2022
ANNUAL REPORT
Canada Post Corporation

—

FINANCIAL SECTION

For the period ended December 31, 2022

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, 2022, 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, the Group of Companies or the Group. 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. Percentage changes for revenue, volume and cost of operations in this report are adjusted for differences in business or paid days in 2022 compared to 2021. Fewer business days and paid days result in decreased revenue and volume, and decreased cost of operations, respectively, while the opposite is true for additional days. Where these differences impacted financial results, they have been highlighted in this report. These days varied by reporting entity, as follows:

	Business days	**Paid days**
Canada Post Group of Companies and Canada Post	(1)	(1)
Purolator	(1)	(1)
SCI	(1)	(1)

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 23, 2023.

Forward-looking statements

This Annual Report, including the MD&A, contains forward-looking statements that reflect management's expectations regarding the Group's 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 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 provides future-oriented financial information or a financial outlook, such as future growth and financial performance, the Group 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 Group and summary of 2022 financial results.

The Group of Companies is one of Canada's largest employers with over 83,600 people (full-time and part-time employees, including temporary, casual and term employees). During 2022, employees delivered over 6.7 billion pieces of mail, parcels and messages to over 17 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with close to 5,900 retail post offices across the country.

Under the *Canada Post Corporation Act* (Act), Canada Post has a mandate to provide a high-quality postal service at a reasonable price to all Canadians – rural and urban, individuals and businesses – in a secure and financially self-sustaining manner. Canada Post is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement, and has a single shareholder, the Government of Canada.

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.

According to the Act, we also deliver certain public policy programs, for example:

- government mailings free of postage;
- free mailing of materials for people who are blind;
- a reduced postage rate for libraries to move eligible materials between libraries and their patrons.

We also offer a free Regular Parcel™ service for family and friends of deployed Canadian Armed Forces personnel during the holiday season and offer free, year-round, Lettermail™ service for military families.

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, with more people shifting to the internet and smart mobile devices to communicate and transact, posts have experienced a structural decline in mail volumes as customers shift to digital alternatives, while the widespread adoption of ecommerce, accelerated by COVID-19, has created a highly competitive parcel delivery landscape.

Financial and business highlights

Segment results – Profit (loss) before tax

(in millions of dollars)

	2022	2021	$ change	% change
Canada Post	(548)	(490)	(58)	(11.9)%
Purolator	317	269	48	17.6%
SCI	16	24	(8)	(31.2)%
Other	(77)	(49)	(28)	(56.6)%
Canada Post Group of Companies	**(292)**	**(246)**	**(46)**	**(18.8)%**

For the fifth consecutive year, the Group posted a loss in 2022. Results were attributable to a loss in the Canada Post segment partially offset by profit in the Purolator and SCI segments.

Canada Post segment

Financial self-sustainability

The parcel delivery gig economy has transformed over the past few years, resulting in increased competition on a global scale. Canadian consumers have come to rely on delivery intermediaries who have asset-light delivery models and significantly lower cost structures compared to traditional carriers. Many competitors are expanding their reach geographically and offering services on the weekend. Competitors are targeting Canada Post's market share as the ecommerce market is expected to more than double in size over the next decade, while ecommerce merchants and consumers increasingly have higher expectations for speed, price and service. Our Parcels line of business makes up approximately half of our revenue; however, our market share in the highly competitive delivery market has decreased over the last five years.

Digital solutions continue to disrupt our Transaction Mail and Direct Marketing businesses. Declining Lettermail volumes, financial commitments and capacity constraints, and maintaining success in a highly competitive parcel industry are inherent risks to our mail-based business model that put our long-term financial self-sustainability at risk. To address these structural challenges, the Corporation submitted to the Government of Canada a strategic plan that is underpinned by a realistic financial recovery plan designed to address the magnitude and significance of recurring financial losses over the past five years.

