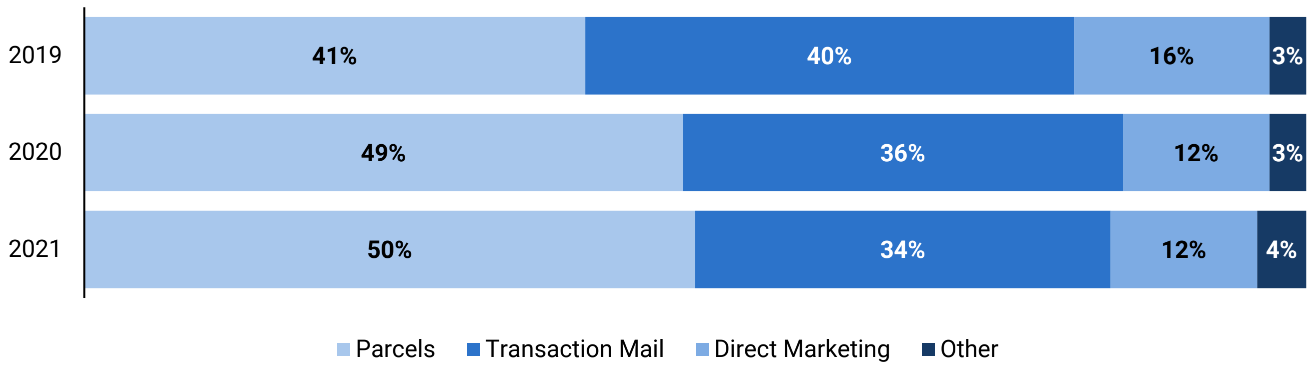
Revenue
(in millions of dollars)



Loss before tax
(in millions of dollars)



Revenue by line of business



Parcels

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

Transaction Mail

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

Direct Marketing

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

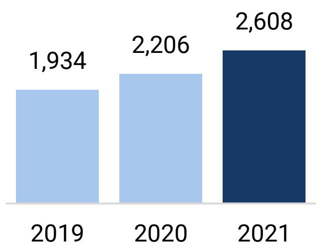
Other

The Other category consists of a broad array of products and services, including mail redirection, data products, commemorative stamps, gifts and coins, and financial services.

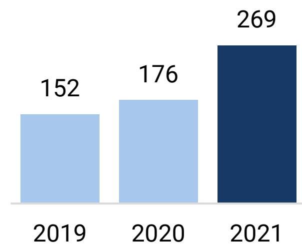
Purolator segment

Purolator is a leading integrated freight, package and logistics provider, delivering packages to, from, and within Canada. It is a highly recognized North American brand that proudly delivers best-in-class shipping speed and services to business-to-business and business-to-consumer customers. With over 60 years of service, Purolator has 190 operations facilities, more than 5,200 vehicles, almost 1,800 access points (shipping agents and centres, Mobile Quick Stop vehicles in metropolitan areas, self-serve kiosks and drop boxes, and parcel lockers), almost 30 U.S. branches and over 13,000 employees.

Revenue
(in millions of dollars)

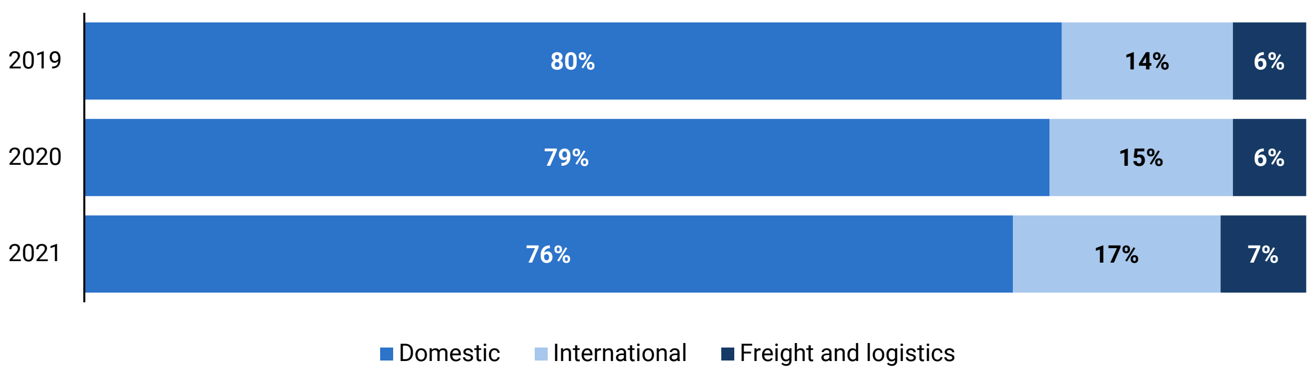


Profit before tax
(in millions of dollars)



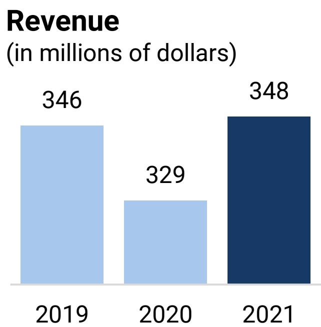
Purolator's growth over the past three years resulted from a focus on volume growth and yield optimization and by adapting to new ecommerce market realities fuelled by COVID-19. Investments made across its national network and the expansion of its international global supply chain solutions businesses accelerated movement of parcels to and from Canada. Purolator continues its philanthropic efforts such as its Tackle Hunger® program, which has delivered more than 17 million pounds of food to families across Canada since 2003.

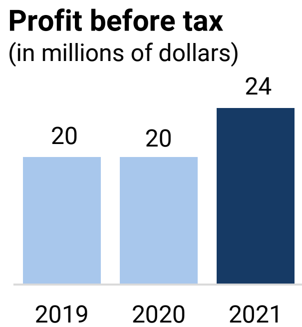
Revenue by line of business



SCI segment

SCI is one of Canada's leading providers of supply chain solutions. Through its operating entities SCI Logistics, Progistix and First Team Transport (operating as SCI White Glove Services), SCI operates the most extensive national distribution and transportation network in Canada, consisting of approximately 30 distribution centres coast to coast along with over 35 field stocking locations and specialized transportation hubs.





With more than 1,800 employees, SCI manages over $1 billion in inventory every day, offering its clients expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada. SCI's broad scope of services allows the Group of Companies to offer end-to-end supply chain services to Canadian businesses in the retail, technology and healthcare sectors. In 2021, SCI was recognized as one of Canada's Most Admired Corporate Cultures by Waterstone Human Capital, a leading cultural talent management firm.

Innovapost segment

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

2.2 Our business environment

Global trends

Again in 2021, periodic nationwide restrictions and public health controls related to COVID-19 were prevalent in many countries. As a result, global economic activity and supply chains continued to be significantly impacted. Government interventions have attempted to manage the widespread impact from the ongoing emergence of variants. However, supply chain disruptions continue to further aggravate the strain on economic recovery.

Permanent changes to consumer behaviour are expected due to the prolonged duration of COVID-19, with continued acceleration in the adoption of online shopping. Retailers are using local and omni-channel fulfillment models and crowdsourced local delivery services. Increased ecommerce delivery competition and rising consumer expectations for local and same-day fulfillment are shaping the market. Mail erosion continues, while global supply chains and store closures have affected most traditional advertising media.

Canada

COVID-19 has accelerated ecommerce adoption by multiple years globally and Canada is no different. Canadian retailers offered curb-side pickup for fast and convenient shopping and order fulfillment. Crowdsourced local delivery models are a compelling and scalable solution that use low-cost labour and rapidly increasing ecommerce delivery density. Large ecommerce retails' reliance on multi-carrier shipping is expected to continue with increased investments in automation, technology, and infrastructure to support growth. The parcel growth opportunity has resulted in increased competition for local fulfillment and delivery, which continues to pose a risk to the long-term growth and profitability of Canada Post.

Since 2006, declining mail volumes have resulted in a reduction of 62% in the annual number of pieces of mail delivered per address. This decline accelerated in 2020 due to COVID-19. Declining volumes and increases in the number of addresses in 2021 and the preceding four years were as follows:

Transaction Mail (excluding outbound)	**2021**	2020	2019	2018	2017
Delivered volume change[1]	(2.0)%	(10.4)%	(6.3)%	(6.1)%	(5.4)%
Delivery address change	1.3%	1.2%	1.0%	1.2%	1.1%
Mail volume decline per address	(3.3)%	(11.5)%	(7.3)%	(7.2)%	(6.5)%

2.3 Our strategy and strategic priorities

Canada Post segment

The Government of Canada expects the Corporation to operate in a manner that is financially self-sustaining. In 2021, Canada Post communicated to employees its plan and overarching purpose, A Stronger Canada – Delivered, which has three pillars: to provide a service all Canadians can count on; meet their heightened expectations for environmental and social leadership; and do the right thing for its employees.

These three pillars have several initiatives, including those summarized below. By putting Canadians first, by building capacity and improving service, we're establishing the path to financial self-sustainability.

Providing a service all Canadians can count on

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

Committed to social and environmental leadership

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

Doing right by our people

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

Climate strategy

Canada Post recognizes that climate-related risks and opportunities can impact our operations, financial performance, and reputation. Environmental sustainability is also intertwined with the economics of our business. Addressing it in our decision-making processes is the responsible thing to do and will also help our business succeed. We have reviewed the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and are assessing and improving our alignment with these recommendations with the goal of reporting our progress in our 2021 Sustainability Report to be released in the second quarter of 2022.

Canada Post's Environmental, Social and Governance (ESG) Committee of the Board of Directors instructed the Corporation to consider a validated science-based target. As part of our environmental strategy, our goal was to develop a climate strategy and science-based target in line with our long-term vision of net-zero greenhouse gas (GHG) emissions by 2050. We based the target on an initial assessment by a third party of the physical and our transitional climate-related risks under two warming scenarios. Net zero means reducing emissions from the postal service's operations and supply chain as much as possible and offsetting the remaining emissions.

Canada Post's science-based target has four main components:

- commit to net-zero GHG emissions by 2050;
- reduce GHG emissions by 30% at scope 1 (direct) and scope 2 (from the generation of purchased electricity) by 2030, measured against 2019 levels;
- source 100% renewable electricity for its facilities by 2030;
- engage with suppliers and Canada Post's subsidiaries so that 67% of suppliers (by spend) and all subsidiaries adopt a science-based target by 2025.

Our targets were submitted to the Science Based Targets initiative (SBTi) in late 2020 following their approval by our Board of Directors, and were approved by the SBTi in early 2021. The SBTi is a collaboration between leading international organizations that champion science-based target setting as a way to boost companies' competitive advantage in the transition to the low-carbon economy. Science-based targets are GHG emissions reduction targets that are in line with the goals of the Paris Agreement to limit global warming to well below 2°C above pre-industrial levels and pursue efforts to limit warming to 1.5°C.

Climate risks and opportunities have influenced Canada Post's strategy and financial planning and we hope to reach our climate goals through the following:

- **Buildings.** Canada Post will retrofit its existing buildings to make them more energy efficient with solutions such as optimizing HVAC systems, switching away from fossil fuels for heating, and installing LED lights and solar panels. Our largest facility, the Ontario East Processing Centre now under construction, was designed to the Canada Green Building Council's Zero Carbon Building Design Standard.
- **Fleet.** Canada Post has the country's largest fleet of alternative propulsion last mile delivery vehicles, with such vehicles surpassing 10% of total vehicles. It is also piloting new electric vehicles and investing in innovative low-carbon solutions such as e-cargo trikes. It will further reduce emissions by using space more efficiently in vehicles, optimizing routing and switching to alternative fuels.
- **Renewable electricity.** Facilities will source 100% renewable electricity by 2030 through power purchase agreements (bringing new renewable power online), green tariffs, the purchase of renewable energy certificates and on-site solar panels.

Accessibility strategy

6.2 million (one in five) Canadians experience at least one disability, and as our population ages the prevalence of disability will increase. With a presence in most communities across the nation, we have an important role to play in fostering an accessible and inclusive Canada. There is also a strong business case to do so. As part of our overarching purpose, A Stronger Canada – Delivered, our vision is to demonstrate leadership in accessibility by promoting disability awareness, removing barriers and recognizing the valuable contributions of people with disabilities.

We have publicly committed to accessibility by launching a comprehensive Accessibility Strategy and joining the Valuable 500, a global effort to unite 500 CEOs and their companies in promoting disability inclusion. The Accessibility Strategy aligns with the focus areas of the *Accessible Canada Act* and was developed with input from Canadians living with disabilities. It commits us to concrete action to ensure that all Canadians can use our products, services and programs with ease, and work with us without barriers. Our accessibility strategy is based on four pillars:

Providing a service all Canadians can count on

Our goal is to become an inclusive employer of choice by leveraging a diverse talent pool and removing barriers to enable the full participation of people with disabilities in the work environment. Our initiatives:

- Embed accessibility and inclusion into our culture through awareness, education and socialization.
- Attract, grow and retain diverse talent that represents the fabric of Canada.
- Effectively recruit people with disabilities and ensure they can build a full and meaningful career at Canada Post.

Delighting our customers

Our goal is to create a more welcoming and inclusive experience for all our customers. Our initiatives:

- Improve the delivery experience through enhanced customer service.
- Increase the accessibility of our products, services and programs, as well as our digital features and applications.
- Promote accessibility initiatives to Canadians through community engagement.

Building accessible barrier-free spaces

Our goal is to make our post offices, administrative offices, depots and processing facilities accessible to users. Our initiatives:

- Ensure all new buildings are accessible.
- Audit and enhance accessibility in our network of existing buildings.
- Work with third-party partners that offer Canada Post services, such as dealer post offices, to enhance accessibility.

Seeking more inclusive business opportunities

Our goal is to promote accessibility and inclusion in our supply chain, and create opportunities for business owners from the disability community. Our initiatives:

- Create opportunities for businesses that support robust accessibility practices or are owned/operated by people with disabilities.
- Ensure procurement processes are accessible to all potential suppliers, including people with disabilities.

- Collaborate with networks and share best practices.

Purolator segment

Purolator aspires to serve Canada through a best-in-class network, chosen first by its employees and customers. Its extensive Canadian transportation network is the company's source of strength and sets it apart from competitors.

Purolator's goal is to be a leader in Canada's courier industry, serving both business-to-business and express business-to-consumer segments, with broad coverage across industry verticals. It provides domestic courier express services with day and time guarantees, as well as ground service for less urgent shipments. With its international inbound and outbound operations, and global logistics solutions, Purolator can move parcels to, from and within Canada to satisfy customer needs.

Purolator launched a refreshed five-year strategic plan that will position the business for industry-leading innovation and growth. This strategic plan is built on four pillars: increasing premium growth; modernizing the network; digitizing the business; and being safe, sustainable, inclusive, and inspiring.

Over this five-year time frame, Purolator will focus on the following:

- Creating industry-specific solutions for key sectors, including industrial, retail, healthcare and technology.
- Enhancing capabilities in high-growth segments such as residential, cross-border and international shipping.
- Special handling services including returns and large-package processing.
- Improving revenue by balancing value, volume and dynamic pricing strategies.

In 2022, Purolator will open its $330 million, state-of-the-art National Hub in Toronto, designed to handle any kind of package or freight to be shipped to businesses or consumers, in Canada or around the world. This hub will enhance visibility and automation, enable the movement of packages in and out of facilities at the right speed to meet delivery times and improve performance. Purolator is also creating enhanced service models that will offer flexible transit times and operational capabilities to meet customer expectations. This focus on adaptable capacity will enable Purolator to meet daily, weekly and seasonal demand across a variety of services.

Dedicated to contributing to its communities and the environment, Purolator is investing in greening its fleet with the goal of becoming the greenest express courier company in Canada, working toward an ambitious 2030 emissions target by focusing on fleet and building emissions, and fuel consumption.

SCI segment

We'll make you even better.

SCI strives to make its customers' businesses even better, helping them reduce costs and improve services by offering integrated and customized supply chain solutions across Canada. With its competitive differentiation in breadth of supply chain capabilities and its Canadian expertise, SCI's strategy is to be leading Canada's leading end-to-end, business-to-consumer supply chain partner. SCI will continue to broaden its service offerings and improve efficiency through improvement initiatives and technology enhancements in order to achieve growth in key customer market verticals of retail, healthcare and technology.

3. Key Performance Drivers

The Canada Post segment uses senior executive scorecards to monitor performance and progress against strategic priorities. Regular reporting provides management and the Board of Directors with a comprehensive view of the segment's performance.

3.1 Our progress and achievements

Here is a summary of Canada Post's progress and achievements in 2021, and plans for 2022.

Providing a service all Canadians can count on

Expanding capacity

2021 results

- Deployed a new parcel sorter in Kitchener and began to expand the Calgary processing facility.
- For the 2021 peak season, hired 3,500 additional temporary workers, rented over 1,400 vehicles and added eight additional delivery facilities, four processing facilities and almost 2,800 additional scanning devices.

2022 plans

- New Ontario East Processing Centre: complete it by the end of 2022 and make it fully operational in early 2023.
- Advanced material handling: implement new technologies, such as automated guided vehicles (AGVs) and robotics, to automate the handling and movement of parcels, mail and containers.
- Automate parcel sorting: continue plan for new sorters across the network to achieve a 90% national mechanization rate. Implement a new sorter in Calgary.

Improving service and tracking

2021 results

- Launched automatic tracking on our website and mobile iOS app to all Canadians who sign up and receive packages through Canada Post.
- Deployed over 12,500 new portable data terminals.
- Opened new depots in Trois-Rivières, Ottawa (Barrhaven), Alliston and Montréal (La Prairie and Chambly) and completed building enhancements at nearly 80 sites for capacity management, business continuity and support of peak operations.

2022 plans

- Tracking visibility: provide improved notifications and expected delivery date enhancements.
- Enhance security and efficient processing of international mail and parcels through investment in customs, facilities, product enhancements and use of electronic advance data to support inbound and outbound international growth.
- Continue multi-year program and replace an additional 17,000 portable data terminals and 2,400 wearable scanners.

Enhancing our retail services

2021 results

- Opened a postal service hub in an Indigenous community (High Prairie, Alberta).
- In partnership with TD Bank, the Canada Post MyMoney™ Loan service was launched as a market test in September in 36 pilot locations, expanding to over 200 retail sites, including Indigenous communities, by the end of 2021.
- Deployed updated retail equipment and technology in 870 post offices across Canada (16%).

2022 plans

- Retail service expansion: continue to assess uptake and deploy financial services and community hubs in all types of retail sites, including rural and Indigenous locations.
- Community hubs: open a second postal service hub in an Indigenous community (Membertou, Nova Scotia) and two additional hubs nationally.
- Retail modernization: continue to deploy updated equipment and technology in the rest of the retail network.

Helping Canada stay connected and businesses succeed

2021 results

- Expanded our pickup offering in over 52,000 postal codes in the last 12 months, allowing more commercial customers to have their parcels picked up at their place of business.
- Won two awards for our 2020 Think Small campaign in the business category at the Canadian Marketing Association's 2021 awards. The Think Small platform provides support and resources to small business owners, while creating a community to champion their stories of resilience.

2022 plans

- Add pickup locations to improve convenience and support the needs of commercial customers.
- Improve technical integration with ecommerce, marketplace and shipping platforms to support commercial customers shipping with Canada Post.
- Implement privacy features and controls, such as user consent management tools, and improve our ability to detect and prevent data breaches and cyberattacks.

Committed to social and environmental leadership

Equity, diversity and inclusion

2021 results

- Launched a five-year strategy for equity and diversity and a 2021 action plan with 40 specific steps the Corporation will take to create a safe, welcoming workplace for everyone.
- Set and communicated equity targets to all functional leaders: women 48.6%, Indigenous Peoples 2.7%, persons with disabilities 4.4%, and members of visible minorities 19.8%.
- Awarded 25 grants to Indigenous students.
- Deployed the Special Measures Memorandum of Agreements with bargaining agents to address the current under-representation of Indigenous Peoples and persons with disabilities in targeted areas.
- Launched our Accessibility Strategy to all employees, commercial clients, stakeholders and Canadians.
- Conducted 261 accessibility audits of corporate facilities and identified 46 sites requiring modification and construction, of which 10 were completed.

2022 plans

- Promote and award 25 grants to Indigenous students.
- Deliver training: unconscious bias, Indigenous Cultural Competency and leadership for people from the Black community (Black Leadership Academy).
- Sustain and maintain equity representation, while supporting goals for equity, diversity and inclusion.

- Prepare to implement the Official Languages Regulations Re-Application Exercise.
- Retail accessibility: implement accessibility improvements including new counters and automatic door openers in over 40 sites to remove barriers in the built environment.
- Digital accessibility: ensure consumer- and customer-facing platforms, spaces, products and services meet or exceed industry and government standards for accessibility.

Making our environment a priority

2021 results

- Recognized by *Corporate Knights* magazine as one of Canada's 50 top corporate citizens.
- Piloted new waste diversion services and equipment at four plants and depots.
- Piloted electric vehicle (EV) charging for employees at our four largest sites.
- Completed 32 LED lighting retrofit energy-saving projects.
- Updated our standards for new buildings to align with the Environmental Action Plan's goal that all new buildings emit net-zero carbon after construction.
- Discontinued retail supplies wrapped in single-use plastic.

2022 plans

- Implement our climate action plan and Net Zero 2050 Roadmap.
- Expand the rollout of alternative propulsion (low-carbon) vehicle and electric cargo bikes.
- Complete 28 greenhouse gas (GHG) reduction retrofits at existing facilities.
- Establish power purchase agreements in partnership with Public Services and Procurement Canada and 10 federal and provincial government departments.
- Engage suppliers and subsidiaries in setting science-based targets.
- Expand zero-waste program to more facilities.
- Improve the recyclability and recycled content of Canada Post packaging.
- Continue our support of the Sustainable Mail Group, to engage industry in adopting sustainable mail best practices. Pilot shrink-wrap recycling technologies.
- Fund employee-led projects across Canada through our Sustainable Action Fund, an annual $500,000 grant program launched in 2021.

Fostering reconciliation with Indigenous Peoples

2021 results

- Inspected over 2,200 items, resulting in the removal of non-mailable matter with an estimated street value of $3 million.
- Opened a postal service hub in an Indigenous community (High Prairie, Alberta).
- Made presentations to nearly 100 agencies and engaged with local Indigenous community leaders in several remote communities, leading to investment in further screening technologies.

2022 plans

- Engage with 150 communities and agencies, and conduct inspections and remove 2,500 non-mailable matter items from the mail stream destined to Indigenous and northern communities.

- Invest $1 million to enhance and expand postal services with a focus on increasing service to Indigenous and northern communities.
- Open two other postal service hubs in Indigenous communities.

Doing right by our people

Embedding health and safety in our culture

2021 results

- Reduced total injury frequency (TIF) and lost-time injury frequency (LTIF) by 4% and 1%, respectively over 2020.
- Launched our kindness campaign aimed at reducing aggressive behaviour toward our retail employees, including those in remote northern communities.
- Developed a five-year Mental Health Strategy and introduced a new mental health training program to help employees manage stress and anxiety.
- Launched a new domestic violence prevention and support program.