Economic uncertainty and recession

Macroeconomic challenges, including reduced consumer confidence and softening ecommerce demand, has negatively impacted many businesses in Canada and globally. Risks to our business, precipitated by higher inflation, interest rate hikes, and historic labour shortages, have been intensified by supply chain disruptions due to COVID-19 and worldwide geopolitical tensions. These factors, which began in the second quarter and continued through the remainder of 2022, have resulted in reduced volumes and revenue for Canada Post as consumers returned to in-store shopping and customers sought alternative delivery arrangements. The impact to our business, including increased cost pressures and delays to transformation projects, could continue into 2023.

A Stronger Canada – Delivered

The needs of Canadians are changing significantly, and we are changing with them. Canadians expect Canada Post to be a social and environmental leader, to continue investing in innovative products and services that support the small businesses that rely heavily on Canada Post, and to create a safe and healthy workplace for our employees. A transformation plan, A

Stronger Canada – Delivered, underpinned by a plan to return to financial self-sustainability, was adopted and communicated to employees in 2021, then shared with Canadians in 2022 through an integrated brand strategy campaign, Delivering More. Our transformation plan – our commitment to Canadians – is anchored by three pillars: providing a service all Canadians can count on, social and environmental leadership and doing right by our people.

Delivering on this multi-faceted transformation plan is imperative. In 2022, we made meaningful progress on all aspects of our mandate and purpose, including on Indigenous reconciliation, accessibility, climate action and improving service to rural Canadians. Our progress on initiatives supporting this plan is included in Section 4 Capabilities.

Revenue by line of business

(in millions of dollars)

	Revenue (in millions of dollars)				**Volume** (in millions of pieces)			
	2022	2021	$ change	% change	**2022**	2021	Change	% change
Parcels	3,573	3,672	(99)	(2.3)%	286	361	(75)	(20.4)%
Transaction Mail	2,424	2,494	(70)	(2.4)%	2,313	2,478	(165)	(6.3)%
Direct Marketing	954	922	32	3.9%	3,985	3,918	67	2.1%
Other	231	261	(30)	(10.7)%	–	–	–	–
Total	**7,182**	**7,349**	**(167)**	**(1.9)%**	**6,584**	**6,757**	**(173)**	**(2.2)%**

Parcels volumes declined

The return of in-store shopping, the rising cost of living and growing economic uncertainty contributed to lower demand for online shopping and lower parcel volumes compared to the elevated levels earlier in the pandemic. In 2022, revenue and volumes of our Parcels line of business declined (-2.3% and -20.4%, respectively), compared to 2021; however, our Parcels revenue is higher than before the pandemic. The financial impact of volume declines was partially mitigated by rate action, proactive management of our commercial customer and product mix to better use existing capacity and fuel surcharges tied to market variability. Global supply chain disruptions, heightened international tensions and shipping capacity issues continued to negatively affect inbound revenue and volumes. However, the fundamentals remain strong for long-term growth in the ecommerce market.

Transaction Mail volume erosion continued

Our traditional Lettermail™ service continues to be replaced by digital communications. In 2022, Transaction Mail revenue and volumes fell (-2.4% and -6.3%, respectively), compared to 2021, which included positive impacts from the 2021 Census and 2021 federal election. While increases in commercial rates in January 2022 partially offset revenue declines, regulated stamp prices that were maintained at 2020 levels also contributed to poor performance. To mitigate declines due to digital substitution, we will continue to make investments in innovative services to connect Lettermail to a digital experience.

Direct Marketing affected by economic uncertainty

Direct Marketing strengthens our value proposition with business customers, as it helps businesses acquire new customers, secure repeat purchases and generate customer loyalty. In 2022, Direct Marketing revenue and volumes increased (+3.9% and +2.1%, respectively), compared to 2021. Results were driven by a post-lockdown return to in-store shopping, a stabilizing supply chain to stock promotional items and the direct marketing pieces that support them. However, our customers' marketing budgets and spending began to contract in the second half of 2022 due to general economic uncertainty. Direct Marketing is an important revenue generator for our business and we are innovating to connect this line of business to a digital experience and maximize value.