2022 plans

- Attain and sustain TIF, LTIF and total injury severity declines with focus on injury prevention, road safety, mental health and workplace violence prevention.
- Sustain safety improvements through health and safety improvement plans, including the assessment and identification of safety gaps and corrective actions.
- Establish a new national road safety standard and deliver driver education, including a multi-year training and certification program.

Building alignment

2021 results

- Developed a new flexible staffing system to balance workload, improve health and safety, and enhance delivery service; selected a pilot location, in collaboration with CUPW.
- Developed and launched the 2021 Equity and Diversity Action Plan with all bargaining agents.
- Filed grievances increased by 15.1%, while pending grievances increased by 0.1%.

2022 plans

- Progress with flexible staffing pilot in collaboration with CUPW, to balance workload, improve health and safety, and enhance delivery service; plan national launch.
- Formulate a plan to ensure compliance with pay equity legislation in collaboration with bargaining agents.

Creating a fair and respectful workplace

2021 results

- Developed and communicated the Hybrid Workplace Practice that will allow for more flexibility for employees.
- Launched the Driver Safety Recognition Program to strengthen our safety mindset and culture.

2022 plans

- Refresh the employee recognition program to increase program usage and improve employee experience.

- Deploy updated corporate values and behaviours company-wide to enable a culture change that supports our transformation.

3.2 Our aspirations

Here is a summary of our current results and 2022 aspirations reflecting our commitment to our people and to social and environmental leadership.

Key performance indicators		2021	2022 target
Total injury frequency per 100 employees year-over-year decline		(4%)	(10%)
Fleet with telematics		Over 1,000 to date	Over 1,500 to date
Employee engagement index		73%	75%
Employee diversity[1]	Indigenous Peoples	2.9%	2.9%
	Persons with disabilities	6.8%	6.8%
Greenhouse gas emissions (CHG)	Scopes 1 and 2 for fleet and buildings[2] (in kilotonnes of carbon dioxide equivalent emissions)	139.3[3]	142.2[4]
Procurement spend with Indigenous Peoples (percentage of eligible direct expenditure in Indigenous businesses)		2.1%	2.7%

1. Although targets are established for all designated equity groups, the Corporation is above 80% of Canadian Labour Market Availability for women and members of visible minorities.
2. Scope 3 emissions, which include all upstream transportation, make up 90% of Canada Post's GHG emissions. As part of our science-based targets (SBT), we are working with our suppliers toward the goal of having 67% of suppliers, by spend, to set an SBT by 2025. Scope 3 emissions will be reported in the annual Sustainability Report.
3. Subject to verification. The confirmed value will be reported in the 2021 Sustainability Report. The 2021 result is lower than the initial target set due to temporary closure of corporate facilities because of COVID-19.
4. Scopes 1 and 2 for GHG emissions are projected to increase in 2022 due to network growth. This growth is embedded in our SBT plan and active projects are under way to address it.

4. Capabilities

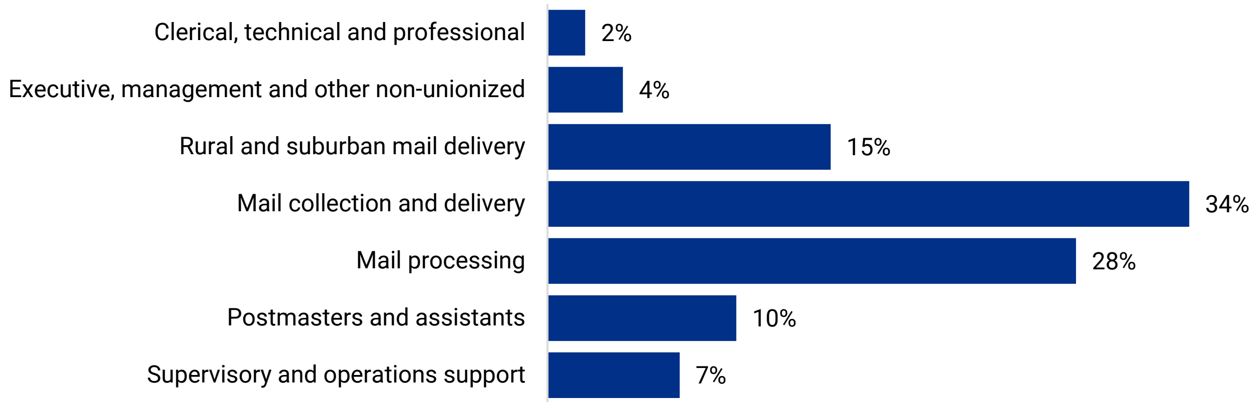
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results.

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest workforces with over 84,500 people, most of them employed by Canada Post. Our workforce is diverse and is found in every urban, rural and remote community across Canada. In 2021, Canada Post became a safer, more engaged and more inclusive workplace.

Canada Post segment

Workforce by type of work – 2021



Talent management, learning and development

In 2021, Canada Post hired over 6,000 temporary employees into the Canadian Union of Postal Workers bargaining unit, which represented, a combination of annual peak recruiting and additional hiring to address staffing shortages and leaves due to COVID-19. Despite an increase in monthly applications, recruitment remained difficult throughout the 2021 peak period. We believe the general labour market uncertainty due to COVID-19 contributed to this decline.

Given the tight Canadian labour market and the great number of resignations that employers faced in 2021, focusing on talent management and employee growth became increasingly important. In 2021, our leadership efforts concentrated on redesigning and deploying a program to provide training and onboarding for new supervisors, focused on basic accountabilities to provide practical, specific, experiential direction that is immediately applicable on the job. We continued to invest significantly in career management and development programs, tools and workshops such as virtual career fairs, which included an executive sponsored session on dynamic leadership.

The pandemic affected our operations in waves during 2021. All programs critical to the safety of new hires continued to be delivered in 2021, and we will deploy new programs in 2022, including the Mental Health Strategy and Visible Leadership training. Safety training remained a critical focus; more than 200,000 hours were completed. In 2021, our employees took over 787,000 hours of training, more than half of which was delivered through e-learning, self-directed courses or blended e-learning and in-person courses.

Employee engagement

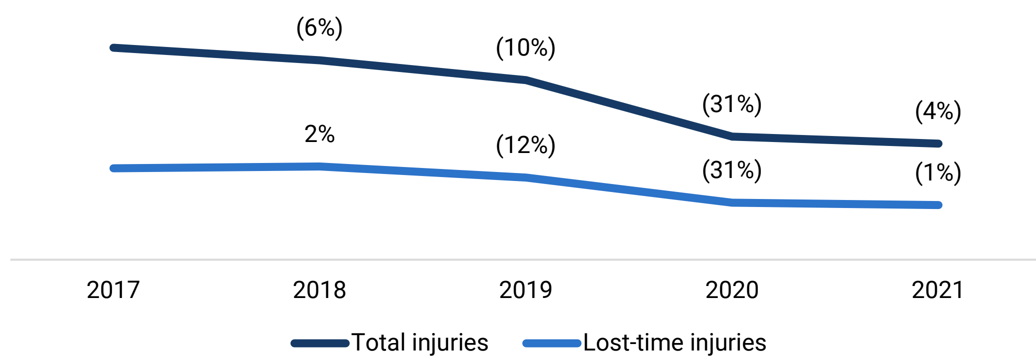
In 2021, improvements in communication and employee well-being were once again a focus based on the results of the 2020 Employee Engagement Survey. We believe these areas are part of an important strategy to ensure employees feel supported and engaged. The 2021 response rate of 51% was a great indicator compared to 25% for the 2020 survey, with increased participation from employees in all bargaining units. We were pleased to see a slight increase in the employee engagement index, to 73 from 72 in 2020. With the employee responses received in 2021, Canada Post has chosen to focus on stress and tension, and tools and resources. Communication is still one of the areas we need to improve. Early in 2022, we will introduce action planning activities at the corporate and individual team levels.

Health and safety

Our ambition is zero harm, and we remain committed to identifying, preventing, and controlling hazards and risks that affect employees, contractors, visitors and members of the public. In March 2021, the Board of Directors approved the 10-year Health and Safety Strategy, which is the next step in our safety journey and builds on the foundation of our *Make it safe, Make it home* program.

The total injury frequency rate and lost-time injury frequency rate for 2021 improved by 4% and 1%, respectively, from the previous year, while slips, trips and falls, our most common type of injury, improved 6%. The severity of lost-time injuries, counted as the rate of days lost due to injuries per working hours, improved 8% over 2020. An enhanced focus on safety by all employees resulted in the overall improvements in safety results.

Injury frequency (% change year over year)



In 2021, we developed a new road standard, which will help us improve driver behaviours. The number of motor vehicle collisions was relatively unchanged compared to the prior year. On-site training, on-road observations and other initiatives for current and new drivers have begun to show success. We have continued the deployment of telematics technology to reduce safety risks in operational facilities. Telematics are now installed in 9% of our fleet and 15% of motorized material handling equipment units.

As part of our 10-year Health and Safety Strategy, Canada Post introduced cultural safety norms in our workplaces across the country. Cultural norms are the standards we will live by, the shared expectations and the rules that will guide our behaviours:

- Conduct a safety pause or mental wellness moment or diversity-safe moment at the beginning of every meeting.
- Always hold the handrail when using stairs.
- Reverse your vehicle into a parking spot to reduce the risk of collisions.

COVID-19

With the rise in COVID-19 cases across Canada in the fourth quarter of 2021, we paused the next stage of our plan for gradually rolling back COVID-19 measures, including the early return to the workplace for employees working remotely. As provinces began to modify their COVID-19 restrictions, our multi-function COVID-19 response team adjusted operational protocols, while maintaining the best standards of protection for our employees.

Among COVID-19 related activities:

- A de-escalation plan of all COVID-19 protocols was developed and implemented. It includes a 10-phase approach to easing COVID restrictions, as informed by public health conditions.

- A risk-based approach to rapid testing helped to lower the risk of transmission and outbreaks. Two mobile vaccination clinics in Greater Toronto Area in May and June 2021 saw more than 10,000 vaccines administered to employees and contractors.
- The Canada Post Mandatory Vaccination Practice, mirroring the federal government's approach, was developed in consultation with all bargaining agents and communicated to employees in the fourth quarter. At December 31, 2021, 97% of our employees were compliant with the practice. An audit process began in December 2021 and will continue into 2022, which will require randomly selected employees to provide proof of the vaccination status they attested to.

Mental health

The importance of practices that support mental well-being, such as work-life balance, physical fitness, stress reduction and ergonomics when working from home, was communicated to employees and team leaders throughout the year. The five-year Mental Health Strategy was developed with all team leaders prioritized for training and development. It will enable them to build the competencies and structure to monitor and influence the psychological health and safety of their teams. In 2022 and beyond, the strategy will evolve into more tactical plans.

Canada Labour Code – Amendments to Bill C-65 (Workplace Harassment and Violence Prevention Regulations)

On January 31, 2021, changes to the *Canada Labour Code* came into effect, expanding the Prevention of Violence framework and creating one comprehensive approach for all forms of harassment and violence in the federal public sector. On January 15, 2021, we launched the Workplace Violence and Harassment prevention training modules for employees and team leaders. We also introduced a new process for reporting and resolving incidents of workplace violence as required under the new legislation. The new training course and the reporting process reflect our ongoing commitment to ensure all employees have a healthy and safe workplace free from harassment and violence.

Driver safety

A recognition program specific to driver safety that aligns with key recognition principles and our 10-year Health and Safety Strategy is under way. Key recognition principles are based on practices we expect our drivers to follow, such as wearing a seatbelt properly, conducting proper pre-trip inspections (for example, walking around the vehicle and reporting defects) and reversing the vehicle properly.

Culture

In December 2021, we introduced the Hybrid Workplace Practice to guide our return to the workplace, provide the flexibility needed for the future and help make us an employer of choice. The new practice encourages team leaders and employees to explore workplace options that establish a healthy work-life balance, while meeting the needs of the business. It is anticipated that most employees working remotely will return to the workplace in 2022. However, we continue to monitor the evolving COVID-19 situation and follow the expert advice of the Public Health Agency of Canada to determine when it is safe to do so.

Equity, diversity and inclusion

Canada Post is committed to representing Canada's diversity and providing a safe, welcoming and inclusive workplace that embraces and celebrates its differences. Our Joint National Equity and Diversity Committee developed the 2021 Equity and Diversity Action Plan, which shares our vision and sets goals to achieve our five-year strategy. There are 40 specific steps the Corporation will take to create a safe, welcoming workplace for everyone. Some key initiatives:

- Integrate EDI goals into Canada Post's strategic planning.

- Improve recruitment and retention with targets for attracting under-represented groups.
- Serve society and respond to social issues, movements and events, committing to anti-racism and commemorating days of significance such as the National Day for Truth and Reconciliation and Human Rights Day.
- Educate, communicate and assess our progress by soliciting employee feedback.

The priority actions focus on addressing oppression and discrimination. The Joint National Equity and Diversity Committee initiated and committed to these equity and diversity goals to increase representation of racialized people in our workforce, by attracting candidates and retaining employees from equity-designated groups.

In 2021, we set and communicated equity targets to all functional leaders with the goal of achieving Canadian Labour Market Availability* targets at 80% over five years for Indigenous Peoples and over 10 years for persons with disabilities. In 2021, we continued to deploy unconscious bias training to include leaders in operations.

Diversity targets	**2021 result**	**2021 target**
Women	47.9%	48.6%
Indigenous Peoples	2.9%	2.7%
Persons with disabilities	6.8%	4.4%
Members of visible minorities	23.4%	19.8%

*Based on self-identification in Canada Post's equity census.

In 2021, we launched three employee resource groups (anti-racism, Indigenous Peoples, persons with disabilities) to amplify the voice of under-represented employees and identify barriers to attraction and retention. A fourth group for LGBTQ2S+ Pride was also launched following our Pride campaign. These groups will open for employee membership in 2022.

Pay equity

The *Pay Equity Act* (part of Bill C-86), which took effect August 31, 2021, requires federal employers to correct any gender wage gap and ensure equal pay for work of equal value going forward. Canada Post is required to create a pay equity plan and periodically update it. To do so, Canada Post must set up a pay equity committee (or multiple pay equity committees, as authorized by the Pay Equity Commissioner). In creating the plan, we will do the following:

- identify job classes and determine their gender predominance;
- establish the value of work and compensation of each job class to compare the compensation received by predominately male and female job classes;
- calculate any compensation increases needed to establish and maintain pay equity.

Canada Post fully recognizes that pay equity is a basic human right and any disparity in pay on the basis of gender is unacceptable. We will be working closely with our bargaining agents and non-unionized employee representatives to make progress on this important initiative.

Labour and employee relations

In 2021, through a better collective bargaining process, we resolved collective agreements with the Association of Postal Officials of Canada (APOC) and the Canadian Union of Postal Workers (CUPW). Thanks to these agreements and those reached with the Canadian Postmasters and Assistants Association and the Public Service Alliance of Canada (Union of Postal Communications Employees), we were able to achieve labour stability across all bargaining groups. By resolving collective agreements with APOC and CUPW before they expired, we provided employees, customers and Canadians with more certainty for their future as the country recovers from COVID-19. This effort also helped us establish and potentially expand our new financial service in retail post offices.

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
CUPW-UPO[b]	36,288	January 31, 2024
CUPW-RSMC[c]	8,709	December 31, 2023
CPAA[d]	5,214	December 31, 2023
APOC[e]	4,139	March 31, 2025
PSAC/UPCE[f]	1,304	August 31, 2024
Total	**55,654**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2021; excludes 19,123 temporary, casual and term employees.

b. CUPW-UPO: Canadian Union of Postal Workers – Urban Postal Operations, which represents plant and retail employees as well as letter carriers and mail service couriers.

c. CUPW-RSMC: Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada.

d. CPAA: Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants.

e. APOC: Association of Postal Officials of Canada, which represents supervisors as well as supervisory support groups, such as trainers, route measurement officers and sales employees.

f. PSAC/UPCE: Public Service Alliance of Canada / Union of Postal Communications Employees, which represents employees who perform certain administrative, clerical, technical and professional work, including personnel in call centres, pay reporting, and technical employees in areas such as finance and engineering.

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

In 2021, Canada Post and CUPW successfully negotiated new two-year collective agreements, which were ratified by CUPW members before the existing agreements expired; they were in force until December 31, 2021 (CUPW-RSMC) and January 31, 2022 (CUPW-UPO). The new agreements, which expire on December 31, 2023 (CUPW-RSMC), and January 31, 2024 (CUPW-UPO) include a 2% per annum increase in wages. The agreements include a one-time, non-pensionable signing bonus of $500 for each regular full-time CUPW-UPO employee and each CUPW-RSMC employee with six or more daily route management system hours, and $250 for all other employees. To receive a signing bonus, employees must be employed with the Corporation on February 1, 2022 (CUPW-UPO) and January 1, 2022 (CUPW-RSMC) respectively. Other changes included an agreement to move CUPW-RMSC employees to an hourly rate.

Canada Post and CUPW have almost completed the implementation of the arbitrator's May 2018 pay equity decision. Adjustments were retroactive to January 1, 2016.

Canadian Postmasters and Assistants Association (CPAA)

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

An implementation committee with representatives from the CPAA and Canada Post is implementing the May 2019 settlement approved by the Canadian Human Rights Commission regarding the CPAA's complaint under the *Canadian Human Rights Act* alleging gender-based pay discrimination for the period 1992-97. Payments to eligible employees have begun and are ongoing.

Association of Postal Officials of Canada (APOC)

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

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

The current collective agreement with PSAC/UPCE expires August 31, 2024. PSAC/UPCE represents employees who perform certain administrative, clerical, technical and professional work, including personnel in call centres, pay reporting, and technical employees in areas such as finance and engineering.

As part of the mediated settlement reached after PSAC's application to the Canada Industrial Relations Board (CIRB), PSAC, APOC and Canada Post continued their joint evaluation of certain jobs that the unions contend should have been included in their bargaining units. The process to move certain jobs into the bargaining unit, as agreed, was completed in Q2 2021.

Canada Post has been making pay equity payments to eligible employees since 2013 following the Supreme Court of Canada ruling of November 2011 in favour of PSAC. In 2016, the Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement as per the memorandum of agreement signed by the parties. The five-year period ended on July 28, 2021, and payments are being finalized.

Purolator segment

Purolator's talent development program, *Diverse Talent Matters* aligns with its diversity and inclusion strategy through a focus on removing systemic barriers and creating opportunities for visible minorities. In 2021, 22 employees completed the one-year program, with several participants achieving success in competitions for promotions or new roles.

Learning and development was also a focus in 2021, with Purolator being recognized by Canadian HR Awards for having Canada's best learning and development strategy. With a focus on virtual instructor-led training to maintain safety during the pandemic, Purolator successfully recruited and trained over 2,500 employees to support its peak season.

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Teamsters[b]	10,513	December 31, 2021
Teamsters[c]	520	December 31, 2022
PSAC[d]	149	December 31, 2022
Unifor[e]	122	December 31, 2022
Total	**11,304**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2021; excludes 213 temporary, casual and term employees.

b. Teamsters represent employees in operations.

c. Teamsters represent clerical and administrative employees.

d. Public Service Alliance of Canada, in British Columbia the Union of Postal Communication Employees, represents clerical and administrative employees.

e. Unifor represents clerical and administrative employees.

With an increased focus on enhancing our health and safety culture, Purolator invested in a professional development program to support frontline managers in championing health and safety in facilities. During 2021, the "hands on the wheel" program was launched across the company's top 50 at-risk terminals, with a focus on helping managers to identify employees with at-risk driving behaviours, followed by a mentor and coach process to ensure the employees adhere to the desired behaviour. Continuous effort throughout the year helped the company meet its continuous improvement target of 81% on its driver scorecard.

SCI segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Unifor – Toronto	289	December 31, 2023
Unifor – Laval	23	November 30, 2026
Total	**312**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2021; excludes 32 casual employees.

4.2 Our network and infrastructure

Canada Post segment

The Canada Post segment delivers to 17 million addresses with a vast operating network that requires significant coordination between collection, processing, transportation and delivery activities. Canada Post has Canada's largest delivery network and one of its largest transportation networks. In 2021, nearly 6.8 billion pieces of mail, parcels and messages were processed in our plants, which represents on average 27 million items sorted and delivered daily. To process and deliver all the mail and parcels, our network includes:

21 processing plants

5,941 post offices, corporately owned or managed by authorized dealers

16,749 indoor parcel lockers

473 letter carrier depots

13,556 letter carrier routes

1,232 mail service carrier routes

8,140 rural and suburban mail carrier routes

17 million points of delivery

22,131 street letter boxes

1.6 million post office boxes (including general delivery)

214,095 community mailbox sites

To help Canada stay connected and businesses succeed, we focused in 2021 on enabling our network to meet customer needs by adding capacity, enhancing service and improving technology. Our progress with operational projects throughout 2021 continued to be impacted by global supply chain issues, which caused several initiatives to be delayed or postponed.

Service and capacity

Since the start of the pandemic, ecommerce parcel volumes have strained available capacity. In 2021, to meet the needs of Canadians by better supporting operations, and to enable growth, we implemented productivity improvements and added or expanded delivery facilities. New infrastructure projects were launched which will continue through 2022 and beyond. These enhancements are vital to our financial sustainability, cost competitiveness and growth.

New and improved facilities

- Entered the final phase of the Ontario East Processing Centre's construction: the installation of the sorting equipment.

- Added four new delivery facilities to our network, and undertook space-saving initiatives that freed up over 50,000 square feet of space, reducing congestion in our delivery network and adding needed capacity.
- Opened new depots in Trois-Rivières, Ottawa (Barrhaven), Alliston and Montréal (La Prairie and Chambly).

Parcel lockers

- Added approximately 4,000 indoor parcel lockers in apartment buildings and condominiums.
- Installed over 1,600 outdoor parcel lockers at existing delivery points.
- Deployed automated parcel lockers for pilot testing in 10 locations.

New capabilities and process efficiencies

- Deployed a continuous improvement initiative in several major facilities, improving throughput in Lettermail™ and packet processing.
- Launched operational use of a combined parcel and packet sorter in Kitchener.
- Developed a business case for expansion and enhanced automation of the Calgary parcel processing operation.

Asset replenishments and other demands

- Replaced or added new vehicles to our fleet, increasing the number of alternate propulsion vehicles by 740.
- Successfully tested e-cargo trikes in Montréal for urban area parcel deliveries.

International end-to-end network

Canada Post and the Canada Border Services Agency continue to work closely to better facilitate the movement of international mail through the postal clearance process. In 2021, we continued to focus on upgrading IT and physical infrastructure, improving processes and enhancing data quality from foreign postal administrations (posts) to ensure the timely processing of legitimate mail while removing illicit and prohibited goods from the mail stream.

Technology

To improve service and tracking, enable our network and capacity, and provide exceptional experiences to Canadians we progressed with technology projects through 2021.

- Selected a provider to introduce automated guided vehicles (AGVs) for use in collection, delivery and mail sortation; we plan to deploy the first 30 in 2022.
- Collaborated with our bargaining agents to develop dynamic routing structures to address rise in delivery seasonality and changing mail/parcel mix to cost-effectively meet customer needs.
- Deployed over 12,500 personal data terminals (PDTs), as part of a multi-year program that provides upgraded technology to increase stability and communication range and introduce new features to improve customer service and tracking.
- Installed telematics technology on 150 motorized material handling equipment units to reduce safety risks in operational facilities.
- Developed a scalable next generation event manager to handle the increasing number of tracking events in our network.

- Nationally launched automatic tracking on our website and mobile iOS app in October 2021, with the Android™ app scheduled for early 2022. This online tool allows consumers to add parcels automatically to their track list and set default delivery preferences for all parcels.
- Launched a new online e-store platform, where Canada Post Solutions for Small Business™ and commercial customers with accounts can order most standard shipping supplies. It is accessible from any internet-connected device.
- Expanded the MyMailbox market beta app, a new service that notifies Canadians when mail is on its way, enabling consumers to engage with mail and digital marketing messages, in a more connected, convenient way.
- Helped businesses connect with the right customers through new visualization capabilities, using advanced data mapping technologies to drive direct mail pieces to the right audiences.
- Deployed new retail point-of-sale technology to 870 post offices to equip employees with intuitive workflow and provide customers with a more accessible point of sale interface.
- Completed the planning and benefits confirmation phase of the multi-year project to modernize our back office and increase business value through the upgrade of our enterprise resource planning (ERP) system. The business case and implementation roadmap were approved by the Board of Directors.

Accessibility

In 2021, we conduced 261 audits to identify accessibility gaps in our facilities and post offices. This work resulted in 10 construction upgrades and identified 36 additional sites that will undergo modification and construction in 2022. We also developed our accessibility standards for the built environment that exceed minimum requirements in building codes. These standards, validated by the Rick Hansen Foundation, will enable us to integrate meaningful access in our buildings.

In line with our goal to provide accessible products and services to Canadians, all new public-facing digital products must be built to meet the Web Content Accessibility Guidelines (WCAG) 2.1 at level AA. To ensure these standards are met, we trained 37 digital employees and contractors and implemented a thorough accessibility testing approach. We achieved a measure of 85.9% on digital accessibility across all active digital products in 2021, exceeding our 2020 result of 77.3%.

Purolator segment

In 2021, challenges related to COVID-19 continued to have an impact on operations. However, Purolator met its network and infrastructure priorities and achieved the following:

- Network – Opened a new facility in Kitchener, Ontario, signed a lease for a new facility in Calgary, Alberta and continued to invest in new processing equipment and innovative building solutions in locations across Canada. This investment supported business growth by creating or rebalancing capacity in neighbouring terminals, enhancing customer experience through closer proximity and improving ease of access for shipment induction and pickup.
- City logistics – Developed solutions to tackle challenges in major city centres across Canada for final-mile delivery and customer access coupling e-cargo bikes with low-speed electric vehicles. In 2021, we rolled out e-cargo bikes in Vancouver with the opening of the first urban distribution centre in the city. City logistics are available at urban distribution centres in Montréal and Vancouver.
- Retail stores – Expanded operating hours and customer access points to increase convenience.
- COVID-19 – Mitigated related health and safety concerns by increasing customer access points, including contactless parcel lockers and self-serve kiosks.

- Ontario hub – Continued its development to support long-term sustained growth with capabilities to meet the needs of an evolving marketplace. This facility will have scalable design, automated sorting and integrated process management solutions.

4.3 Our environmental priorities

Canada Post segment

To make progress in achieving our environmental priorities, Canada Post and its bargaining units published an Environmental Action Plan (EAP) in October 2021. It is focused on four key areas of impact: climate action, zero waste, sustainable delivery and employee engagement. Canada Post also adopted ambitious science-based targets to reduce direct and indirect greenhouse gas (GHG) emissions. Track our progress in our annual Sustainability Report at canadapost.ca/sustainability. Through investments across our network, we will reduce our environmental impacts, meet these targets and deliver a sustainable future for Canadians:

Climate action

- Commit to net-zero GHG emissions by 2050.
- Reduce scopes 1 and 2 emissions 30% by 2030 (measured against 2019 levels).
- Source 100% renewable electricity by 2030.
- Engage 67% of suppliers by spend and all subsidiaries to adopt science-based targets by 2025.

Next steps in our climate strategy:

- Reporting annually against our newly announced science-based targets and exploring efforts and implementation plans needed to align with limiting global warming to a 1.5°C warming scenario.
- Reporting our alignment against the TCFD recommendations in our 2021 Sustainability Report to be released in Q2 2022.
- Continuing to report publicly to the CDP (formerly Carbon Disclosure Project), maintaining a B score.

Zero waste

- Divert at least 90% by weight of non-hazardous operational waste and construction and demolition waste by 2030.
- Eliminate the unnecessary use of single-use plastics in head office, corporate events and meetings, and operations by 2022.

Sustainable delivery

- Implement and promote sustainable solutions for parcels and mail by 2022.

Employee engagement

- To be recognized as an environmentally sustainable employer by 60% of workers by the end of 2022.

4.4 Sales channels

Canada Post segment

Retail

Canadians rely on our extensive retail network of post offices for important services, parcel and mail pickup and product returns. With almost 6,000 post offices across the country, we have more retail locations than any other business in Canada. Of these, over 3,600 locations are corporately owned and over 2,300 are operated by private dealers. With the aim of providing convenient access to all Canadians, over half of our locations operate in diverse and remote areas across Canada. For most Canadians, retail is the primary point of contact with Canada Post and we continually strive to improve the customer experience, reduce our transaction times, expand our services, become more environmentally friendly and provide more pickup points for our customers, particularly during peak season.

Parcel pickup

Beyond full-service post offices, which are the backbone of our network, our parcel pickup model continues to improve customer convenience and offer us flexibility. These locations are quick to set up and require less space than a post office, which allows us to temporarily expand our network to accommodate surges in parcel volumes. In 2021, we expanded services at 27 parcel pickup locations by adding drop off service for parcels for consumers and small businesses. In 2022, we plan to convert the remaining parcel pickup locations to this new 'Pick and Drop' model to help manage demand for parcels. We also continued to improve our backroom space, adding shelving and optimizing the overall layout to increase parcel capacity.

Indigenous, northern and rural communities

Canada Post is focused on improving service and providing more convenient access to underserved Indigenous, northern, and rural communities. Our first community hub post office, which opened October 29, 2021, in High Prairie, Alberta, brings new services to help fill potential gaps in this community. In addition to core postal products and services, this community hub provides customers with access to secure 24-hour parcel drop-off and pickup services, parcel lockers and contactless parcel drop-off. There are also money services, such as the Canada Post MyMoney™ Loan service and, in 2022, an ATM will be available. As well, there are small-business support services, electric vehicle (EV) charging and a community directory to showcase local businesses. A second community hub post office in Membertou, Nova Scotia, is well under way with opening set for 2022, which will also include other business support services such as rentable meeting rooms, secure printing and shredding options, and publicly available computers for videoconferencing. Two additional hubs are planned to open in late 2022. We continue to work with Indigenous communities to identify areas that are underserved. This partnership will provide information on how to better serve rural and Indigenous communities, which will be incorporated into design considerations across our network. In 2021, the retail five-year roadmap of Canada Post's Indigenous and Northern Reconciliation Strategy was finalized, and five Indigenous communities were provided with improved postal services.

Retail technology modernization

Our retail technology modernization project is well under way. A multi-year project to replace the point-of-sale hardware and software in all our approximately 5,570 automated sites began to be deployed in July 2021. Although we experienced delays due to COVID-19 restrictions and software issues, by the end of 2021, the point-of-sale systems were replaced in 870 sites, with the remaining 4,700 planned for 2022. This new retail technology point-of-sale system enables our Retail business to evolve with our customers' changing needs and improves accessibility for our customers. A separate customer-facing screen allows customers to follow transactions as they occur in the system, while a secondary mobile handheld device to receive payment and capture signatures provides ergonomic and accessibility benefits for people who may not be able to access the customer-facing screen. This handheld device also improves operational efficiency by allowing clerks to process parcels when the point-of-sale is already in use. Where possible, transactions have been streamlined to simplify the interaction between the clerk and the customer. Also, the system is designed with future adaptability in mind, allowing us to easily roll out improvements and new functionality to meet customers' future needs.

Customer experience

Improving the customer experience is a key part of our strategy. Our new customer-facing screen also allows us to collect real-time customer satisfaction data at the point of purchase, giving us greater insight into how to better serve our customers. In 2021, this new solution provided us with nearly 600,000 responses. Again in 2021, we focused on wait-time initiatives, including online pre-staging for customs (which increased scan rate by over 10% compared to 2020), planning for digital post office box rentals to allow customers to search and register for vacant boxes at a post office within our network, and coaching to reduce MoneyGram™ transaction time for repeat customers. We continue to work toward contactless transactions where possible, to allow labelled packages to be mailed without interacting with a clerk. In 2021, we installed 10 automated parcel lockers and nearly 50 contactless induction boxes.

Our flat rate shipping boxes remain popular, with over 1.5 million purchased in 2021. Like a prepaid envelope, they are purchased in advance by the customer, then packaged and mailed at the customer's convenience. Anything under 5 kg that fits into the box can be shipped. Also, in collaboration with the Royal Canadian Mint, we added five new Premium Bullion products, and early in 2022, we will be adding SIM cards to our product mix.

Environment and sustainability

Our focus on the environment and sustainability has us working to eliminate single-use plastics from the products sold through our post offices. In 2021, we eliminated shrink wrap from our water-based packaging tape, replacing it with 100% recyclable paper bands, and launched two padded mailers, also 100% recyclable. We are also incorporating environmentally improved alternatives in our retail network design process to decrease emissions and generate less downstream waste. They include design changes to use modular fixtures that will allow us to replace broken pieces rather than the entire unit, and changing retail signage specifications from fluorescent to LED.

Financial services

In 2021, our retail services were enhanced through the launch of the Canada Post MyMoney Loan service, in partnership with TD Bank. Launched as a market test in September in 36 pilot locations, it expanded to over 200 retail sites over the year. Select markets included Nova Scotia (Halifax and surrounding rural markets), Quebec (Verdun and LaSalle), Ontario (Windsor, London and Manitoulin Island) and Manitoba (Winnipeg) including some Indigenous communities. Results for the market test have been encouraging, with stronger demand than expected in test markets. We are working with TD Bank to optimize the offering in preparation for a decision to launch the MyMoney Loan service nationally in 2022.

Online services

Annual improvements to the digital channel are made to reduce customer irritants and simplify the user experience online. In September 2021, we launched our new e-store platform, which allows Solutions for Small Business and commercial customers with accounts to order shipping supplies and stamps. Customers use our website and app to find a postal code, a post office, a rate or to track a package. In 2021, the Canada Post app was ranked 10th and 14th in the free business apps for iOS and Android, respectively with high ratings of 4.6 and 4.3 stars (out of 5), respectively. Our commercial customers can use our order entry systems including our online store, Electronic Shipping Tools and our business solutions for pickup and return services, AddressComplete™, or direct marketing tools such as Precision Targeter™.

4.5 Internal controls and procedures

Disclosure controls and procedures

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

The President and CEO and the CFO have evaluated the effectiveness of the Group of Companies' disclosure controls and procedures related to the preparation of the Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2021.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards (IFRSs). The President and CEO and the CFO have assessed the effectiveness of the Group of Companies' internal control over financial reporting as at December 31, 2021, in accordance with the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the President and CEO and the CFO have determined that the Group of Companies' internal control over financial reporting was effective as at December 31, 2021. This process follows the best-practice requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA). As a Crown corporation, Canada Post voluntarily complies with certain rules and regulations of the CSA.

Changes in internal control over financial reporting

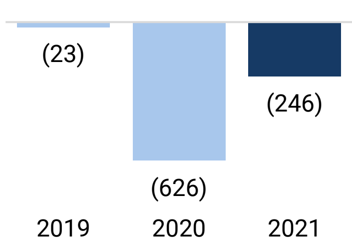
There were no changes in internal control over financial reporting during the year ended December 31, 2021, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

5. Discussion of Operations

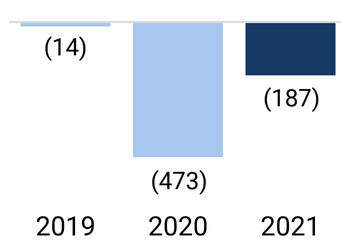
A detailed discussion of our financial performance in 2021

5.1 Consolidated trends

Loss before tax
(in millions of dollars)



Net loss
(in millions of dollars)



5.2 Consolidated results from operations

Consolidated results

(in millions of dollars)

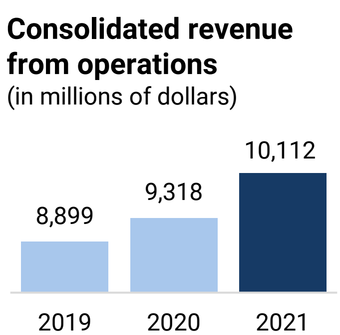
	2021	2020	$ change	% change[1]
Revenue from operations	10,112	9,318	794	8.9%
Cost of operations	10,308	9,888	420	4.6%
Loss from operations	(196)	(570)	374	65.7%
Investing and financing income (expense), net	(50)	(56)	6	9.5%
Loss before tax	(246)	(626)	380	60.7%
Tax recovery	(59)	(153)	94	61.6%
Net loss	(187)	(473)	286	60.4%
Other comprehensive income (loss)	4,155	(329)	4,484	*
Comprehensive income (loss)	3,968	(802)	4,770	*

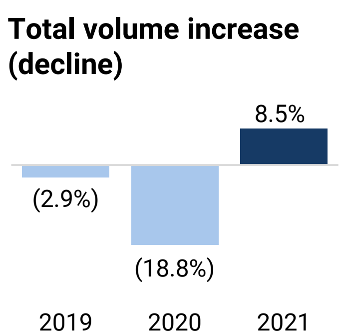
* The calculation is not mathematically meaningful.

The Canada Post Group of Companies' 2021 loss before tax of $246 million was $380 million (+60.7%) better than the loss before tax in 2020. A detailed discussion by segment is provided in sections 5.4 to 5.6.

Fewer business days result in decreased revenue, and fewer paid days result in a decrease in the cost of operations. In 2021, there was one less business day and one less paid day compared to 2020.

Consolidated revenue from operations





Revenue from operations increased by $794 million (+8.9%) in 2021, compared to 2020, mostly due to Parcels and Direct Marketing revenue growth in the Canada Post segment as well as growth in the Purolator segment. Year-over-year comparisons are greatly affected by the unique circumstances of the prior year when COVID-19 was starting to change consumer behaviour toward online shopping and accelerate the digital substitution of mail.

Consolidated cost of operations

The cost of operations increased by $420 million (+4.6%) in 2021 compared to 2020, due to cost increases in labour and transportation related to growth as well as increased spending to sustain our network and improve capacity in the Canada Post segment. These results were also influenced by the arbitrator's decision for collective agreements (expired December 31, 2021, and January 31, 2022) with the Canadian Union of Postal Workers (CUPW), which added $127 million of costs in 2020.

Consolidated investing and financing income (expense), net

Net investing and financing expenses decreased by $6 million (+9.5%) in 2021, due to a decrease in interest income.

Consolidated tax expense (recovery)

The consolidated tax recovery for 2021 decreased by $94 million (+61.6%) compared to 2020, as a result of a lower loss in the Group of Companies.

Consolidated other comprehensive income

The consolidated other comprehensive income of $4,155 million was mainly due to remeasurement gains on pension and other post-employment plans, primarily due to discount rates increases and higher-than-expected asset returns slightly offset by experience adjustments. Fluctuations in the various factors and assumptions used to remeasure these plans causes volatility and have a significant impact on the Group of Companies' other comprehensive income in 2021.

5.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)

	2021	2020	2019	2018	2017
Canada Post	(518)	(798)	(187)	(281)	84
Purolator	293	200	164	177	127
SCI	26	24	23	22	21
Other	3	4	7	–	(1)
Canada Post Group of Companies	**(196)**	**(570)**	**7**	**(82)**	**231**

Segmented results – Profit (loss) before tax

(in millions of dollars)

	2021	2020	2019	2018	2017
Canada Post	(490)	(779)	(153)	(276)	76
Purolator	269	176	152	161	123
SCI	24	20	20	20	21
Other	(49)	(43)	(42)	(23)	(16)
Canada Post Group of Companies	**(246)**	**(626)**	**(23)**	**(118)**	**204**

5.4 Canada Post segment

The Canada Post segment's loss before tax of $490 million in 2021, was an improvement of $289 million (+37.1%) compared to 2020. Despite revenue growth in all lines of business, revenue was not sufficient to generate positive earnings.

Summary of results

(in millions of dollars)

	2021	2020	$ change	% change
Revenue from operations	7,349	6,942	407	6.3%
Cost of operations	7,867	7,740	127	2.0%
Loss from operations	**(518)**	**(798)**	**280**	**35.1%**
Investing and financing income (expense), net	28	19	9	49.8%
Loss before tax	**(490)**	**(779)**	**289**	**37.1%**

Revenue from operations

The impact of COVID-19 on revenue affected the current and comparative period in different ways. As the pandemic took hold in March 2020, our Transaction Mail and Direct Marketing volumes declined substantially, while Parcels volumes soared as Canadians pivoted to online shopping when in-person shopping was restricted. Year-over-year comparisons in this Report are, therefore, greatly influenced by the unique circumstances that began to affect revenue toward the end of Q1 2020. In 2021, total

Parcels volumes declined compared to 2020, while Parcels revenue increased due to positive, proactive changes in product and customer mix. Despite continued volume erosion for Transaction Mail, results improved compared to the same periods in 2020, due in part to impacts from the 2021 census and federal election mailings and above-normal retail usage. Although not back to pre-COVID-19 levels, Direct Marketing continued its partial recovery. The overall combined increase in revenue in 2021 was $407 million (+6.3%) over the prior year. Global supply chain issues that surfaced in Q3 and continued to affect all inbound product and Direct Marketing volumes through Q4.

Revenue and volumes by line of business

	Revenue (in millions of dollars)				**Volume** (in millions of pieces)			
	2021	2020	$ change	% change	**2021**	2020	change	% change
Parcels								
Domestic Parcels	2,912	2,681	231	9.1%	279	292	(13)	(4.2)%
Outbound Parcels	329	302	27	9.2%	13	13	–	1.3%
Inbound Parcels	409	432	(23)	(4.9)%	69	84	(15)	(17.6)%
Other	22	19	3	14.0%	–	–	–	–
Total Parcels	**3,672**	**3,434**	**238**	**7.4%**	**361**	**389**	**(28)**	**(7.0)%**
Transaction Mail								
Domestic Lettermail	2,368	2,335	33	1.8%	2,386	2,432	(46)	(1.5)%
Outbound Letter-post	78	83	(5)	(5.4)%	35	39	(4)	(8.5)%
Inbound Letter-post	48	66	(18)	(25.8)%	57	69	(12)	(17.0)%
Total Transaction Mail	**2,494**	**2,484**	**10**	**0.8%**	**2,478**	**2,540**	**(62)**	**(2.0)%**
Direct Marketing								
Personalized Mail™	404	365	39	11.1%	706	648	58	9.3%
Neighbourhood Mail™	356	283	73	26.2%	3,016	2,474	542	22.4%
Total Smartmail Marketing™	**760**	**648**	**112**	**17.7%**	**3,722**	**3,122**	**600**	**19.7%**
Publications Mail™	127	129	(2)	(0.8)%	182	187	(5)	(2.1)%
Business Reply Mail™ and Other Mail	19	19	–	1.4%	14	14	–	(4.8)%
Other	16	13	3	17.1%	–	–	–	–
Total Direct Marketing	**922**	**809**	**113**	**14.4%**	**3,918**	**3,323**	**595**	**18.4%**
Other Revenue	261	215	46	21.6%	–	–	–	–
Total	**7,349**	**6,942**	**407**	**6.3%**	**6,757**	**6,252**	**505**	**8.5%**

Parcels

Parcels revenue increased by $238 million (+7.4%) compared to 2020. Details by product category were as follows:

- Despite Domestic Parcels volume declines, we made revenue gains by proactively managing the use of available capacity through our commercial customer and product mix. These year-over-year comparisons are significantly influenced by Parcels volumes in 2020 that strained capacity, when online shopping surged due to COVID-19. Domestic Parcels volume growth rates declined through 2021 as stores began to reopen for in-person shopping. While the pandemic exacerbated challenges related to network capacity constraints, it accelerated the parcels opportunity. However, Canada Post's share of domestic ecommerce delivery faced pressure as the widespread adoption of ecommerce was driving a more competitive delivery market with rapidly evolving consumer expectations. As it costs more to process and deliver parcels than it does letters, we are investing to improve efficiencies in our network and expand processing capacity to keep pace with growth.

- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to foreign postal administrations [posts]) increased over the prior year as Canadians sent more packages, mostly to the United States but also internationally, during prolonged travel and other COVID-19 restrictions.
- Inbound Parcels revenue (fees paid to Canada Post by other posts for delivering mail originating outside of Canada) and volume declined due to limited air capacity out of China and Europe from posts and global supply chain issues that began in the third quarter and continued through the rest of the year. These declines were partially offset by revenue and volume increases from the U.S.
- Other Parcels revenue, which mostly comprises fees from the Customs Postal Program, increased due to higher volumes of inbound postal items to be rated for duties and taxes.

Transaction Mail

Transaction Mail revenue increased by $10 million (+0.8%) compared to 2020. Details by product category were as follows:

- Domestic Lettermail experienced better than normal volume declines as the 2021 Census mailing in Q2 and the federal election mailing in Q3 offset the increased use of digital communication. Revenue increased with above-normal retail performance fuelled by COVID-19 lockdowns and the change in customer and product mix. Unlike previous years and due to COVID-19, we maintained regulated stamp prices at 2020 levels through 2021, while minimizing the impact of other price changes.
- Inbound and Outbound Letter-post revenue and volumes declined in 2021 due to restrictions on air transportation, as well as increased use of digital alternatives. Outbound Letter-post revenue is collected from domestic customers for mail destined to other posts and Inbound Letter-post revenue is collected by other posts and shared with Canada Post for delivering mail in Canada.

Direct Marketing

Direct Marketing revenue increased by $113 million (+14.4%) compared to 2020. Details by product category were as follows:

- Personalized Mail and Neighbourhood Mail revenue and volumes began to experience a recovery due to the gradual return to in person shopping. A continued increase in digital substitution still exists in these products outside of the effects of COVID-19.
- Publications Mail revenue and volumes declined slightly due to a continued drop in paper subscriptions as digital subscriptions are increasingly becoming the preferred method of delivery.
- Business Reply Mail was relatively flat, while and Other Mail and Other products increased.

Other Revenue

Other Revenue increased by $46 million (+21.6%) mainly due to revenue from increased use of consumer products and services such as mail forwarding due to increased activity in the Canadian housing market. Other revenue increased thanks to logistics services for 2021 Census and federal election mailings (such as warehousing and transportation).

Cost of operations

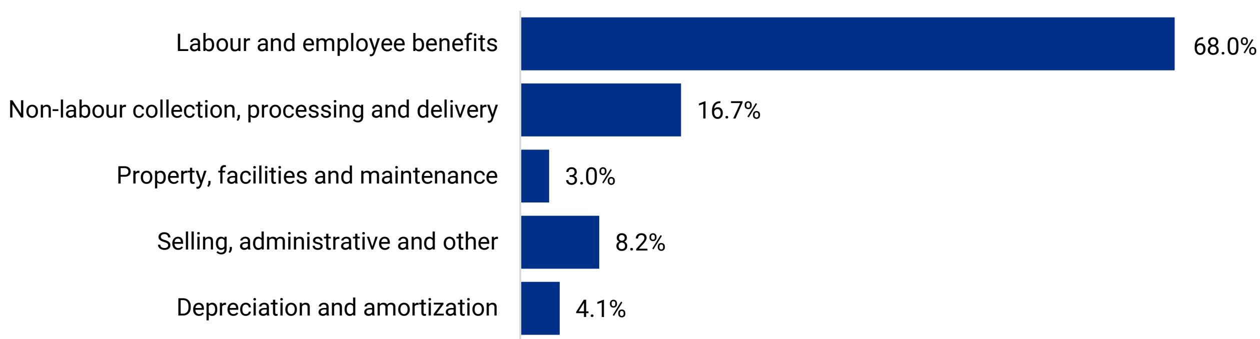
In 2021, the Canada Post segment's cost of operations increased by $127 million (+2.0%) compared to 2020, mainly due to annual wage increases, non-labour collection, processing and delivery costs, and spending to sustain the network and improve capacity. The 2020 arbitrator's decision for collective agreements with CUPW that expired December 31, 2021, and January 31, 2022, resulted in additional labour and benefits costs of $127 million in 2020, mostly related to expanded eligibility for post-employment healthcare benefits to employees represented by the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC).

(for the years ended December 31, in millions of dollars)

	2021	2020	$ change	% change[1]	Cost as % of revenue from operations 2021	Cost as % of revenue from operations 2020
Labour	3,746	3,718	28	1.1%	51.0%	53.6%
Employee benefits	1,600	1,647	(47)	(2.5)%	21.8%	23.7%
Total labour and employee benefits	**5,346**	**5,365**	**(19)**	**–**	**72.8%**	**77.3%**
Non-labour collection, processing and delivery	1,315	1,231	84	7.3%	17.9%	17.7%
Property, facilities and maintenance	237	218	19	8.7%	3.2%	3.2%
Selling, administrative and other	646	612	34	6.0%	8.8%	8.8%
Total other operating costs	**2,198**	**2,061**	**137**	**7.0%**	**29.9%**	**29.7%**
Depreciation and amortization	323	314	9	3.3%	4.4%	4.5%
Total	**7,867**	**7,740**	**127**	**2.0%**	**107.1%**	**111.5%**

The chart and table below show the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 68.0% of the total cost of operations in 2021, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2021



Labour

Labour costs increased by $28 million (+1.1%) compared to 2020, with one less paid day in 2021, mainly due to annual wage increases, including the one-time non-pensionable lump sum payment that was part of the recently ratified collective agreement with CUPW. Although we continued to incur significant costs for employee special leave relating to COVID-19, the costs were lower in 2021 than in 2020.

Employee benefits

(in millions of dollars)

	2021	2020	$ change	% change
Pension expense	828	764	64	8.8%
Post-employment health benefits	152	267	(115)	(42.7)%
Other post-employment and other long-term benefits	85	125	(40)	(31.4)%
Interest on segregated assets	(16)	(16)	–	1.5%
Total post-employment and other long-term benefits	**1,049**	**1,140**	**(91)**	**(7.5)%**
Active employee benefits and other	551	507	44	8.9%
Employee benefits	**1,600**	**1,647**	**(47)**	**(2.5)%**

Employee benefits decreased by $47 million (-2.5%) compared to 2020, as detailed below:

- The pension expense increased by $64 million (+8.8%) in 2021, mostly the result of a decrease in the discount rate used to measure the expense.
- The post-employment health benefits expense decreased by $115 million (-42.7%) mainly due to the 2020 plan amendment loss related to expanded eligibility for post-retirement healthcare benefits to employees represented by the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers as a result of the arbitration ruling.
- The other post-employment and other long-term benefits expense decreased by $40 million (-31.4%) mainly due to a 2021 actuarial gain compared to a 2020 actuarial loss driven primarily by discount rate changes.
- The benefits expense for active employees and other increased by $44 million (+8.9%) mainly due to increased claim costs due to the lifting of COVID-19 restrictions and cost increases as well as increased statutory deductions.

Other operating costs, and depreciation and amortization

Changes in these costs in 2021 were as follows:

- Contracted collection, processing and delivery costs increased by $84 million (+7.3%) in 2021 compared to 2020, mainly due to higher spending on transportation and automotive services, which was partly due to fuel rates.
- The cost of facilities increased by $19 million (+8.7%) for 2021 when compared to 2020, mainly due to cleaning and maintenance costs related to COVID-19.
- Selling, administrative and other expenses increased by $34 million (+6.0%) for 2021 compared to 2020, mainly due to increased spending to sustain the network, enhance our services and improve capacity.
- The depreciation and amortization expense increased by $9 million (+3.3%) in 2021 compared to 2020 due to higher investment in capital assets.

5.5 Purolator segment

The Purolator segment's profit before tax increased by $93 million (+53.2%) compared to 2020.

Summary of results

(in millions of dollars)

	2021	2020	$ change	% change
Revenue from operations	2,608	2,206	402	19.2%
Cost of operations	2,315	2,006	309	15.8%
Profit from operations	**293**	**200**	**93**	**46.5%**
Investing and financing income (expense), net	(24)	(24)	–	2.2%
Profit before tax	**269**	**176**	**93**	**53.2%**

Revenue from operations increased by $402 million (+19.2%) in 2021, compared to 2020, mainly due to volume increases in domestic and cross-border services in the business-to-consumer market as businesses reopened. Also contributing to the increase in revenue were domestic express courier volume increases of 8.6% compared to 2020, strong recovery in the business-to-business volumes, annual rate increases and yield improvements.

Labour costs increased by $119 (+12.2%) million compared to 2020 due to business growth, annual wage increases and an increase in employee benefit costs, including pension. Non-labour costs increased $190 million (+19.5%) compared to the prior year, due to volume growth in the high cost to serve business-to-consumer market, higher fuel costs due to increases in fuel prices, higher vehicle rentals and additional health and safety measures required to offer protection from COVID-19 risk.

5.6 SCI segment

In 2021, SCI's profit before tax increased by $4 million (+17.6%) compared to the prior year.

We'll make you even better.

Summary of results

(in millions of dollars)

	2021	2020	$ change	% change
Revenue from operations	348	329	19	6.1%
Cost of operations	322	305	17	5.6%
Profit from operations	**26**	**24**	**2**	**12.2%**
Investing and financing income (expense), net	(2)	(4)	2	21.9%
Profit before tax	**24**	**20**	**4**	**17.6%**

Growth in volumes from existing customers and new business, partially offset by attrition, resulted in a net increase in revenue from operations of $19 million (+6.1%) compared to 2020. This growth led to higher transportation and salary costs; as a result, cost of operations increased by $17 million (+5.6%) compared to 2020.

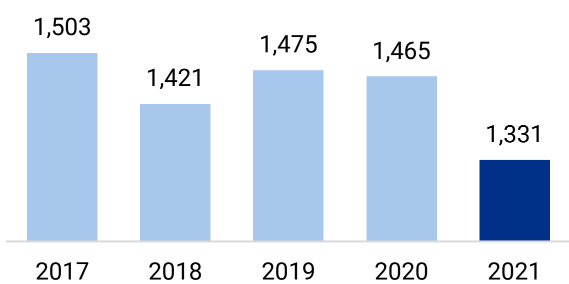
6. Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

Cash and cash equivalents held by the Group of Companies at December 31, 2021, was $1,331 million, a decrease of $134 million (-9.1%) compared to December 31, 2020. Cash used in investing and financing activities was partly offset by cash provided by operating activities.

(in millions of dollars)



6.2 Operating activities

(in millions of dollars)

	2021	2020	$ change	Explanation
Cash provided by operating activities	664	694	(30)	Cash generated from operating activities decreased by $30 million compared to 2020. Negative changes in non-cash operating working capital and increased pension payments were partially offset by an improvement to loss before tax.

6.3 Investing activities

(in millions of dollars)

	2021	2020	$ change	Explanation
Cash used in investing activities	(674)	(585)	(89)	Cash used in investing activities increased by $89 million in 2021 compared to 2020, primarily due to higher acquisitions of capital assets, partially offset by an increase in proceeds from the sale of real estate assets.

Capital expenditures

(in millions of dollars)

	2021	2020	$ change	Explanation
Canada Post	438	337	101	Capital expenditures for the Group of Companies increased by $127 million in 2021, compared to 2020, due to increased spending in the Canada Post and Purolator segments.
Purolator	232	205	27	
SCI	6	7	(1)	
Innovapost and intersegment	1	1	–	
Canada Post Group of Companies	677	550	127	

Canada Post segment

The Canada Post segment invested $635 million in 2021, with capital and non-capital investments of $438 million, and $197 million, respectively.

Capital investments in 2021 focused on implementing solutions that address operational capacity challenges to support ecommerce growth. We modernized the retail network, launched a financial services market test in retail sites (including rural and Indigenous locations) and opened a community postal service hub. Investments were also made to replace aging street furniture and vehicles, expand our delivery capacity through various types of parcel lockers, invest in health and safety initiatives, and explore clean energy alternatives.

Compared to 2020, the capital portion of our investment spending increased by $101 million in 2021, largely due to the completion of two of three construction phases of the new Ontario East Processing Centre. Guided by and aligned with the three pillars of our purpose, A Stronger Canada – Delivered, we progressed with the following more notable capital investments in 2021.

Providing a service all Canadians can count on

- Completed two of three construction phases of the new Ontario East Processing Centre, with equipment installation under way.
- Deployed a new parcel sorter in Kitchener and began implementation of Calgary processing facility expansion plans.
- Deployed over 1,600 parcel lockers at existing community mailbox sites.
- Conducted facility improvement projects to maintain or extend the useful life of facilities.
- In partnership with TD Bank, launched a market test of the Canada Post MyMoney™ Loan service.

- Completed the development of updated retail point-of-sale hardware and software, with deployment to sites well under way.

Committed to social and environmental leadership

- Purchased 740 alternative propulsion (low-carbon) vehicles.
- Purchased two e-cargo trikes for routes in downtown Montréal.
- Installed 165 water bottle filling stations at 117 sites to eliminate unnecessary single-use plastics.
- Completed 32 LED lighting retrofit energy-saving projects.

Doing right by our people

- Developed injury prevention solutions, such as the "Working at Heights" training program and additional telescopic conveyors.
- Improved systems and process to support updated collective agreements.
- Deployed smart TVs to stay connected with employees in our facilities.

2022 capital investments will continue to support the implementation of our pivotal strategic transformation:

- Continue and accelerate the implementation of new solutions to address immediate capacity challenges.
- Upgrade our network to meet medium and long-term parcel volume growth projections.
- Support ecommerce growth, enhance our service commitment to customers, and modernize our applications, infrastructure and customer-facing platforms.
- Standardize equipment across our network and increase parcel automation initiatives to better serve our customers and employees.
- Enhance the efficiency of our fleet by continuing to explore clean energy alternatives.
- Expand the accessible delivery program.
- Create new delivery service operations to provide the best experience for all Canadians.
- Invest in tools, equipment, processes, and infrastructure to improve operations.
- Replenish vehicles and street furniture.
- Upgrade systems and equipment reaching their end of life.
- Start modernizing our back office through the upgrade of our ERP system.

All investment decisions will be guided by our strategy and the needs of our employees and customers.

6.4 Financing activities

(in millions of dollars)

	2021	2020	$ change	Explanation
Cash used in financing activities	(125)	(118)	(7)	Cash used in financing activities increased by $7 million in 2021, mainly due to higher lease repayments in all segments.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a fair value of $32.4 billion as at December 31, 2021, making it one of the largest single-employer sponsored pension plans in Canada. It is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions (OSFI) to establish its funded status on a going-concern basis and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act*, *1985,* (the Act) requires Canada Post, as plan sponsor, to make special payments to the RPP to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which the Act requires the plan sponsor to make special payments to the RPP to eliminate the shortfall over five years.

Under regulations of the Act, Canada Post did not have to make special solvency payments in 2021 which would have totalled $1.3 billion (including special payments made to cover transfer deficiencies). In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. These proposed regulations have not yet been finalized. Without temporary relief, Canada Post expects to make estimated special solvency payments of $796 million for 2022, as the solvency relief of 15% available under the *Pension Benefits Standards Act,* 1985 will be fully utilized during the year.

The actuarial valuation for the RPP as at December 31, 2020, filed in June 2021, disclosed a going-concern surplus of $3.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.4 billion (using the three-year average solvency ratio basis), or $7.4 billion (using market value of plan assets).

The current estimate of the financial position of the RPP as at December 31, 2021, is a going-concern surplus of approximately $4.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $4.9 billion (using the three-year average solvency ratio basis), or $2.5 billion (using market value of plan assets). These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2021, will be filed by the end of June 2022, and results may differ significantly from these estimates.

The going-concern funded status improved during the year, mainly due to the 2021 return on investments of 11.3% (excluding administrative and management fees). The solvency deficit improved during the year mainly due to an increase in the discount rate and investment gains.

In 2021, the employer's current service contributions and special payments to the defined benefit pension plan amounted to $321 million and $32 million compared to $296 million and $24 million (including retroactive contributions of $12 million related to new collective agreements), respectively, in 2020. The employer's current service contributions for 2022 are estimated at $333 million.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2021, a remeasurement gain, net of tax, for the RPP amounted to $3.6 billion, due to a discount rate increase and higher than expected asset returns slightly offset by experience adjustments. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

6.6 Liquidity and capital resources

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

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

Liquidity

As at December 31, 2021, and during 2021, the liquidity required by the Canada Post Group of Companies to support financial obligations, fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $2,249 million of unrestricted liquid investments on hand as at December 31, 2021, for a net liquidity position of $1,251 million (after outstanding loans and borrowings of $998 million). The segment also had $100 million in lines of credit established under a short-term borrowing authority approved by the Minister of Finance (all undrawn) and would benefit from temporary relief from its solvency funding obligation until December 31, 2024 (see Section 6.5).

The Corporation's subsidiaries had a total of $361 million of unrestricted cash on hand and undrawn credit facilities of $163 million as at December 31, 2021, ensuring sufficient liquidity to support operations for at least the next 12 months.

Access to capital markets

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

With $998 million of borrowings as at December 31, 2021, the Canada Post segment had $1,502 million of its $2.5 billion external borrowing limit that had not been used. The Corporation funded itself primarily through the use of cash on hand, funds generated from operations during 2021 and the pension plan funding relief permitted by legislation.

6.7 Risks associated with financial instruments

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

(in millions of dollars)

	Fair value through OCI	Measured at amortized cost[a]	Total
Cash and cash equivalents	–	1,331	1,331
Marketable securities	1,361	–	1,361
Trade, other receivables and contract assets	–	968	968
Segregated securities	482	–	482
Total financial assets	**1,843**	**2,299**	**4,142**
Non-interest bearing[b]	–	1,317	1,317
Loans and borrowings	–	998	998
Total financial liabilities	**–**	**2,315**	**2,315**

a. The effective interest method is used to determine the amortized cost of these financial assets and liabilities.

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

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

Market risk

Interest rate risk

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

Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment obligations to which they are externally restricted. The average duration of the segregated security portfolio was 11 years as at December 31, 2021 (2020 – 12 years).

Based on a sensitivity analysis of interest rate risk, it is expected that an increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities by $54 million (2020 – $64 million), which would represent an impact on the fair value of the Group of Companies' investments at December 31, 2021, and on other comprehensive income or loss.

Loans and borrowings of $998 million (2020 – $997 million) include fixed-rate debt with prepayment options.

Foreign currency risk

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

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. However, the mark-to-market adjustment on outstanding forward contracts held at December 31, 2021, was not significant.

Commodity risk

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

Credit risk

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

The Group of Companies does not believe that it is subject to any significant concentration of credit risk. The Corporation uses a low credit risk approach where the investment policy is restricted to investment grade debt securities. While there has been weakness in certain sectors of the Canadian economy, the Group of Companies' bad debt expense has remained consistent with prior year through active monitoring of aged receivables, credit utilization and risk modelling.

Liquidity risk

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

In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief. These proposed regulations have not yet been finalized. Without this relief, solvency payments will be required for 2022. Market volatility could have a significant effect on such payments for 2022 and thereafter.

6.8 Contractual obligations and commitments

(in millions of dollars)

	Less than 1 year	1-5 years	More than 5 years	Total
Bonds[a]	–	500	500	1,000
Interest on bonds	42	149	305	496
Lease liabilities[b]	159	567	1,240	1,966

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

b. Represents contractual undiscounted cash flows for lease payments associated with facilities, vehicles and plant equipment.

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

In addition, the Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $167 million, extending to 2025. The Canada Post Corporation Registered Pension Plan special going-concern and solvency contributions are discussed in Section 6.5.

6.9 Related party transactions

Government of Canada

The Corporation has a variety of transactions with related parties in the normal course of business and in support of the Government of Canada's public policies. Revenue earned from related parties for the year was $307 million (2020 – $221 million), the majority of which was from commercial contracts relating to postal services provided to the Government of Canada. Included in this amount was compensation from the Government of Canada for parliamentary mail services and mailing of materials for persons who are blind sent free of postage, which amounted to $22 million (2020 – $22 million).

Key management personnel

Key management personnel have authority for planning, controlling and directing the activities of the Group of Companies. Total compensation expenses for key management personnel were $13 million for the year ended December 31, 2021 (2020 – $11 million), which included compensation related to short-term benefits and post-employment benefits.

6.10 Contingent liabilities

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

7. Changes in Financial Position

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

(in millions of dollars)

ASSETS	2021	2020	$ change	% change	Explanation
Cash and cash equivalents	1,331	1,465	(134)	(9.1)%	Refer to Section 6 Liquidity and Capital Resources.
Marketable securities	1,279	1,256	23	1.8%	Mainly due to purchases of marketable securities.
Trade and other receivables	968	1,065	(97)	(9.1)%	Due to lower receivables in all segments.
Other assets	200	217	(17)	(7.8)%	Mainly due to lower income tax receivable balance in the Canada Post segment partially offset by an increase in prepaid expenses in the Canada Post, Purolator and Innovapost segments.
Total current assets	**3,778**	**4,003**	**(225)**	**(5.6)%**	
Marketable securities	82	45	37	83.8%	Due to purchases of corporate bonds.
Property, plant and equipment	3,473	3,160	313	9.9%	Mainly due to acquisitions in excess of depreciation.
Intangible assets	169	141	28	20.0%	Mainly due to an increase in software under development.
Right-of-use assets	1,326	1,221	105	8.6%	Mainly due to acquisitions (new leases and lease renewals) exceeding depreciation in the Canada Post and SCI segments.
Segregated securities	482	537	(55)	(10.3)%	Mainly due to unrealized losses in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	1,450	25	1,425	†	Mainly due to remeasurement gains in the Canada Post Registered Pension Plan (RPP) resulting in a plan surplus compared to a significant plan deficit in 2020. The surplus is a result of an increase in discount rates and higher than expected asset returns.
Deferred tax assets	572	1,883	(1,311)	(69.7)%	Mainly due to the decrease of temporary differences related to remeasurement gains resulting from an increase in discount rates and higher than expected asset return.
Goodwill	130	130	–	–	No change.
Other assets	54	64	(10)	(17.6)%	Mainly due to a decrease in long-term notes receivable in the SCI segment.
Total non-current assets	**7,738**	**7,206**	**532**	**7.4%**	
Total assets	**11,516**	**11,209**	**307**	**2.7%**	

† Large percentage change.

(in millions of dollars)

LIABILITIES	2021	2020	$ change	% change	Explanation
Trade and other payables	881	878	3	0.4%	No material change.
Salaries and benefits payable and related provisions	700	812	(112)	(13.7)%	Mainly due to lower accrued salaries in the Canada Post segment, primarily due to timing.
Provisions	57	61	(4)	(5.4)%	Mainly due to the remeasurement of provisions in the Canada Post segment.
Income tax payable	20	9	11	112.9%	Primarily due to an increase in tax liability for the Purolator segment.
Deferred revenue	186	218	(32)	(14.9)%	Mainly due to deferred Parcel revenue in the Canada Post segment.
Lease liabilities	123	122	1	0.6%	No material change.
Other long-term benefit liabilities	62	65	(3)	(4.6)%	No material change.
Total current liabilities	**2,029**	**2,165**	**(136)**	**(6.3)%**	
Lease liabilities	1,391	1,292	99	7.7%	Mainly due to acquisitions (new leases and lease renewals) in the Canada Post and Purolator segments net of lease payments.
Loans and borrowings	998	997	1	0.0%	No material change.
Pension, other post-employment and other long-term benefit liabilities	3,969	7,601	(3,632)	(47.8)%	Mainly due to remeasurement gains resulting from an increase in discount rates on other post-employment plans and a reclassification to Pension benefit asset of Canada Post's RPP, which is in a surplus position at year end.
Other liabilities	44	32	12	38.8%	Mainly due to higher employee share ownership plan liability in the Purolator segment.
Total non-current liabilities	**6,402**	**9,922**	**(3,520)**	**(35.5)%**	
Total liabilities	**8,431**	**12,087**	**(3,656)**	**(30.3)%**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	59	92	(33)	(36.1)%	Mainly due to unrealized losses on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Retained earnings (accumulated deficit)	1,811	(2,166)	3,977	*	Driven by remeasurement gains offset by net operating losses in the Canada Post segment.
Equity of Canada	**3,025**	**(919)**	**3944**	*	
Non-controlling interests	60	41	19	47.0%	
Total equity	**3,085**	**(878)**	**3,963**	*	
Total liabilities and equity	**11,516**	**11,209**	**307**	**2.7%**	

* The calculation is not mathematically meaningful.

8. Risks and Risk Management

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

Risk management overview

The aim of enterprise risk management (ERM) is to minimize enterprise-level risks that may affect the Corporation's ability to achieve long-term financial self-sustainability, while achieving its mandate, mission and strategic objectives. As the foundation to this program, the Canada Post segment has established an ERM framework that considers risks and opportunities at all levels of decision-making and provides a structured approach to help Canada Post understand and manage the most significant risks to the business.

The ERM framework includes a process to identify, measure, assess, respond to, monitor and report on all enterprise risks. Ongoing risk identification and monitoring is required to ensure that management can effectively assess and proactively respond to new and emerging threats. Enterprise risks are measured and assessed in a consistent, objective and comparable manner using a uniform risk assessment scale to rate the potential adverse impact (e.g. financial, operational and reputational consequences) and likelihood of occurrence over the period of our five-year Corporate Plan. Once risks are assessed, they are categorized as low, moderate, high and very high. Greater attention and resources are dedicated to controlling and mitigating risks that have a higher severity. The process of comprehensive enterprise risk assessment and mitigation review is conducted semi-annually and reported to senior management and the Board of Directors.

ERM provides oversight and consistency throughout Canada Post risk management activities. It supports strategy-setting, corporate planning and establishment of the Corporation's risk appetite. It reduces organizational uncertainty and strengthens resiliency, sets risk prioritization to improve allocation of resources, enables proactive responses to emerging risks, and ensures ownership and accountability of risk mitigation and controls.

Canada Post continues to reshape and improve its ERM processes to ensure completeness, high quality risk assessments, effective management of principal risks, and valuable senior leader discussions. 2021 highlights:

- increased alignment of ERM and strategy-setting;
- approval of an ERM corporate policy;
- risk reviews expanded to Board committee meetings;
- development of a process to determine risk appetite and risk tolerance.

Canada Post will continue to integrate risk management best practices to reduce and minimize enterprise-level risks.

Risk governance and oversight

Three lines of defence

Canada Post employs a three-lines-of-defence governance structure that balances strong central oversight of risks with clear accountability and ownership of risks throughout all areas of the organization. This model establishes an effective risk management approach between three distinct organizational functions:

- The first line of defence comprises management controls and internal control measures. This includes front-end business units, such as customer service, sales, retail and operations, which are responsible for adhering to policies, following procedures and managing risks related to their role.

- The second line of defence provides expertise, oversight, monitoring and support to the first line of defence. This level includes functions that oversee the first line of defence and ensure risk management oversight. These second line teams are further supported by policies, frameworks, tools and techniques to enable consistent risk and compliance management within the first line of defence.
- The third line of defence is an independent risk function that ensures the first two lines of defence operate effectively. This function comprises internal audit and external evaluators, which report to the board of directors, executives and other key stakeholders.

This structure allows for risks to be appropriately considered, discussed, debated and factored into business decisions at all levels and across all functions.

Roles and responsibilities

Canada Post's Board of Directors is responsible for governing and overseeing the Corporation's principal risk assessment, setting the Corporation's risk appetite and ensuring the implementation by management of appropriate systems to manage risks. The Environmental, Social and Governance Committee is responsible for governing ERM at Canada Post. The Corporation's Management Executive Committee ensures that a regular principal risk assessment is completed and that risk management systems are established, including the ERM team, policy, framework, practice, risk register, as well as risk culture and risk reporting requirements. Each principal risk category has an owner assigned to provide input on risk assessments and to manage day-to-day mitigation efforts. Finally, a dedicated ERM team is in place to develop, manage, execute and support all ERM processes.

8.1 Definition of risk

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

8.2 Emerging risks

COVID-19

Risk

COVID-19 continues to have an impact on our business and create challenges:

- workforce unavailability;
- delays to capital projects due to global supply chain issues;
- delivery delays, backlogs and increased costs with respect to parcels service;
- decrease in Lettermail™ volumes;
- uncertainty in the Direct Marketing business, due in part to global supply chain issues;
- increased challenges in retaining talent amid new realities of the labour market.

Mitigation

The health and safety of our employees and Canadians remain our top priority. Additional health and safety measures have been established in post offices, plants, depots and the way we deliver items. Parcel strategies have been implemented to improve the network and better manage the substantial growth in ecommerce volumes. We continue to provide increased customer account management support, engage with industry partners and provide customers with improved access to data. Investments continue to be made in network capacity infrastructure.

8.3 Principal risks

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

There are inherent risks in our business model, including rapidly declining Lettermail volumes, financial commitments (e.g. funding the pension obligation), investments required to expand the delivery network and maintaining success in a highly competitive parcel industry.

To mitigate these risks and achieve its mandate, the Corporation has developed a comprehensive strategic plan that includes the recommendation for changes necessary to transform and remain financially self-sustainable. This strategic plan was filed with the Minister responsible for Canada Post on November 5, 2021.

The following categories describe the principal sources of risk and uncertainty facing Canada Post in relation to the three pillars of its strategic plan and overarching purpose, A Stronger Canada – Delivered. All identified risks could have a material impact on the Corporation's financial position, operations, or reputation.

Labour agreements

Risk

Complex collective agreements continue to constrain Canada Post's ability to compete in the marketplace and implement changes to its business model, including employee benefit plans, wages and leaves that are above what competitors offer.

Although there are no labour agreements expiring until December 31, 2023, at the earliest, the impact or threat of labour disruption or arbitration (in the event that collective agreements are not achieved) beyond this date could accelerate mail erosion and lead to loss of revenue from customers that switch to competitors for their mail and parcel delivery needs.

Risk mitigation

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

- a new approach to collaboration has been adopted, including a long-term labour strategy to guide successive rounds of negotiations;
- proactive and ongoing relationship building with all bargaining agents, including close collaboration to ensure a shared understanding of the structural challenges and opportunities that face the Corporation;
- evaluation of non-traditional bargaining approaches;
- effective management of customer relationships in the event of a potential disruption, including communication of transparency and a focus on meeting customer needs.

Business-to-consumer parcel market competition

Risk

Competitor actions and investments, evolving consumer behaviours, new entrants, and an inability to quickly respond to market changes may impact our parcels business. Among key concerns:

- competitors intensifying the deployment of delivery capabilities and offering cost-effective residential delivery;
- rise in low-cost labour models and an increase in asset-light delivery models that are well suited to meet evolving consumer expectations on delivery speed, preferences and visibility;
- customers increasingly adopting ecommerce marketplace and fulfillment platforms, reducing their direct relationship with Canada Post, and locating fulfillment; this risk may lead to declines in volume, revenue and market share, as well as negative brand impacts.

Risk mitigation

We have undertaken significant planning activities to enhance our decision-making and allow us to remain competitive in the marketplace. We have continued our focus on improving customer experience issues for businesses and consumers while growing key customer segments.

Our customer-value proposition is strengthened through the Canada Post Solutions for Small Business™ program, pickup enhancements, and investment in parcel lockers, as well as initiatives to provide industry-leading responsiveness and convenience for online shoppers, including the FlexDelivery™ service, delivery preferences and parcel returns enhancements. Our extensive national retail network is also used for more effective residential delivery.

Security and privacy: physical mail, data breaches and fraud

Risk

Canada Post is responsible for ensuring the security of Canadians' physical mail, as well as protecting the privacy of customer and employee data in its custody.

The threat and increased occurrences of cyberattacks and data breaches due to malicious acts being reported worldwide are taken very seriously by the Corporation. A significant cyberattack could have an impact on IT systems, national mail processing equipment and the delivery network. Data breaches and fraudulent use of our products and services could cause financial harm to Canadians.

Overall, this risk may impact the Canada Post brand, increase costs, decrease productivity and lead to regulatory scrutiny, potential legal action and a loss of customer confidence.

Risk mitigation

Canada Post has an information cybersecurity framework, including a layered defence strategy to reduce the threat of cyberattacks and ensure remediation of known and unknown threats. This approach includes advanced endpoint protection and network segmentation, and it provides tiers of network and system protection. We also have an Information Security Policy approved by the Board of Directors and a newly developed user access management practice.

Administrative, physical and electronic security measures are in place to protect mail, information and data; breach and incident management protocols are established to manage data breaches; and monitoring and reporting of authorized user access occurs regularly.

Anti-fraud corporate governance, policies and procedures as well as a dedicated security team and fraud prevention steering committee ensure effective oversight and management of fraud risks. Employee training, simulation testing and awareness campaigns are undertaken.

Parcel network capacity

Risk

We face challenges associated with investment and execution of projects required to build additional infrastructure to ensure that sorting and delivery capacity meets rising parcel volumes. Execution risks are predominantly related to challenges in the supply of materials and labour. This risk may lead to widespread performance degradation, negative brand impacts, and a loss of customers and volumes, and it may hinder our ability to fully capitalize on the growth opportunity.

Risk mitigation

Canada Post will continue to shift toward a parcel-centric network design. Investment in parcel capacity will be accelerated throughout our national network, including investments in real estate, parcel sortation systems, equipment, automation, vehicles and process changes. Volume management solutions are being used to reduce short-term capacity shortfall and control growth. Investments in volume forecasting and improved use of existing capacity will continue.

Talent management

Risk

Failure to attract, engage, develop and retain key talent could have an impact on Canada Post's ability to fulfill its core mandate as well as compete, grow and innovate in the marketplace. Federal regulations for Crown corporations that limit the autonomy of decision-making related to compensation of non-union employees further exacerbate this risk.

As a federal entity serving all Canadians, Canada Post has a responsibility to ensure it has established a culture of inclusiveness that values diversity, combats racism and addresses systemic barriers. An inability to achieve diversity and inclusion targets will limit the overall strength and effectiveness of the Corporation.

Risk mitigation

Social media and technology are being used for recruitment and enhancements have been made in the employee onboarding process. A rating-less performance management framework anchored on coaching has improved the understanding of employee career goals and aspirations. Succession planning strategies are used to prepare employees for critical roles. Flexible work arrangements are offered to promote job satisfaction and work-life balance.

Canada Post is committed to building an inclusive workplace by identifying and eliminating employment barriers. All management, operations and frontline leaders completed unconscious bias training. Special measures have been developed to implement preferential hiring for under-represented groups in geographical areas significantly below the Canadian Labour Market Availability (CLMA) for Indigenous Peoples and persons with disabilities. Employment policies are evolving to foster greater accessibility and inclusion, and the five-year Strategy for Equity and Diversity co-created with all bargaining agents and the Canadian Centre for Diversity and Inclusion, was launched in October 2021.

Health and safety

Risk

Contributing factors to health and safety risk include core processes designed for mail rather than parcels, inconsistent application of standards, employee turnover, culture and risk tolerance, rule enforcement, road transport and facility-related risks.

The physical and psychological safety of employees, visitors, contractors and the public are affected by constantly changing statutory requirements, lack of employee knowledge and competency on health and safety topics, and unexpected events such as COVID-19 and extreme weather.

Risk mitigation

Canada Post is committed to maintaining the highest safety standards for all employees, visitors and contractors. We aim for zero harm and believe that all occupational injuries, illnesses and incidents are preventable.

We are transforming our culture through a long-term strategy with health and safety management using a risk-based approach, including a high-injury site reduction program and tools such as national scorecards and dashboards, health and safety improvement plans, job hazard analysis, work permits, facility inspections and audits, a national road safety standard and a mental health strategy. New infrastructure and processes are designed in collaboration with health and safety teams. Our strategy also incorporates awareness campaigns, training workshops and management for unexpected events.

Core mail volume declines

Risk

Lettermail experienced its 15th consecutive year of volume decline in 2021. This decline is a result of digital transformations, regulatory changes, and changing behaviour of mailers and consumers. As well, an increased focus on cost reduction has made low-cost alternatives, such as email and digital platforms, more attractive forms of communication for many businesses.

Although the Canada Post Smartmail Marketing™ service remains a highly effective driver of marketing results for businesses of all sizes, it continues to face strong competitive pressure from digital advertising substitutes, as well as direct competitors that distribute printed flyers. Public concern regarding the environmental sustainability of unaddressed advertising, particularly related to the use of plastic bags, may contribute to additional uncertainty in the form of increased activism and new regulations.

Risk mitigation

Canada Post will proactively engage with commercial customers to understand their current roadmaps for the Lettermail service and possible substitution initiatives. We will continue to evaluate new value-added solutions, such as the MyMailbox app, which provides consumers with a digital notification when items have been delivered. We plan to implement programs and take advantage of other channels to promote the value and use of Lettermail. In addition, we will continue to promote Smartmail Marketing™ and engage with partners through education and training, marketing and selling tools, and referrals. We will also evaluate and explore integration with new channel partners for Smartmail Marketing. A multi-year transformational data roadmap will be developed and implemented to provide the highest value to customers.

Canada Post is working with industry partners and retailers to reduce packaging waste in the mail stream and expanding our offering of sustainable packaging and delivery solutions. Additionally, Canada Post is a member of the Sustainable Mail Group, which is dedicated to transforming the mail industry in Canada to build a better, cleaner future.

Pension obligation

Risk

The scale of the Canada Post Corporation Registered Pension Plan (RPP) – given its size relative to the Corporation's revenue and earnings, and its funding volatility – poses an ongoing financial risk. There is risk that pension solvency funding relief for the RPP may not be granted, which would pose a material risk to the Corporation's cash flow and impact its ability to fund needed investments in modernization and growth.

The RPP has two primary risk factors: low or declining long-term interest rates, and lower than expected returns or losses on assets. These risk factors could lead to significant going-concern or solvency deficits, which may require special pension funding contributions.

Risk mitigation

In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. We will continue to have discussions with Public Services and Procurement Canada and the Department of Finance Canada regarding the proposed regulations and longer-term solvency deficit funding relief.

Measures taken to minimize RPP risks include a pension risk management framework to identify and quantify risks; all investment decisions made in accordance with the Canada Post Registered Pension Plan Statement of Investment Policies and Procedures (SIPP); and a pension de-risking glide path and investment strategy to help lower investment volatility and minimize liability shortfall.

Climate change

Risk

There is a risk that Canada Post may experience major disruptions caused by climate-induced disasters (e.g. tornados, flooding, wildfires) and the progressive impacts of climate change (e.g. the increasing number of extreme heat days). This risk may affect the health and safety of employees and the public, lead to an inability to deliver services through the physical and digital network and cause decreases in volumes, revenues and negative brand impacts.

Risk mitigation

A climate risk study using the Task Force on Climate-related Financial Disclosures (TCFD) recommendations has been completed to better understand and mitigate physical and transition risks to Canada Post. Climate considerations have been embedded into business and decision-making processes throughout the organization. We will work to improve resiliency in operations and delivery through response and recovery planning, including incident management, business continuity planning, disaster recovery and emergency management. Oversight for climate-related risks is provided by the Environmental, Social and Governance Committee.

Environmentally sustainable practices

Risk

As a major delivery company operating one of Canada's largest fleets, Canada Post has an important role to play in addressing climate change and is committed to a low-carbon future. Like other delivery companies, Canada Post is no exception to the risk that its environmental practices may not meet growing expectations of customers, its unions, the Government of Canada and all Canadians. This risk may lead to negative brand impacts, financial impacts related to increasing carbon taxes, operational and network restrictions, and decreases in volumes due to customers shifting to alternate carriers that better align with their sustainability values.

Risk mitigation

The immediate focus is to manage direct greenhouse gas emissions (scope 1), make a shift to clean electricity (scope 2) and work with supply chain partners to help them reduce their carbon footprints (scope 3). Canada Post's 2020-30 priorities have been established, including goals and signature targets developed for greenhouse gases, waste and plastics. The long-term focus is to pursue low-carbon fuel sources by exploring alternative energy as the basis for technologies, products and services that may be more viable as Canada moves to a carbon-constrained economy.

The Environmental, Social and Governance Committee and a dedicated team of subject-matter experts are in place to lead and manage the Environmental Action Plan. We will implement programs and participate in studies aimed at reducing real estate emissions (pilots are under way).

Hybrid vehicles have been added to our fleet and options were assessed to accelerate electric vehicle adoption.

Information technology: Systems and network availability

Risk

There is an ongoing risk that information technology (IT) may be challenged in its support of our growth aspirations given increasing project demands, complexity of systems and rapidly changing market conditions. There is also a risk that critical technology systems and infrastructure used by employees, customers and Canadians, experience failures or instability. This risk may lead to negative financial and brand impacts.

Risk mitigation

Canada Post's IT subsidiary, Innovapost, continues to enhance its operating model through key technology investments (e.g. automation) to support an agile growth strategy, accelerate delivery of projects, and reduce risks. Innovapost tracks and monitors rates of major incidents affecting critical business functions and has a disaster recovery strategy in place. Legacy systems continue to be remodeled with modern technology to improve flexibility and interdependency. Project governance continues to be enhanced and an architecture review board is in place to ensure that plans and investments align with the Corporation's vision.

Other key risks

Other key risks facing the Corporation include legal action, regulatory non-compliance, procurement and organizational resilience and business continuity. For each of these risks, the Corporation has effective control mitigation strategies in place.

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

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

9.1 Critical accounting estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects current and future periods. Our significant estimates and judgments are described below.

COVID-19

COVID-19 has had a significant impact on the Canadian and global economies, including our business. As the COVID-19 situation extends in magnitude and duration, estimation uncertainties, significant judgments, volatility and risks as a result of COVID-19 remain. This includes the recoverability and impairment of financial and non-financial assets, accounting for fair value of financial assets, measurement of the pension benefit asset and pension, other post-employment and other long-term benefit obligations, solvency special payments, timing of revenue recognition and contract modifications.

Capital assets

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

Leases

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

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

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

Goodwill

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

The future cash flows of the Purolator segment are estimated using its approved plans. These plans reflect management's best estimates; however, they are subject to change as they involve inherent uncertainties that management may not be able to control. Growth and profitability levels are compared to other competitors in the industry and general economic conditions prevailing at the valuation date. The discount rate applied to the future cash flows of the Purolator segment is based on its estimated weighted average cost of capital at the valuation date. There were no goodwill impairment charges in 2021 or 2020.

Provisions and contingent liabilities

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

Contingent liabilities are not recognized but disclosed in the notes to the consolidated financial statements.

In determining whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability in the notes, management must exercise judgment such as whether the obligation is a present obligation or a possible obligation, whether it is probable that an outflow of resources will be required to settle and whether a reliable estimate can be made. Furthermore, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood and timing of outflows, and the discount rate to use.

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

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

Assumptions

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

Discount rates – Set annually at the measurement date, discount rate assumptions are used to determine the present value of the defined benefit obligations at the end of the year and the defined benefit expense for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality corporate debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for the defined benefit plans as they become due. During the year, Canada Post changed its approach for establishing discount rates, which represents a change in estimate. Discount rates now use actual plan cash flows rather than rates established for plans of similar duration. In addition, plan-specific discount rates rather than a weighted-average rate for similar plans are now being applied. The actuaries calculate the discount rates using a yield curve approach based on pricing and yield information for a theoretical portfolio of corporate bonds that provides cash flows reproducing the expected future benefit payments of the plans being valued. The resulting discount rate for that plan is the single equivalent yield on that theoretical portfolio. The actuaries determine future benefit payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.

Medical costs – Used in the measurement of certain non-pension defined benefit plans, claims cost assumptions are derived from actual claims experience. Health trend factors or provincial coverage assumptions are supported by third-party studies.

Mortality assumptions – Mortality rates used to determine the majority of the defined benefit obligations are based on the February 2014 Canadian Institute of Actuaries' Final Report on Canadian Pensioners' Mortality (CPM), more specifically the CPM 2014 Private Sector Mortality Table with the CPM improvement scale B. Mortality tables represent the probability of death within a year for plan members of various ages.

Consumer price index – The consumer price index assumption is used in the measurement of the defined benefit obligations for pension benefit plans and some of the other non-pension benefit plans. This assumption is based on long-term expected rates of inflation. The consumer price index also has an impact on the long-term rates of compensation increase.

Sensitivity to assumptions – Canada Post segment

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

(in millions of dollars)

	Annual pension expense	Defined pension obligation	Annual healthcare expense	Defined healthcare obligation
Discount rate sensitivity				
0.5% increase in discount rates	(176)	(2,345)	(4)	(208)
0.5% decrease in discount rates	177	2,547	4	236
Mortality table sensitivity				
10% increase in mortality tables	(43)	(746)	(6)	(96)
10% decrease in mortality tables	44	764	7	109
Consumer price index sensitivity				
0.25% increase in consumer price index	76	1,080	–	–
0.25% decrease in consumer price index	(73)	(1,044)	–	–
Healthcare cost trend rate sensitivity				
1% increase in healthcare cost trend rates	–	–	46	495
1% decrease in healthcare cost trend rates	–	–	(33)	(385)

Income taxes

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

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

9.2 Adoption of new accounting standards

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

9.3 Accounting policy developments

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

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

10. Outlook for 2022

Our prospects for 2022

10.1 Global economy and Canada

Global economic growth improved in 2021 to 5.9% from the economic contraction experienced in 2020. While global economic activity picked up in 2021, it may take longer to return to pre-pandemic levels. Global growth is set to slow sharply, as the initial rebound in consumption and investment fades and macroeconomic support is withdrawn. Much of the global slowdown is expected to be driven by advanced economies leading to most emerging market and developing economies (EMDEs) also experiencing a weaker recovery from the pandemic. The expected slowdown in global growth in 2022 could be sharper if the fast spread of new variants overwhelms health systems and prompts a re-imposition of strict pandemic control measures in major economies. Elevated inflation levels driven by rebound in global activity, together with supply chain disruptions and higher food and energy prices are expected to continue into 2022. Increasing inflation has prompted both Canadian and the U.S. central banks to signal potential interest rate hikes.

Canada's economic rate of growth in 2021 was 4.6%, up from negative 5.6% in 2020. The economy is expected to rebound moderately in 2022 and 2023 given the resiliency of demand, and ample vaccine supply. However, the impact of variants of the virus that causes COVID-19, issues in vaccine rollouts, growing inflationary pressures and capacity constraints due to supply chain interruptions could alter expectations for economic growth. This uncertainty in economic growth may spill over to Canada Post's lines of business as Canadians look to balance optimism for post-pandemic recovery with post-pandemic spending.

Inflation, as measured by the consumer price index (CPI), jumped to 3.4% in 2021. Economists expect core and total CPI to remain elevated for 2022 highlighting inflationary pressures as we continue the recovery from the pandemic. Canada's 30-year bond rate hovered around 2% for 2021 and is forecasted to increase gradually to around 2.3% by 2022. With rising interest rates and higher borrowing costs, consumers may delay new service purchases, reduce volumes of use, discontinue use of services, and seek lower-priced alternatives from us or our competitors. These consumer trends coupled with increased cost to serve in the context of a pandemic, could apply profitability pressure on our operations.

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

	2021	2022	2023	2024	2025
Economic (% change)					
Real gross domestic product (GDP)	4.6%	4.0%	3.1%	1.7%	1.4%
Inflation (consumer price index [CPI])	3.4%	3.4%	2.4%	2.0%	2.0%
Demographic (% change)					
Total population growth	1.1%	1.1%	1.1%	1.0%	1.0%
Household growth	1.6%	1.4%	1.3%	1.2%	1.2%

Sources: Forecasts of GDP, CPI and total points of delivery consider projections from the five major Canadian banks, the Canada Mortgage and Housing Corporation and the Bank of Canada. Population growth is per Statistics Canada's medium growth (M1) scenario projections.

10.2 Canada Post Group of Companies

Canada Post segment

Ecommerce penetration is expected to continue climbing for the foreseeable future. Consumers continue to shift their retail spending online and their expectations will shape the future market. Domestic ecommerce growth is expected to outpace inbound parcels, while new and emerging delivery market leaders will continue to gain market share and may progressively reduce their reliance on our business. Direct marketing is expected to largely recover, however, significant uncertainty remains. The Lettermail™ service is expected to continue to erode faster than pre-pandemic expectations.

Our delivery model needs to evolve to meet Canadians' changing needs. With delivery density falling (i.e. the number of delivered pieces being in decline) and parcel volumes rising, dynamic route structures are required to keep incremental delivery cost low and minimize the number of routes needed for parcel growth. The evolving change in the mix of mail compared to parcels will likely result in even higher seasonal volume differences, particularly during peak season.

Consumers increasingly expect businesses to meet their individual needs. Delivery speed expectations are rising and consumers are increasingly indifferent to the choice of delivery carrier; free shipping is the primary driver for the purchasing decision. Delivery challengers are enabling time definite delivery with near-time visibility, as well as increased consumer controls and preferences. We must shape our customer mix and build the capabilities to meet Canadian needs and remain profitable. Same-day delivery and weekend delivery is becoming more prevalent; however, due to the nature of our cost structure, obtaining an increasing share of ecommerce volume would be difficult for the Corporation. Demand for sustainable delivery practices is also increasing; environmentally sustainable operations will likely become essential within a decade.

Changing societal workplace expectations and compensation challenges make it difficult to compete for talent. The pandemic has caused some employees to rethink their careers and their choice of employer, a challenge faced by many employers across industries. Work-life balance, flexibility and mental health are top priorities for employees. We must attract and retain top talent.

Delivering on our strategic transformation plan is imperative. This plan was communicated in the second quarter of 2021 and is grounded in the evolving needs of Canadians and Canadian businesses and underpinned by a plan to return to financial sustainability.

We are building a customer-centric culture, improving productivity and increasing capacity to deliver the experience that delights Canadians and fuels our growth. We are investing to reduce our environmental impact, differentiate the Corporation as a leader in environmental, social and governance (ESG) principles, and deliver a sustainable future. We embrace equity, diversity and inclusion in our workplaces across the country.

Purolator segment

Purolator expects further growth in 2022, as the economy continues to recover from the pandemic and demand for transportation and logistics services remains strong. Aligned to its five-year strategy, Purolator will implement initiatives across its network and build technology and products to achieve sustainable, long-term profitable growth. It will continue to adapt to risks associated with COVID-19 and other external forces such as inflation, global trade disputes, and environmental disruptions.

SCI segment

In 2022, SCI will continue to focus on becoming Canada's leading integrated supply chain solutions organization, growing revenue and profit. This improvement will come from growth of contract logistics and transportation services within targeted verticals in Canada, and operational savings driven by continuous improvement initiatives. As well, SCI continues to work with Canada Post, Purolator and Innovapost on initiatives that would capitalize on existing capabilities within the Group of Companies.

Endnotes

1. Percentage changes for revenue, volume and cost of operations in this report are adjusted for differences in business and paid days in 2021, compared to 2020. Fewer business and paid days result in decreased revenue and volume, and decreased cost of operations, respectively, while the opposite is true for additional days. These days varied by company, as follows:
    - Canada Post Group of Companies consolidated results, Canada Post segment and SCI segment – one less business day and one less paid day compared to 2020.
    - Purolator segment – two less business days and one less paid day compared to 2020.

Historical Financial Information

(unaudited, in millions of Canadian dollars unless otherwise indicated)

OPERATIONS	2021	2020	2019	2018	2017
Revenue from operations	**10,112**	9,318	8,899	8,672	8,318
Total cost of operations	**10,308**	9,888	8,892	8,754	8,087
Profit (loss) from operations	**(196)**	(570)	7	(82)	231
Percentage of revenue from operations	**(1.9)%**	(6.1)%	0.1%	(0.9)%	2.8%
Investing and financing income (expense), net	**(50)**	(56)	(30)	(36)	(27)
Profit (loss) before tax	**(246)**	(626)	(23)	(118)	204
Tax expense (recovery)	**(59)**	(153)	(9)	(25)	56
Net profit (loss)	**(187)**	(473)	(14)	(93)	148
Other comprehensive income (loss)	**4,155**	(329)	120	397	(193)
Comprehensive income (loss)	**3,968**	(802)	106	304	(45)
Net profit (loss) attributable to					
Government of Canada	**(201)**	(482)	(22)	(102)	142
Non-controlling interests	**14**	9	8	9	6
	(187)	(473)	(14)	(93)	148
Comprehensive income (loss) attributable to					
Government of Canada	**3,944**	(812)	103	294	(51)
Non-controlling interests	**24**	10	3	10	6
	3,968	(802)	106	304	(45)

STATEMENT OF FINANCIAL POSITION	2021	2020	2019	2018	2017
Assets					
Current	**3,778**	4,003	3,734	3,841	3,395
Segregated securities	**482**	537	514	495	526
Capital assets	**3,642**	3,301	3,066	2,793	2,708
Right-of-use assets	**1,326**	1,221	1,113	982	944
Pension benefit assets	**1,450**	25	75	95	116
Deferred tax assets	**572**	1,883	1,659	1,680	1,605
Other assets	**266**	239	366	325	141
Total assets	**11,516**	11,209	10,527	10,211	9,435
Liabilities and equity					
Current	**2,029**	2,165	1,901	2,035	1,598
Pension, other post-employment and other long-term benefit liabilities	**3,969**	7,601	6,498	6,277	6,297
Other liabilities	**2,433**	2,321	2,200	2,073	2,016
Non-controlling interests	**60**	41	35	36	28
Equity of Canada	**3,025**	(919)	(107)	(210)	(504)
Total liabilities and equity	**11,516**	11,209	10,527	10,211	9,435

ADDITIONS TO CAPITAL ASSETS	2021	2020	2019	2018	2017
Land and buildings	**47**	74	160	66	80
Other capital assets	**630**	498	431	321	221
	677	572	591	387	301

Historical Financial Information

(unaudited, in millions of Canadian dollars, unless otherwise indicated / trading day adjusted percentage)

LINE OF BUSINESS DIMENSIONS **REVENUE FROM OPERATIONS**	**2021**	**% change**	2020	% change	2019	% change	2018	% change	2017
Parcels									
Domestic Parcels	**2,912**	**9.1%**	2,681	29.1%	2,068	11.0%	1,864	15.3%	1,610
Outbound Parcels (to other postal administrations)	**329**	**9.2%**	302	24.2%	243	0.1%	242	(1.9)%	246
Inbound Parcels (from other postal administrations)	**409**	**(4.9)%**	432	7.2%	401	9.3%	367	18.6%	309
Total – Parcels	**3,650**	**7.3%**	3,415	25.4%	2,712	9.7%	2,473	13.8%	2,165
Other	**22**	**14.0%**	19	(17.0)%	23	(23.0)%	30	(2.2)%	30
Canada Post segment	**3,672**	**7.4%**	3,434	25.0%	2,735	9.3%	2,503	13.6%	2,195
Purolator segment	**2,606**	**18.6%**	2,205	13.5%	1,936	4.8%	1,847	12.5%	1,634
SCI segment	**348**	**6.1%**	329	(5.2)%	346	8.2%	319	15.4%	276
Elimination of intersegment	**(191)**		(157)		(127)		(117)		(94)
Canada Post Group of Companies	**6,435**	**11.2%**	5,811	18.4%	4,890	7.4%	4,552	13.1%	4,011
Transaction Mail									
Domestic Lettermail	**2,368**	**1.8%**	2,335	(8.5)%	2,540	(2.3)%	2,601	(2.7)%	2,663
Outbound Letter-post (to other postal administrations)	**78**	**(5.4)%**	83	(13.8)%	96	(3.7)%	99	(14.5)%	116
Inbound Letter-post (from other postal administrations)	**48**	**(25.8)%**	66	(16.2)%	78	(5.3)%	83	(46.7)%	155
Canada Post segment	**2,494**	**0.8%**	2,484	(8.9)%	2,714	(2.5)%	2,783	(5.5)%	2,934
Elimination of intersegment	**(2)**		(2)		(2)		(2)		(2)
Canada Post Group of Companies	**2,492**	**0.8%**	2,482	(8.9)%	2,712	(2.5)%	2,781	(5.5)%	2,932
Direct Marketing									
Canada Post Personalized Mail™	**404**	**11.1%**	365	(25.1)%	485	(3.2)%	501	(1.8)%	508
Canada Post Neighbourhood Mail™	**356**	**26.2%**	283	(29.7)%	401	(1.7)%	408	(2.2)%	415
Total – Canada Post Smartmail Marketing™	**760**	**17.7%**	648	(27.2)%	886	(2.5)%	909	(2.0)%	923
Publications Mail™	**127**	**(0.8)%**	129	(12.0)%	146	(5.2)%	153	(5.8)%	162
Business Reply Mail™ and Other mail	**19**	**1.4%**	19	(5.9)%	20	(8.3)%	22	1.8%	22
Total – Mail	**906**	**14.3%**	796	(24.6)%	1,052	(3.0)%	1,084	(2.5)%	1,107
Other	**16**	**17.1%**	13	0.4%	14	0.3%	14	0.4%	14
Canada Post segment / Group of Companies	**922**	**14.4%**	809	(24.3)%	1,066	(3.0)%	1,098	(2.4)%	1,121
Other revenue									
Canada Post segment	**261**	**21.6%**	215	(8.2)%	233	(0.9)%	236	(8.7)%	256
Purolator segment	**2**	**178.3%**	1	135.3%	(2)	(141.7)%	5	328.0%	(1)
Innovapost and elimination of intercompany	**–**		–		–		–		(1)
Canada Post Group of Companies	**263**	**22.1%**	216	(7.0)%	231	(3.9)%	241	(5.0)%	254
Revenue from operations									
Canada Post segment	**7,349**	**6.3%**	6,942	2.5%	6,748	1.9%	6,620	1.3%	6,506
Purolator segment	**2,608**	**18.7%**	2,206	13.7%	1,934	4.4%	1,852	13.0%	1,633
SCI segment	**348**	**6.1%**	329	(5.2)%	346	8.2%	319	16.4%	276
Innovapost and elimination of intercompany	**(193)**		(159)		(129)		(119)		(97)
Canada Post Group of Companies	**10,112**	**8.9%**	9,318	4.3%	8,899	2.6%	8,672	3.9%	8,318

Historical Financial Information

(unaudited, in millions of pieces unless otherwise indicated / trading day adjusted percentage)

LINE OF BUSINESS DIMENSIONS	2021	% change	2020	% change	2019	% change	2018	% change	2017
VOLUME									
Parcels									
Domestic Parcels	**279**	**(4.2)%**	292	30.9%	222	13.2%	196	10.9%	176
Outbound Parcels (to other postal administrations)	**13**	**1.3%**	13	31.2%	10	0.9%	10	(3.5)%	10
Inbound Parcels (from other postal administrations)	**69**	**(17.6)%**	84	(5.0)%	88	(1.5)%	90	60.8%	56
Canada Post segment	**361**	**(7.0)%**	389	21.0%	320	8.3%	296	21.7%	242
Purolator segment	**174**	**8.3%**	162	14.8%	140	4.8%	134	9.2%	122
Elimination of intersegment	**(13)**		(12)		(8)		(7)		(6)
Canada Post Group of Companies	**522**	**(2.8)%**	539	18.7%	452	7.2%	423	17.5%	358
Transaction Mail									
Domestic Lettermail	**2,386**	**(1.5)%**	2,432	(9.7)%	2,683	(6.3)%	2,863	(4.6)%	2,988
Outbound Letter-post (to other postal administrations)	**35**	**(8.5)%**	39	(15.2)%	45	(7.6)%	49	(12.1)%	56
Inbound Letter-post (from other postal administrations)	**57**	**(17.0)%**	69	(29.6)%	98	(7.8)%	106	(34.8)%	161
Canada Post segment	**2,478**	**(2.0)%**	2,540	(10.5)%	2,826	(6.4)%	3,018	(6.2)%	3,205
Elimination of intersegment	**(2)**		(2)		(2)		(2)		(2)
Canada Post Group of Companies	**2,476**	**(2.0)%**	2,538	(10.5)%	2,824	(6.4)%	3,016	(6.2)%	3,203
Direct Marketing									
Personalized Mail	**706**	**9.3%**	648	(27.1)%	886	(3.5)%	918	(4.2)%	954
Neighbourhood Mail	**3,016**	**22.4%**	2,474	(28.8)%	3,461	(0.7)%	3,486	(3.5)%	3,600
Total – Smartmail Marketing	**3,722**	**19.7%**	3,122	(28.5)%	4,347	(1.3)%	4,404	(3.7)%	4,554
Publications Mail	**182**	**(2.1)%**	187	(13.5)%	215	(6.9)%	231	(8.3)%	250
Business Reply Mail and Other mail	**14**	**(4.8)%**	14	(9.3)%	16	(13.4)%	18	(1.5)%	18
Canada Post segment / Group of Companies	**3,918**	**18.4%**	3,323	(27.7)%	4,578	(1.6)%	4,653	(3.9)%	4,822
Total volume									
Canada Post segment	**6,757**	**8.5%**	6,252	(19.4)%	7,724	(3.1)%	7,967	(4.0)%	8,269
Purolator segment	**174**	**8.3%**	162	14.8%	140	4.8%	134	9.2%	122
Elimination of intersegment	**(15)**		(14)		(10)		(9)		(8)
Canada Post Group of Companies	**6,916**	**8.5%**	6,400	(18.8)%	7,854	(2.9)%	8,092	(3.9)%	8,383
EMPLOYMENT[1,2]									
Canada Post segment	**68,447**	**0.4%**	68,153	3.4%	65,891	1.5%	64,912	3.6%	62,672
Purolator segment	**13,533**	**5.5%**	12,833	10.0%	11,670	(0.2)%	11,697	16.6%	10,028
SCI segment	**1,811**	**(25.4)%**	2,429	3.8%	2,341	(6.4)%	2,500	17.4%	2,130
Innovapost business unit	**766**	**(7.0)%**	824	(2.1)%	842	(2.4)%	863	(4.2)%	901
Canada Post Group of Companies	**84,557**	**0.4%**	84,239	4.3%	80,744	1.0%	79,972	5.6%	75,731
MAIL NETWORK									
Post offices	**5,941**	**(1.4)%**	6,026	(1.0)%	6,084	(0.9)%	6,137	(0.7)%	6,183
Points of delivery (in thousands)	**16,976**	**1.3%**	16,750	1.2%	16,547	1.0%	16,379	1.2%	16,185
Pickup points (in thousands)[3]	**964**	**(1.1)%**	975	2.3%	953	0.1%	952	0.0%	952

1. Includes paid full-time and part-time employees, including temporary, casual and term employees.
2. Prior years have been restated to include temporary, casual and term employees.
3. Includes rural mailboxes, which are collection points for customers with this mode of delivery.

Independent Auditor’s Report on Annual Cost Study Contribution Analysis

To the Board of Directors of Canada Post Corporation

We have audited the accompanying Annual Cost Study Contribution Analysis (Annual Cost Study) of Canada Post Corporation (the Entity) for the year ended December 31, 2021 and of the accompanying management assertion in note 1 on whether the competitive grouping of services (Competitive services) has been cross-subsidized using revenues from the exclusive privilege grouping of services (Exclusive privilege services) based on the Annual Cost Methodology (applicable criteria) for the year ended December 31, 2021.

Management’s Responsibilities

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

Auditor’s Responsibilities

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

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

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

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

Auditor’s Independence and Quality Control

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

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

Opinion

In our opinion:

(a) the Annual Cost Study of the Entity for the year ended December 31, 2021 is prepared, in all material respects, in accordance with the applicable criteria as described in the notes to the Annual Cost Study; and

(b) based on the Annual Cost Methodology, management's assertion included in the notes to the Annual Cost Study that the Entity did not cross-subsidize its Competitive services with revenues from Exclusive privilege services, for the year ended December 31, 2021, is fairly stated, in all material respects.

Specific Purpose of the Annual Cost Study

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

Other Matter

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

March 24, 2022

Ottawa, Canada

Annual Cost Study Contribution Analysis

Canada Post Corporation

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

Annual Cost Study Contribution Analysis

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

The following analysis is based on the assignment of 64% of the total non-consolidated costs of Canada Post Corporation to individual services or groups of services.

(in millions of Canadian dollars, unless otherwise indicated)

Year ended December 31, 2021	Exclusive privilege services[1]	Competitive services[2]	Concessionary services[3]	Other services[4]	**Total**
Revenue from operations	2,669	4,374	24	282	7,349
Long-run incremental costs	(1,619)	(3,282)	(21)	(142)	(5,064)
Long-run incremental contribution	**1,050**	**1,092**	**3**	**140**	**2,285**
Percentage of revenue	39%	25%	13%	50%	31%
Unallocated fixed costs					(2,803)
Contribution before the undernoted items					**(518)**
Investment and other income					103
Finance costs and other expense					(75)
Loss before tax – Canada Post segment					**(490)**

1. Services provided by Canada Post pursuant to its sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada, in accordance with the *Canada Post Corporation Act and Regulations*.
2. Services provided by Canada Post in the competitive marketplace that do not fall within Canada Post's exclusive privilege pursuant to the *Canada Post Corporation Act*.
3. Services provided by Canada Post, on behalf of the Government of Canada, either free of charge or at reduced rates. The Government of Canada provides compensation to Canada Post in respect of some of these services.
4. Services classified by Canada Post as not being in the Exclusive privilege, Competitive or Concessionary groupings of services.

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

Notes to Annual Cost Study Contribution Analysis

Year ended December 31, 2021

1. Basis of Preparation

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

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

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

Under the Annual Cost Methodology, a positive long-run incremental contribution from the Competitive grouping of services (Competitive services) establishes that this grouping of services has not been cross-subsidized using revenues from the Exclusive privilege grouping of services (Exclusive privilege services). As the Annual Cost Study Contribution Analysis indicates, Competitive services generated a positive long-run incremental contribution, and therefore, Canada Post Corporation did not cross-subsidize its Competitive services using revenues protected by Exclusive privilege services for the year ended December 31, 2021.

2. Annual Cost Methodology

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

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

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

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

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

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

Management’s Responsibility for Financial Reporting

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

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

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

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

Canada Post Corporation is a Crown corporation included in Part I of Schedule III of the *Financial Administration Act*. The Auditor General of Canada and Ernst & Young LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2021, in accordance with the *Financial Administration Act*. The Auditor General of Canada and Ernst & Young LLP audit the consolidated financial statements and report to the Audit Committee of the Board of Directors, as well as to the Minister of Public Services and Procurement.

President and Chief Executive Officer

Chief Financial Officer

March 24, 2022

Independent Auditors' Report

To the Minister of Public Services and Procurement

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Canada Post Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada

March 24, 2022

Consolidated Statement of Financial Position

(in millions of Canadian dollars)

ASSETS	As at December 31, 2021	As at December 31, 2020
Current assets		
Cash and cash equivalents (Note 6)	**1,331**	1,465
Marketable securities (Note 6)	**1,279**	1,256
Trade, other receivables and contract assets (notes 20, 22)	**968**	1,065
Other assets (Note 7)	**200**	217
Total current assets	**3,778**	4,003
Non-current assets		
Marketable securities (Note 6)	**82**	45
Property, plant and equipment (Note 8)	**3,473**	3,160
Intangible assets (Note 8)	**169**	141
Right-of-use assets (Note 8)	**1,326**	1,221
Segregated securities (Note 6)	**482**	537
Pension benefit assets (Note 10)	**1,450**	25
Deferred tax assets (Note 11)	**572**	1,883
Goodwill (Note 12)	**130**	130
Other assets (Note 7)	**54**	64
Total non-current assets	**7,738**	7,206
Total assets	**11,516**	11,209

LIABILITIES AND EQUITY	As at December 31, 2021	As at December 31, 2020
Current liabilities		
Trade and other payables (Note 13)	**881**	878
Salaries and benefits payable and related provisions (Note 15)	**700**	812
Provisions (Note 14)	**57**	61
Income tax payable	**20**	9
Deferred revenue (Note 22)	**186**	218
Lease liabilities (Note 18)	**123**	122
Other long-term benefit liabilities (Note 10)	**62**	65
Total current liabilities	**2,029**	2,165
Non-current liabilities		
Lease liabilities (Note 18)	**1,391**	1,292
Loans and borrowings (Note 17)	**998**	997
Pension, other post-employment and other long-term benefit liabilities (Note 10)	**3,969**	7,601
Other liabilities	**44**	32
Total non-current liabilities	**6,402**	9,922
Total liabilities	**8,431**	12,087

LIABILITIES AND EQUITY	As at December 31, 2021	As at December 31, 2020
Equity		
Contributed capital	**1,155**	1,155
Accumulated other comprehensive income (Note 25)	**59**	92
Retained earnings (accumulated deficit)	**1,811**	(2,166)
Equity of Canada	**3,025**	(919)
Non-controlling interests	**60**	41
Total equity	**3,085**	(878)
Total liabilities and equity	**11,516**	11,209

Contingent liabilities (Note 16)

Commitments (Note 21)

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

Approved on behalf of the Board of Directors:

Chair of the Board of Directors

Chair of the Audit Committee

Consolidated Statement of Comprehensive Income

(in millions of Canadian dollars)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Revenue from operations (Note 27)	**10,112**	9,318
Cost of operations		
Labour	**4,887**	4,772
Employee benefits (Note 9)	**1,861**	1,878
	6,748	6,650
Other operating costs (Note 23)	**3,110**	2,806
Depreciation and amortization (Note 8)	**450**	432
Total cost of operations	**10,308**	9,888
Loss from operations	**(196)**	(570)
Investing and financing income (expense)		
Investment and other income (notes 6, 24)	**54**	41
Finance costs and other expense (notes 17, 24)	**(104)**	(97)
Investing and financing expense, net	**(50)**	(56)
Loss before tax	**(246)**	(626)
Tax recovery (Note 11)	**(59)**	(153)
Net loss	**(187)**	(473)
Other comprehensive income (Note 25)		
Items that may subsequently be reclassified to net profit (loss)		
Change in unrealized fair value of financial assets	**(32)**	29
Foreign currency translation adjustment	**(1)**	(1)
Item never reclassified to net profit (loss)		
Remeasurements of defined benefit plans	**4,188**	(357)
Other comprehensive income (loss)	**4,155**	(329)
Comprehensive income (loss)	**3,968**	(802)
Net loss attributable to		
Government of Canada	**(201)**	(482)
Non-controlling interests	**14**	9
	(187)	(473)
Comprehensive income (loss) attributable to		
Government of Canada	**3,944**	(812)
Non-controlling interests	**24**	10
	3,968	(802)

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

Consolidated Statement of Changes in Equity

(in millions of Canadian dollars)

For the year ended December 31, 2021	Contributed capital	Accumulated other comprehensive income	Retained earnings (accumulated deficit)	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2020	**1,155**	**92**	**(2,166)**	**(919)**	**41**	**(878)**
Net profit (loss)	**–**	**–**	**(201)**	**(201)**	**14**	**(187)**
Other comprehensive income (loss) (Note 25)	**–**	**(33)**	**4,178**	**4,145**	**10**	**4,155**
Comprehensive income (loss)	**–**	**(33)**	**3,977**	**3,944**	**24**	**3,968**
Transactions with shareholders – Dividend	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Balance at December 31, 2021	**1,155**	**59**	**1,811**	**3,025**	**60**	**3,085**

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

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

Consolidated Statement of Cash Flows

(in millions of Canadian dollars)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Cash flows from operating activities		
Net loss	**(187)**	(473)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization (Note 8)	**450**	432
Pension, other post-employment and other long-term benefit expense (Note 10)	**1,168**	1,246
Pension, other post-employment and other long-term benefit payments (Note 10)	**(639)**	(567)
Gain on sale of capital assets and assets held for sale (Note 24)	**(35)**	(2)
Tax recovery and other items affecting net income tax receivable (Note 11)	**(61)**	(155)
Net interest expense (Note 24)	**66**	48
Change in non-cash operating working capital:		
Decrease (increase) in trade and other receivables	**97**	(55)
Increase in trade and other payables	**4**	200
Decrease in salaries and benefits payable and related provisions	**(114)**	(26)
(Decrease) increase in provisions	**(4)**	3
Net (increase) decrease in other non-cash operating working capital	**(53)**	70
Other income not affecting cash, net	**(15)**	(2)
Cash provided by operations before interest and tax	**677**	719
Interest received	**36**	56
Interest paid	**(82)**	(83)
Tax received	**33**	2
Cash provided by operating activities	**664**	694
Cash flows from investing activities		
Acquisition of securities	**(1,541)**	(1,772)
Proceeds from sale of securities	**1,495**	1,719
Acquisition of capital assets	**(677)**	(550)
Proceeds from sale of capital assets and assets held for sale	**52**	5
Other investing activities, net	**(3)**	13
Cash used in investing activities	**(674)**	(585)
Cash flows from financing activities		
Payments of lease liabilities, net of sublease proceeds	**(120)**	(114)
Dividend paid to non-controlling interests	**(5)**	(4)
Cash used in financing activities	**(125)**	(118)
Net decrease in cash and cash equivalents	**(135)**	(9)
Cash and cash equivalents, beginning of year	**1,465**	1,475
Effect of exchange rate changes on cash and cash equivalents	**1**	(1)
Cash and cash equivalents, end of year	**1,331**	1,465

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

Notes to Consolidated Financial Statements

December 31, 2021

1. Incorporation, Business Activities and Directives

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

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

Under the *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada.

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

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

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

2. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates for Domestic Lettermail and U.S. and international letter-post items as well as fees for certain services such as Domestic Registered Mail through regulations under the *Canada Post Corporation Act* (Act). These regulations are subject to approval by the Government of Canada, the sole shareholder and, therefore, a related party of the Corporation. The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray costs incurred by the Corporation in the conduct of its operations under the Act. The Act permits the Corporation to offer rates that differ from regulated rates under certain circumstances, such as when the customer agrees to prepare a mailing in bulk or in a manner that facilitates its processing. Revenue from products and services charged to customers at regulated rates comprises 7% (2020 – 7%) of the Canada Post segment revenue (Note 27).

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

Due to COVID-19, the Corporation maintained regulated prices for stamps and Registered Mail™ items at 2020 levels through 2021, while minimizing the impact of other non-regulated price changes.

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

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

3. Basis of Presentation and Significant Accounting Policies

Statement of compliance – The Corporation has prepared its consolidated financial statements in compliance with IFRSs issued and effective as at the reporting date. These consolidated financial statements were approved and authorized for issue by the Board of Directors March 24, 2022.

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

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

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

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

Name of subsidiary	Principal activity	Place of incorporation	Place of operation	Proportion of ownership interest held directly or indirectly	
				December 31, 2021	December 31, 020
Purolator Holdings Ltd.	Transportation and courier services	Canada	Canada and United States	91%	91%
SCI Group Inc.	Logistics and transportation services	Canada	Canada	99%	99%
Innovapost Inc.	IS/IT services	Canada	Canada	98%	98%

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

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

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

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

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

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

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

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

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

(b.2) Financial assets at amortized cost

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

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

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

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

(b.4) Financial liabilities at amortized cost

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

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

(b.5) Fair value measurement

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

- Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.

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

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

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

(c.1) Recognition and measurement – Capital assets acquired or developed internally are initially measured at cost and are subsequently measured at cost less accumulated depreciation or amortization and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset. When significant parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets with depreciation or amortization being recognized over the useful life of each major component.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(g.6) **Contract assets** include mostly unbilled amounts resulting from in-transit parcels and mail as a receivable. Given the short-term nature amounts are presented as current with trade, other receivables, and contract assets.

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

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

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

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

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

Discount rates used to establish defined benefit obligations are determined by reference to market conditions at year's end using the yield curve approach, based on a theoretical portfolio of AA-rated corporate bonds with maturities consistent with timing of expected future benefit payments.

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

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

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

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

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

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

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

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

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

(j) Foreign currency translation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(k.4) Modifications – A lease modification occurs when there is a change in future lease payments, duration of the lease or a change in the assessment of renewal or termination options. Lease modifications require remeasurement of the lease liability with a corresponding adjustment to the right-of-use asset. Lease modifications are often triggered upon execution of a lease extension. A revised discount rate, which is the rate in effect when both parties agree to a lease modification, is used with the revised terms and conditions to determine the impact of the change on the lease liability.

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

(l) Segmented information

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

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

4. Critical Accounting Estimates and Judgments

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

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

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

(a.1) Capital and right-of-use assets – Capital assets with finite useful lives and 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 asset, external valuations of the asset, and obsolescence or physical damage to the asset.

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

(a.3) Leases – The Group of Companies is party to many contracting arrangements, which requires judgment to assess, at inception of a contract, whether such contract contains a lease or a service, and whether it conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration. Factors used by management to determine whether a contract meets the definition of a lease include, but are not limited to, whether an identified asset exists, whether a right exists to obtain substantially all the economic benefits and whether the Group of Companies directs how and for what purpose the asset is used throughout the period of use.

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 for operational flexibility. At lease commencement and annually thereafter, management applies judgment to assess whether it is reasonably certain to exercise renewal and termination options. Any change in the lease term is accounted for as a lease modification, which requires remeasurement of the lease liability.

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

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

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

(b.1) COVID-19 – Declared a pandemic in March 2020, COVID-19 has had a significant impact on the Canadian and global economies, including our business in 2020 and 2021, and likely beyond. Additional estimation uncertainties, significant judgments, volatility and risks as a result of COVID-19 include the recoverability and impairment of financial and non-financial assets, accounting for fair value of financial assets, timing of revenue recognition and contract modifications.

The related market volatility of market-driven discount rates and returns on pension plan assets could have an effect on the Corporation’s pension plan deficit and solvency payments, which could be significantly higher than expected. This volatility is also inherent in the pension asset or liability, which drives the deferred tax asset. In addition, impairment of non-financial assets could be affected as they require the development of cash flow projections that are subject to the significant uncertainties noted above.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

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

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

The IASB issued amendments to the following standards. Early application is permitted.

Effective for annual periods beginning on or after January 1, 2022. The Group of Companies is not expecting any impact from the adoption of these amendments.

Standard	Subject matter and significance
IFRS 3 "Business Combinations – Reference to the Conceptual Framework"	Amendments replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting, issued in March 2018, without significant changes in requirements. The IASB has included an exception to the recognition principle of IFRS 3 to avoid the possible issue of "day 2" gains or losses arising for liabilities and contingent liabilities within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or IFRIC 21 "Levies" if incurred separately. The IASB also clarified the existing guidance in IFRS 3 for contingent assets, stating that contingent assets do not qualify for recognition at the acquisition date.
IAS 16 "Property, Plant and Equipment – Proceeds before Intended Use"	Amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced, while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. The meaning of "testing whether an asset is functioning properly" and disclosure requirements were also clarified.
IAS 37 "Onerous Contracts – Cost of Fulfilling a Contract"	Amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts.
IFRS 16 "Leases – Lease Incentives"	Amendments remove the illustration of the reimbursement of leasehold improvements by the lessor to resolve any potential confusion regarding the treatment of lease incentives.

Effective for annual periods beginning on or after January 1, 2023. The Group of Companies is assessing the impact of these amendments.

Standard	Subject matter and significance
IAS 1 "Presentation of Financial Statements – Classification of Liabilities as Current or Non-Current"	Amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations considered for the settlement of a liability.
IAS 1 "Presentation of Financial Statements – Disclosure of Accounting Policies" and IFRS Practice Statement 2 "Making Materiality Judgments"	Amendments require that an entity disclose its material accounting policies, instead of its significant accounting policies. IFRS Practice Statement 2 was amended to include guidance and examples to explain and demonstrate the application of the four-step materiality process.
IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates"	Amendments replace the definition of a change in accounting estimates with a definition that accounting estimates are monetary amounts in financial statements that are subject to measurement uncertainty. Amendments clarify that a change in accounting estimates resulting from new information or new developments is not the correction of an error. Further, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior-period errors.

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

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

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

(in millions)

	As at December 31, 2021		As at December 31, 2020	
	$	**%**	$	%
Cash and cash equivalents				
Cash	1,331	100%	1,303	85%
Money market instruments issued by				
Provincial governments	–	–%	20	2%
Financial institutions	–	–%	25	2%
Corporations	–	–%	117	11%
Total cash and cash equivalents	**1,331**	**100%**	1,465	100%
Marketable securities				
Money market instruments issued by				
Government of Canada	239	17%	282	22%
Provincial governments	394	29%	420	32%
Financial institutions	432	32%	249[1]	19%[1]
Corporations	69	5%	144	11%
Bonds issued by corporations	227	17%	206[1]	16%[1]
Total marketable securities	1,361	100%	1,301	100%
Current marketable securities	**1,279**	**94%**	1,256	97%
Non-current marketable securities	**82**	**6%**	45	3%
Segregated securities				
Cash	15	3%	8	1%
Bonds issued by				
Government of Canada	104	22%	115	22%
Provincial governments	212	44%	230	43%
Corporations	151	31%	184	34%
Total segregated securities	**482**	**100%**	537	100%

1. Reclassified to conform to current year presentation, an amount of $147 million was reclassified to Bonds issued by corporations from the Money market instruments issued by Financial institutions.

All money market instruments and bonds held as at December 31, 2021, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2021, was 0.6% for money market instruments (2020 – 0.8%) and 1.8% for bonds (2020 – 1.7%).

Securities are segregated due to external restrictions imposed on other retirement dental and life insurance benefit plans repatriated through the federal public sector pension reform. These defined benefit plans were partially funded by the transitional support from the Government of Canada; therefore, the Group of Companies is obligated to use these funds exclusively for related benefit payments. Segregated securities, if held to maturity, have terms expiring over a 21-year period.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $15 million (2020 – $33 million). Interest income and gains and losses on segregated securities amounted to $16 million (2020 – $16 million).

(c) Fair values of financial instruments

The estimated fair values of cash equivalents, marketable securities, segregated securities and risk management financial assets and liabilities used to measure amounts in the consolidated financial statements are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the years ended December 31, 2021, and 2020.

7. Other Assets

(in millions)

	As at December 31, 2021	As at December 31, 2020
Income tax receivable	66	96
Prepaid expenses	141	120
Assets held for sale	1	2
Finance lease receivable	–	15
Other receivables	46	48
Total other assets	**254**	281
Current other assets	**200**	217
Non-current other assets	**54**	64

As at December 31, 2021, all properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

Future contractual undiscounted cash flows as at December 31, 2021, were nil (December 31, 2020 - $15 million) due to the termination of leases in the SCI segment.

8. Capital Assets

(a) Property, plant and equipment

(in millions)

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2019	452	2,197	364	1,187	599	371	1,169	115	6,454
Additions	7	67	13	33	82	12	66	213	493
Reclassified as held for sale	(1)	(6)	–	–	–	–	–	–	(7)
Retirements	(1)	(14)	(5)	(16)	(2)	(21)	(174)	–	(233)
Transfers	–	36	3	7	–	6	3	(55)	–
December 31, 2020	457	2,280	375	1,211	679	368	1,064	273	6,707
Additions	1	46	20	35	80	20	95	305	602
Reclassified as held for sale	(1)	(8)	–	–	–	–	–	–	(9)
Retirements	–	(13)	(8)	(34)	(10)	(42)	(6)	–	(113)
Transfers	–	34	(10)	3	–	–	2	(29)	–
December 31, 2021	**457**	**2,339**	**377**	**1,215**	**749**	**346**	**1,155**	**549**	**7,187**
Accumulated depreciation									
December 31, 2019	–	1,218	256	758	360	291	629	–	3,512
Depreciation	–	61	17	72	47	22	51	–	270
Reclassified as held for sale	–	(5)	–	–	–	–	–	–	(5)
Retirements	–	(12)	(4)	(16)	(2)	(21)	(175)	–	(230)
December 31, 2020	–	1,262	269	814	405	292	505	–	3,547
Depreciation	–	59	16	72	52	20	54	–	273
Reclassified as held for sale	–	(7)	–	–	–	–	–	–	(7)
Retirements	–	(12)	(7)	(32)	(10)	(32)	(6)	–	(99)
Transfers	–	1	(1)	–	–	–	–	–	–
December 31, 2021	**–**	**1,303**	**277**	**854**	**447**	**280**	**553**	**–**	**3,714**
Carrying amounts									
December 31, 2020	457	1,018	106	397	274	76	559	273	3,160
December 31, 2021	**457**	**1,036**	**100**	**361**	**302**	**66**	**602**	**549**	**3,473**

(b) Intangible assets

(in millions)

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2019	815	49	23	887
Additions	10	69	–	79
Retirements	–	(20)	(1)	(21)
Transfers	31	(31)	–	–
December 31, 2020	856	67	22	945
Additions	6	69	–	75
Transfers	98	(98)	–	–
December 31, 2021	**960**	**38**	**22**	**1,020**
Accumulated amortization				
December 31, 2019	741	–	22	763
Amortization	41	–	–	41
December 31, 2020	782	–	22	804
Amortization	47	–	–	47
December 31, 2021	**829**	**–**	**22**	**851**
Carrying amounts				
December 31, 2020	74	67	–	141
December 31, 2021	**131**	**38**	**–**	**169**

(c) Right-of-use assets

(in millions)

	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
December 31, 2019	117	265	709	21	1	1,113
Additions	4	46	178	–	1	229
Depreciation	(3)	(27)	(83)	(7)	(1)	(121)
December 31, 2020	118	284	804	14	1	1,221
Additions	2	52	173	7	1	235
Depreciation	(4)	(29)	(89)	(8)	–	(130)
December 31, 2021	**116**	**307**	**888**	**13**	**2**	**1,326**

9. Employee Benefits

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

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Active and other employee benefits	709	648
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	1,152	1,230
Employee benefits	**1,861**	1,878

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

(a) Characteristics of benefit plans

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

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

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

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

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

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

(b) Risks associated with defined benefit plans

Funding risk

One of the primary risks that plan sponsors face is funding risk, which is the risk that the investment asset growth and contribution rates of the pension plans will not be sufficient to cover the pension funding obligations, resulting in unfunded liabilities. When funding deficits exist, regulatory authorities require that special contributions be made over specified future periods. Regulations of the *Pension Benefits Standards Act, 1985,* have allowed the Corporation to reduce special contributions. In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. Additional details and risks associated with the funding relief are disclosed in Note 10 (i).

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

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

Other risks

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

(c) Net defined benefit liability

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

(in millions)

	As at December 31, 2021		As at December 31, 2020	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	34,622	4,435	31,904	3,901
Current service cost	794	136	728	127
Interest cost	920	121	987	127
Employee contributions	297	–	282	–
Benefits paid	(1,174)	(155)	(1,126)	(146)
Actuarial (gains) losses (Note 10 [f])	(2,593)	(512)	1,847	303
Losses from plan amendments (Note 10 [e])	–	–	–	123
Balance, end of year	32,866	4,025	34,622	4,435
Fair value of plan assets				
Balance, beginning of year	31,416	–	29,319	–
Interest income on plan assets	831	–	903	–
Return on plan assets, excluding interest income on plan assets (Note 10 [e])	2,502	–	1,658	–
Employer regular contributions	388	–	360	–
Employer special contributions	64	–	34	–
Employee contributions	297	–	282	–
Other administration costs	(14)	–	(14)	–
Benefits paid	(1,174)	–	(1,126)	–
Balance, end of year	34,310	–	31,416	–
Net defined benefit (assets) liability	**(1,444)**	**4,025**	3,206	4,435

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no resulting decrease in the pension benefit assets and no resulting increase in the pension benefit liabilities as at December 31, 2021, and 2020.

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

(in millions)

	As at December 31, 2021		As at December 31, 2020	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	3,206	4,435	2,585	3,901
Remeasurements of defined benefit plans (Note 10 [e])	(5,095)	(494)	189	287
Benefits paid directly to beneficiaries (Note 10 [i])	–	(155)	–	(146)
Employer regular contributions paid	(388)	–	(360)	–
Employer special contributions paid	(64)	–	(34)	–
Defined benefit expense (Note 10 [e])	897	239	826	393
Net defined benefit (assets) liability, end of the year	**(1,444)**	**4,025**	3,206	4,435

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

(in millions)

	As at December 31, 2021	As at December 31, 2020
Pension benefit assets	**1,450**	25
Pension benefit liabilities	6	3,231
Other post-employment and other long-term benefit liabilities	4,025	4,435
Total pension, other post-employment and other long-term benefit liabilities	4,031	7,666
Current other long-term benefit liabilities	**62**	65
Non-current pension, other post-employment and other long-term benefit liabilities	**3,969**	7,601

(d) Fair value measurement of plan assets

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

As at December 31, 2021

(in millions)

	Level 1		Level 2		Level 3		Total	
	$	%	$	%	$	%	$	%
Cash and short-term securities	402	1%	157	1%	–	–%	559	2%
Fixed income	–	–%	14,139	42%	36	–%	14,175	42%
Equities	11,670	34%	94	–%	3	–%	11,767	34%
Real estate	11	–%	–	–%	3,832	11%	3,843	11%
Private equity	–	–%	–	–%	1,821	5%	1,821	5%
Infrastructure	–	–%	–	–%	1,550	5%	1,550	5%
Derivatives	–	–%	1	–%	–	–%	1	–%
Other	1	–%	–	–%	401	1%	402	1%
Total investment assets	**12,084**	**35%**	**14,391**	**43%**	**7,643**	**22%**	**34,118**	**100%**
Non-investment assets less liabilities							192	
Fair value of plan assets							**34,310**	

As at December 31, 2020

(in millions)

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

Total plan assets included $4,942 million (2020 – $4,154 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $139 million (2020 – $158 million) in refundable taxes held by the Canada Revenue Agency. The fair value of the refundable taxes is measured with a discounted cash flow approach using a risk-free government rate at December 31, 2021, with a duration that approximates the timing of future benefit payments. The fair value of the remainder of the non-investment assets less liabilities approximates their carrying value (Note 10 [e]).

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

(e) Defined benefit and defined contribution costs

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

(in millions)

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	794	136	930	728	127	855
Interest cost	920	121	1,041	986	127	1,113
Interest income on plan assets	(831)	–	(831)	(903)	–	(903)
Actuarial (gains) losses (Note 10 [f])[1]	–	(18)	(18)	–	16	16
Other administration costs	14	–	14	15	–	15
Losses from plan amendments[2]	–	–	–	–	123	123
Defined benefit expense (Note 10 [c])	897	239	1,136	826	393	1,219
Defined contribution expense	32	–	32	27	–	27
Total expense	929	239	1,168	853	393	1,246
Return on segregated securities (Note 6 [b])	–	(16)	(16)	–	(16)	(16)
Component included in employee benefits expense (Note 9)	**929**	**223**	**1,152**	853	377	1,230
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	(2,502)	–	(2,502)	(1,658)	–	(1,658)
Actuarial (gains) losses (Note10 [f])	(2,593)	(494)	(3,087)	1,847	287	2,134
Component included in other comprehensive (income) loss (Note 10 [c])[3,4]	**(5,095)**	**(494)**	**(5,589)**	189	287	476

1. Remeasurements for other long-term benefit plans are recognized in net profit or loss in the period in which they arise. The discount rate used to measure the Canada Post segment other long-term benefit plans at December 31, 2021, was 2.86% (2020 – 2.09%).
2. In Q2 2020, the arbitrator rendered her decision relating to collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). This ruling led to expanded eligibility for the post-employment health plan for employees represented by CUPW-RSMC, resulting in a plan amendment loss of $122 million. In Q1 2020, a plan amendment loss of $1 million was also recorded due to the ratification of a new collective agreement with the Canadian Postmasters and Assistants Association (CPAA), which included modifications of the post-employment health plan.
3. Amounts presented in this table exclude income tax expense of $1,401 million for the year ended December 31, 2021 (income tax recovery of $119 million at December 31, 2020).
4. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at December 31, 2021, was 3.22% and 3.26% respectively, compared to 2.67% and 2.74%, respectively, at December 31, 2020.

During the year, the Canada Post segment changed its approach for establishing discount rates, which represents a change in estimate. Discount rates now use actual plan cash flows rather than rates established for plans of similar duration, which resulted in a $73 million increase in defined benefit obligation recorded in other comprehensive income (OCI) for the year ended December 31, 2021. In addition, plan-specific discount rates rather than a weighted-average rate for similar plans are now being applied, resulting in a $15 million decrease in the defined benefit obligation recorded in OCI. Estimating the effect of these changes on future periods is impracticable, and therefore not disclosed.

As of December 31, 2021, separate discount rates are used to determine benefit obligations and service cost. This split discount rate approach does not change the defined benefit obligations for 2021, but does produce different service cost, interest cost and interest income on plan assets for

2022 and beyond. This change results in a $32 million decrease in defined benefit expense and increase in OCI for 2022.

(f) Actuarial (gains) losses

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

(in millions)

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial (gains) losses on other long-term benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	–	(11)	(11)	–	6	6
Actuarial (gains) losses arising from changes in financial assumptions	–	(12)	(12)	–	12	12
Actuarial (gains) losses arising from experience adjustments	–	5	5	–	(2)	(2)
Actuarial (gains) losses included in net profit (Note 10 [e])	–	(18)	(18)	–	16	16
Actuarial (gains) losses on defined benefit obligations:						
Actuarial gains arising from changes in demographic assumptions	–	(41)	(41)	(55)	–	(55)
Actuarial (gains) losses arising from changes in financial assumptions	(2,982)	(496)	(3,478)	2,219	283	2,502
Actuarial (gains) losses arising from experience adjustments	389	43	432	(317)	4	(313)
Actuarial losses included in other comprehensive income (Note 10 [e])	**(2,593)**	**(494)**	**(3,087)**	1,847	287	2,134
Total actuarial losses (Note 10 [c])	**(2,593)**	**(512)**	**(3,105)**	1,847	303	2,150

(g) Significant actuarial assumptions

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

	As at December 31, 2021		As at December 31, 2020	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	3.22%	3.26%	2.67%	2.74%
Consumer price index	2.00%	2.00%	2.00%	2.00%
Defined benefit expense:				
Discount rate	2.67%	2.74%	3.10%	3.20%
Consumer price index	2.00%	2.00%	2.00%	2.00%
Healthcare cost trend rate[1]	N/A	4.97%	N/A	5.07%

1. For 2021 and 2020, the healthcare cost trend rates were 4.97% and 5.07%, respectively, decreasing progressively to a rate of 4.00% by 2040.

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

	As at December 31, 2021	As at December 31, 2020
Life expectancy[1] at age 60 at December 31, 2021, and 2020 (in years):		
Males	26	26
Females	29	29
Life expectancy[1] at age 60 at December 31, 2041, and 2040 (in years):		
Males	27	27
Females	30	30

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

(h) Sensitivity analysis

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

(in millions)

	As at December 31, 2021			As at December 31, 2020		
	Pension benefit plan	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:						
0.5% increase in discount rate	(2,482)	(310)	(2,792)	(2,671)	(356)	(3,027)
0.5% decrease in discount rate	2,704	352	3,056	3,032	406	3,438
Consumer price index (CPI) sensitivity:						
0.25% increase in CPI	1,085	35	1,120	1,191	43	1,234
0.25% decrease in CPI	(1,049)	(33)	(1,082)	(1,150)	(41)	(1,191)
Mortality table sensitivity:						
10% increase in mortality tables	(761)	(90)	(851)	(851)	(110)	(961)
10% decrease in mortality tables	780	105	885	873	128	1,001
Healthcare cost trend rate sensitivity:						
1% increase in healthcare trend rates	N/A	498	498	N/A	641	641
1% decrease in healthcare trend rates	N/A	(388)	(388)	N/A	(491)	(491)

This sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on these variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in amounts may not be linear. The sensitivity analysis has been calculated independently of changes in other significant assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining this sensitivity analysis are consistent with those used to determine the pension and other benefit plan obligations in 2020.

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

The weighted-average duration of the pension plans, other post-employment plans and other long-term employee benefit plan obligations for the Group of Companies ranges from 14 to 22, 13 to 20, and 2 to 8 years, respectively.

(i) Total cash payments and funding relief

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

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Benefits paid directly to beneficiaries for other benefit plans (Note 10 [c])	155	146
Employer regular contributions to pension benefit plans	388	360
Employer special contributions to pension benefit plans	64	34
Cash payments for defined benefit plans	607	540
Contributions to defined contribution plans	32	27
Total cash payments	**639**	567

Under the *Pension Benefits Standards Act, 1985,* and related regulations, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities based on the actuarial valuations over five years on a solvency basis. Under the Act and its regulations, Canada Post was not required to make solvency special payments for 2021.

In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. These proposed regulations have not yet been finalized. Without this relief, Canada Post expects to make estimated solvency special payments of $796 million for 2022, as the solvency relief of 15% available under the *Pension Benefits Standards Act, 1985,* will be fully used during the year.

(j) Future expected contributions

In 2022, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $446 million including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $334 million.

11. Income Taxes

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

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

(in millions)

	December 31, 2020	**Recognized in net loss**	**Recognized in OCI**	**December 31, 2021**
Net deferred tax assets (liabilities)				
Capital assets	(103)	(28)	–	(131)
Right-of-use assets	(317)	(21)	–	(338)
Salaries and benefits payable and related provisions	57	(38)	–	19
Lease Liabilities	366	20	–	386
Pension, other post-employment and other long-term benefit liabilities	1,902	132	(1,401)	633
Other	(22)	3	10	(9)
Net deferred tax assets	1,883	**68**	**(1,391)**	**560**

(in millions)

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

As presented in the consolidated statement of financial position:

(in millions)

	December 31, 2021	December 31, 2020
Deferred tax assets	572	1,883
Deferred tax liabilities, included in non-current other liabilities	12	–
Net deferred tax assets	**560**	1,883

Recognition of the deferred tax asset is based on management's assessment of all available evidence, such as long-term forecasted operating results, which suggests that realizing the deferred tax asset is probable.

Deferred tax liabilities were not recognized for temporary differences associated with investments in subsidiaries as the Corporation is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of these temporary differences at December 31, 2021, was $791 million (2020 – $508 million).

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

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Current tax expense (recovery)	9	(31)
Adjustments for prior years	–	(6)
Total current tax expense (recovery)	**9**	(37)
Deferred tax recovery relating to origination and reversal of temporary differences	(68)	(120)
Adjustments for prior years	–	4
Total deferred tax recovery	**(68)**	(116)
Tax recovery	**(59)**	(153)

The tax recovery differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2020 – 25%) to loss before tax. The reasons for the differences were as follows:

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Loss before tax	(246)	(626)
Federal tax at Corporation's statutory rate	(61)	(156)
Subsidiaries' provincial tax less federal tax abatement	4	3
Adjustments for prior years	(1)	(1)
Other	(1)	1
Tax recovery	**(59)**	(153)

The federal statutory tax rate, which is the applicable long-term federal statutory tax rate, stood at 25% for 2021 and 2020.

12. Goodwill

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

(in millions)

	As at December 31, 2021			As at December 31, 2020
	Purolator segment	SCI segment	**Total**	Total
Balance, beginning and end of the year	121	9	**130**	130

Goodwill impairment testing

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

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

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (2020 – 2.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 15.9% (2020 – 15.0%), which is based on Purolator's weighted-average cost of capital.

13. Trade and Other Payables

(in millions)

	As at December 31, 2021	As at December 31, 2020
Trade payables	219	181
Accruals and other payables	494	491
Payables to foreign postal administrations	88	87
Outstanding money orders	17	19
Taxes payable	63	100
Total	**881**	878

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

14. Provisions

The following table presents the movement in provisions for the year ended December 31, 2021:

(in millions)

	Claims	Other	Total
Balance at December 31, 2020	41	20	61
Additional provisions recognized	14	13	27
Provisions used during the year	(11)	(15)	(26)
Reduction from remeasurement of provisions	(2)	(3)	(5)
Balance at December 31, 2021	**42**	**15**	**57**

Claims

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

Other

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

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

15. Labour-related Matters

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

The following matters have evolved during the year ended December 31, 2021:

(a) Canada Post and the Canadian Union of Postal Workers (CUPW) have completed implementing the arbitrator's May 2018 pay equity decision. Adjustments were retroactive to January 1, 2016.

(b) On June 11, 2020, the arbitrator released her decision under the binding arbitration process to replace expired collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). These four-year agreements expired December 31, 2021, (RSMC) and January 31, 2022, (UPO) and included annual wage increases (both units), together with changes to a number of other provisions. The Corporation has implemented the decision.

(c) An implementation committee with representatives from the Canadian Postmasters and Assistants Association (CPAA) and Canada Post is implementing the May 2019 settlement approved by the Canadian Human Rights Commission regarding the CPAA's complaint under the *Canadian Human Rights Act* alleging gender-based pay discrimination for the period 1992-97. Payments to impacted employees have commenced and are ongoing.

(d) Payments are being finalized in the implementation of the 2013 memorandum of agreement between the Public Service Alliance of Canada (PSAC) and the Corporation regarding the Canadian Human Rights Tribunal (Tribunal) decision related to PSAC's pay equity complaint. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement under the memorandum of agreement. The five-year time frame ended July 28, 2021.

As the Corporation implements decisions related to these labour-related matters, such provisions may be adjusted in subsequent periods as it is not possible to predict final settlements. Further detailed information will not be provided as it could be prejudicial to the Corporation.

16. Contingent Liabilities

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

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

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

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

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

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

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

17. Loans and Borrowings

(in millions)

	As at December 31, 2021		As at December 31, 2020	
	Fair value[3]	**Carrying value**	Fair value[3]	Carrying value
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,2]	545	499	577	499
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16[1,2]	653	499	713	498
Total loans and borrowings (all non-current)	**1,198**	**998**	1,290	997

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.
3. The estimated fair values disclosed for loans and borrowing are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2021, and 2020.

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

Interest expense on loans and borrowings amounted to $42 million (2020 – $42 million) and is accrued to trade and other payables. Interest paid is included in cash flows from operating activities in the consolidated statement of cash flows.

Future principal repayments on loans and borrowings were as follows:

(in millions)

	As at December 31, 2021	As at December 31, 2020
Maturity:		
2025	500	500
2040	500	500
	1,000	1,000

18. Lease Liabilities

(a) Lease liabilities

(in millions)

	As at December 31, 2021	As at December 31, 2020
Maturity analysis – contractual undiscounted cash flows[1,2]		
Less than one year	159	157
One to five years	567	527
More than five years	1,240	1,197
Total undiscounted lease liabilities	**1,966**	1,881
Lease liabilities in the consolidated statement of financial position	**1,514**	1,414
Current lease liabilities	**123**	122
Non-current lease liabilities	**1,391**	1,292

1. Included in the above table are lease payments (undiscounted cash flows) to be made to related parties in the normal course of business, in the amount of $30 million for premises used in postal operations (2020 – $26 million).
2. Leases that have not yet commenced, but which have been committed as at December 31, 2021, have future cash outflows of $62 million that are excluded from the measurement of lease liabilities (December 31, 2020 – $74 million).

(b) Changes in liabilities arising from financing activities

(in millions)

	December 31, 2019	Payments	Interest	Net lease additions	December 31, 2020	Payments	Interest	Net lease additions	**December 31, 2021**
Lease liabilities	1,299	(159)	41	233	1,414	(164)	39	225	**1,514**

19. Capital Management

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

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

Total outstanding loans and borrowings were $998 million at December 31, 2021 (2020 – $997 million). The equity of Canada was in a surplus position of $3,025 million at December 31, 2021, compared to a deficit position of $919 million as at December 31, 2020. The increase in the equity of Canada was attributable to the 2021 net loss offset by remeasurement gains of defined benefit plans, which are recognized in other comprehensive income and are included immediately in retained earnings or accumulated deficit. In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. Additional details and risks associated with the funding relief are disclosed in Note 10 (i).

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

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

These objectives and their related strategies are reviewed and approved each year by the Board of Directors through the annual Corporate Plan, which is then forwarded for Treasury Board approval. The Corporation's 2022-26 Corporate Plan was filed with the Minister responsible for Canada Post on November 5, 2021.

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

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

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

20. Financial Instruments and Risk Management

Financial risk factors

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

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

(a) Market risk

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

(a.1) Interest rate risk – The Group of Companies' investments consist of cash equivalents, marketable securities and segregated securities and are classified as fair value through other comprehensive income. Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value for changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment liabilities to which they are externally restricted. The average duration in the segregated securities portfolio was 11 years as at December 31, 2021 (2020 – 12 years).

The Group of Companies has performed a sensitivity analysis on interest rate risk using a 1% increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities and other comprehensive income by $54 million at December 31, 2021 (2020 – $64 million). Such change in value would be partially offset by the change in value of certain post-employment benefit liabilities. All the Group of Companies' loans and borrowings have fixed interest rates with prepayment terms at a premium to fair value.

(a.2) Foreign exchange risk – Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro (€), British pound (£), Japanese yen (JP¥) and Chinese renminbi (CN¥), whereas payment is usually denominated in US$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. The mark-to-market adjustment on outstanding forward contracts held at December 31, 2021, and 2020, was not significant.

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

(in millions)

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange gains	Derivative gains (losses)	Total
Unrealized	5	(1)	4	1	1	2
Realized	(8)	10	2	–	(6)	(6)
Total	**(3)**	**9**	**6**	1	(5)	(4)

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2021, all other variables held constant, would have been an increase or decrease in net loss for the year by $21 million (2020 – $13 million).

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

(b) Credit risk

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

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

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

Cash equivalents, marketable and segregated securities, which are investments in debt securities, are considered to have low credit risk, and thus the impairment provision recognized during the period was limited to 12-month expected losses. The probability-of-default approach is used to determine the 12-month expected credit loss, which uses a historical default rate implied from external credit agencies for similar grade debt securities. The historical defaults are adjusted, if necessary, by using current and forward-looking information such as bond spreads. The debt securities are grouped by their individual credit rating and the 12-month expected credit loss is measured on a collective basis. A security designated to be in default implies that the issuer has either not met a legally scheduled payment or has made it clear that it will miss such a payment in the near future or, in certain cases, that there has been a distressed exchange. The debt securities are considered credit impaired when they are in default. We assessed and increased our estimate of the 12-month expected credit loss on certain marketable securities and segregated asset investments for investment categories with maturities greater than 12 months in 2021. There were no significant allowance and no impairment loss on investments recognized during the year and or held at year's end (2020 – nil).

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

(in millions)

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	R-1 (high)[1] / AAA[4]	R-1 (middle)[2] / AA[5]	R-1 (low)[3] / A[6]	R-1 (high) / AAA	R-1 (middle) / AA	R-1 (low) / A
Cash equivalents	–	–	–	45	117	–
Marketable securities	614	665	82	762	490	49
Segregated securities	242	117	123	279	126	132
12-month expected credit loss rate	0.00%	0.29%	0.29%	0.00%	0.29%	0.29%

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

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

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

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

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

(b.2) **Trade and other receivables** – Credit risk associated with trade receivables from wholesale and commercial customers is mitigated by the Group of Companies' large customer base, which covers substantially all business sectors in Canada. The Group of Companies follows a program of individual customer credit evaluation based on financial strength and payment history and limits the amount of credit. The Group of Companies monitors customer accounts against these credit limits and the aging of past-due invoices. The Group of Companies establishes an allowance for doubtful accounts using the simplified approach, which requires the use of lifetime expected credit losses. The Group of Companies estimates the lifetime expected credit losses from a combination of risk modelling and specific allowances. The risk model uses forward-looking information to identify a deterioration of credit. The specific allowances include amounts known to be in default, which have not been written off because internal collection efforts continue. A trade receivable designated to be in default implies that the customer has not met the agreed payment terms and has stated through internal collection efforts that it will not pay part or all of the amount due. Trade receivables sent to a third-party collection agency are automatically considered in default. Trade receivables are considered credit impaired when they are in default.

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

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

(in millions)

	As at December 31, 2021	As at December 31, 2020
Trade receivables:		
Current	505	538
1-15 days past due	88	98
16-30 days past due	24	22
Over 30 days past due	33	42
Allowance for doubtful accounts	(9)	(11)
Trade receivables – net	641	689
Trade receivables from foreign postal administrations	221	264
Risk management financial assets	–	1
Other receivables	106	111
Trade and other receivables	**968**	1,065

The allowance for doubtful accounts is a provision representing potential accounts receivable losses. A weighted average expected loss rate for the Group of Companies ranged from 0% to 1.5% (2020 – 0% to 1.3%), based on historical write-offs, is applied to current and past due amounts and trade receivables aging is monitored to identify potential credit deterioration. When credit deterioration is indicative of a possible economic downturn, a factor is applied to the historical rate. The allowance may also include balances known to be in default that have not been written off because internal collection efforts continue.

The reconciliation of the allowance for doubtful accounts for trade receivables was as follows:

(in millions)

	As at December 31, 2021	As at December 31, 2020
Opening allowance for doubtful accounts:	11	5
Increase in allowance in the period recognized in profit and loss	2	15
Decrease from write-off	(4)	(9)
Closing allowance for doubtful accounts:	**9**	11

c) Liquidity risk

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

Under the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. Canada Post was not required to make solvency special payments for 2021. In December 2021, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* (proposed regulations) to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. These proposed regulations have not yet been finalized. Without this relief, solvency special payments related to the obligations of the Canada Post Corporation Registered Pension Plan will be required for 2022. Market volatility could have a significant effect on future solvency payments. See Note 10 (i) for additional information. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted to the Treasury Board for approval on the recommendation of the Minister responsible for Canada Post and the Minister of Finance, as part of its Corporate Plan approval process (Note 19). Pursuant to the *Canada Post Corporation Act*, the Corporation may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4, 2009-10*, the Corporation is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding $2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance. Lease liabilities are not considered toward this limit. As part of the total authorized borrowing limit, a maximum of $100 million (2020 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2021.

The Corporation's loans and borrowings amounted to $998 million (2020 – $997 million), and letters of credit of $16 million (2020 – $16 million) were issued at December 31, 2021. No amounts were drawn on the short-term borrowing facilities as of December 31, 2021. The Canada Post segment had $2,249 million of unrestricted liquid investments on hand as at December 31, 2021, for a net liquidity position of $1,251 million (after outstanding loans and borrowings of $998 million).

As at December 31, 2021, the Corporation's subsidiaries had access to financing facilities totalling $165 million (2020 – $155 million), of which $2 million (2020 – $6 million) was drawn at year's end. The subsidiaries also had letters of credit issued in the amount of $9 million (2020 – $9 million). Additional information regarding the Group of Companies' loans and borrowings is disclosed in Note 17.

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

As at December 31, 2021

(in millions)

	Less than one year	Later than one year and not later than five years	Later than five years	Total
Non-interest bearing[1]	1,317	–	–	1,317
Bonds, Series 1	21	88	805	914
Bonds, Series 2	21	561	–	582
	1,359	**649**	**805**	**2,813**

As at December 31, 2020

(in millions)

	Less than one year	Later than one year and not later than five years	Later than five years	Total
Non-interest bearing[1]	1,304	–	–	1,304
Bonds, Series 1	22	87	827	936
Bonds, Series 2	20	582	–	602
	1,346	669	827	2,842

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

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

21. Commitments

The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $167 million that extend to 2025.

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

22. Revenue from Contracts with Customers

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

(in millions)

	As at December 31, 2021	As at December 31, 2020
Receivables from contracts with customers	882	996
Other receivables	52	48
Contract assets	34	21
Total trade, other receivables and contract assets	**968**	1,065

(in millions)

	As at December 31, 2021	As at December 31, 2020
Contract liabilities included in:		
Deferred revenue (current)	186	218
Other liabilities (non-current)	1	7
Total	**187**	225

The following table includes a reconciliation of contract liabilities:

(in millions)

	As at December 31, 2021	As at December 31, 2020
Contract liabilities, beginning of period	225	156
Revenue recognized included in Deferred revenue (current) and Other liabilities (non-current), beginning of period	(224)	(149)
Increase due to cash received or amounts billed, excluding amounts recognized as revenue, during period	186	218
Contract liabilities, end of period	**187**	225

23. Other Operating Costs

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Non-labour collection, processing and delivery	2,065	1,844
Property, facilities and maintenance	319	297
Selling, administrative and other	726	665
Other operating costs	**3,110**	2,806

24. Investing and Financing Income (Expense)

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Interest income	17	35
Gain on sale of capital assets and assets held for sale	35	2
Other income	2	4
Investment and other income	**54**	41
Interest expense	(83)	(83)
Other expense	(21)	(14)
Finance costs and other expense	**(104)**	(97)
Investing and financing expense, net	**(50)**	(56)

25. Other Comprehensive Income

(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 adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2019	59	5	64		
Gains (losses) arising	40	(1)	39	(476)	(437)
Income taxes	(11)	–	(11)	119	108
Net	29	(1)	28	(357)	(329)
Accumulated balance as at December 31, 2020	88	4	92		
Gains (losses) arising	(42)	(1)	(43)	5,589	5,546
Income taxes	10	–	10	(1,401)	(1,391)
Net	**(32)**	**(1)**	**(33)**	**4,188**	**4,155**
Accumulated balance as at December 31, 2021	**56**	**3**	**59**		

26. Related Party Transactions

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

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

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Related party revenue	**307**	221
Compensation payments for programs		
Government mail and mailing of materials for persons who are blind	**22**	22
Payments from related parties for premises leased from the Corporation	**6**	7
Related party expenditures	**25**	14

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for persons who are blind sent free of postage (Note 2).

(in millions)

	As at December 31, 2021	As at December 31, 2020
Due to/from related parties		
Included in trade and other receivables	**21**	15
Included in trade and other payables	**9**	20
Deferred revenue from related parties	**5**	1

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

(b) Key management personnel compensation

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

The remuneration of the KMP was as follows:

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Short-term employee benefits	**12**	10
Post-employment benefits	**1**	1
Total compensation	**13**	11

The KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.8 million (2020 – $0.6 million).

In addition to the amounts in the table, KMP remuneration relating to one-time termination benefits of $1.3 million was incurred in 2021 (2020 – $1.2 million). There were no transactions with the KMP other than compensation.

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

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by the KMP of the Group of Companies. Affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2021, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $13 million (2020 – $13 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(d) Transactions with the Corporation's pension plans

During the year, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $14 million (2020 – $12 million). As at December 31, 2021, $4 million (2020 – $11 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables. Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 10 (i).

27. Segmented and Disaggregation of Revenue Information

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

For the year ended December 31, 2021, the IT business unit earned intersegment revenue of $311 million (2020 – $311 million), incurred cost of operations of $311 million (2020 – $311 million), and earned net profit of nil (2020 – nil). Total assets and liabilities at December 31, 2021, were $148 million and $94 million, respectively (2020 – $149 million and $102 million, respectively).

For the year ended and as at December 31, 2021
(in millions)

	Canada Post	Purolator	SCI	Other	Total
Revenue from external customers	7,237	2,571	304	–	10,112
Intersegment revenue	112	37	44	(193)	–
Revenue from operations	7,349	2,608	348	(193)	10,112
Labour and employee benefits	5,347	1,126	169	106	6,748
Other operating costs	2,197	1,102	114	(303)	3,110
Depreciation and amortization	323	87	39	1	450
Cost of operations	7,867	2,315	322	(196)	10,308
Profit (loss) from operations	(518)	293	26	3	(196)
Investment and other income	103	2	1	(52)	54
Finance costs and other expense	(75)	(26)	(3)	–	(104)
Profit (loss) before tax	(490)	269	24	(49)	(246)
Tax expense (recovery)	(138)	73	6	–	(59)
Net profit (loss)	(352)	196	18	(49)	(187)
Total assets	9,688	1,839	303	(314)	11,516
Additions to capital assets	438	232	6	1	677
Total liabilities	7,439	845	167	(20)	8,431

For the year ended and as at December 31, 2020

(in millions)

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

(b) Geographic area revenue information

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

(in millions)

	For the year ended December 31, 2021	For the year ended December 31, 2020
Canada	9,611	8,782
United States	301	281
Rest of the world	200	255
Total revenue	**10,112**	9,318

(c) Products and services revenue information

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

(in millions)

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services						
Parcels	6,552	(191)	6,361	5,871	(157)	5,714
Transaction Mail	1,820	(2)	1,818	1,773	(2)	1,771
Direct Marketing	922	–	922	809	–	809
Other revenue	561	(311)	250	515	(311)	204
	9,855	(504)	9,351	8,968	(470)	8,498
Unattributed revenue						
Stamp postage	363	–	363	392	–	392
Meter postage	398	–	398	428	–	428
	761	–	761	820	–	820
Total	**10,616**	**(504)**	**10,112**	9,788	(470)	9,318

(d) Sales channel revenue information

Sales channel revenue is reported for domestic revenue from commercial customers and for domestic retail from sales to consumers. International revenue includes revenue from the United States and the rest of the world as defined in Note 27 (b).

(in millions)

	For the year ended December 31, 2021			For the year ended December 31, 2020		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	6,985	(193)	6,792	6,332	(159)	6,173
Retail	2,812	–	2,812	2,612	–	2,612
	9,797	(193)	9,604	8,944	(159)	8,785
International	501	–	501	536	–	536
Other	318	(311)	7	308	(311)	(3)
Total	**10,616**	**(504)**	**10,112**	9,788	(470)	9,318

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