Decline in costs

In 2022, the cost of operations decreased (-0.8%), compared to 2021, mostly due to lower employee benefits driven by higher discount rates and lower labour attributed to parcel volume declines. As our business continues to shift from mail to parcels, we expect increased costs for collection, processing and delivery, as well as costs to expand capacity, because it is more labour intensive to process and deliver parcels than letters. In addition, Canada Post has an obligation to deliver to all addresses, which results in higher costs as the number of Canadian addresses rises. In 2022, there were approximately 219,000 more addresses than in 2021.

Investments

Strategic investments are imperative for the Corporation to transform itself. We invested $722 million in 2022, comprising capital and non-capital investments of $453 million and $269 million, respectively. Our more significant investments focused on construction of the new Albert Jackson Processing Centre in the Greater Toronto Area, adding parcel lockers to our network, replenishing our street furniture, facility improvement projects, and upgrading our enterprise resource planning (ERP) system through the completion of the global design phase.

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 2022, market-driven volatility continued to have an impact on the segment's RPP and other post-employment and long-term benefit obligation. Accounting remeasurement gains of $3.6 billion, net of tax, were recorded in other comprehensive income contributing to an increase of the positive equity at December 31, 2022. The actuarially determined expense recorded in the statement of comprehensive income and regular payments were not affected by these remeasurements.

The solvency position of the segment's RPP also improved to an estimated deficit of $1.7 billion (using the three-year average solvency ratio basis) and an estimated surplus of $2.4 billion (using market value of plan assets) as at December 31, 2022, compared to the December 31, 2021, valuations with deficits of $4.9 billion and $2.6 billion, respectively. The gains were primarily driven by an increase in discount rates, partially offset by lower-than-expected asset returns.

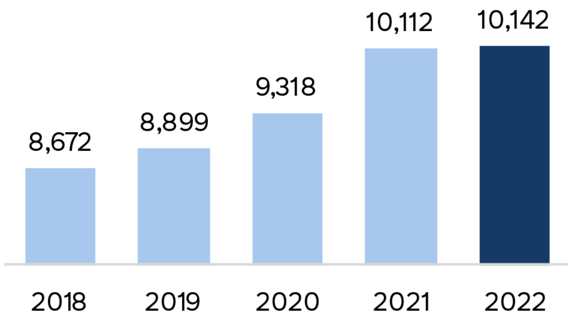
Under current regulations, Canada Post did not have to make solvency special payments in 2022. In April 2022, the Government of Canada approved the *Canada Post Corporation Pension Plan Funding Regulations* to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. Without this relief, the Corporation would have been required to make special solvency payments of $794 million for 2022 and an estimated $339 million for 2023.

The overall funding position of the RPP improved in 2022 such that Canada Post may be required to make mandatory use of the surplus and not be permitted to make regular contributions in 2023 once the actuarial valuation is filed. Final actuarial valuation results may differ significantly from these estimates.

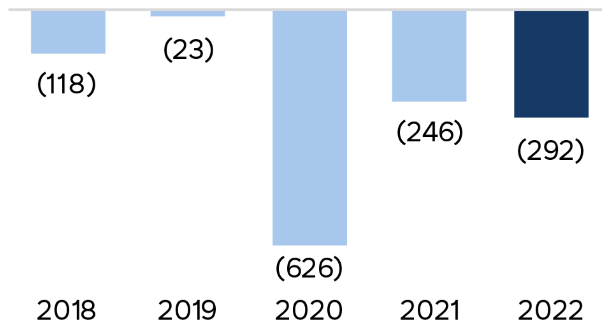
Canada Post Group of Companies – 2022

The charts below present a summary of the 2022 consolidated results for the Canada Post Group of Companies.

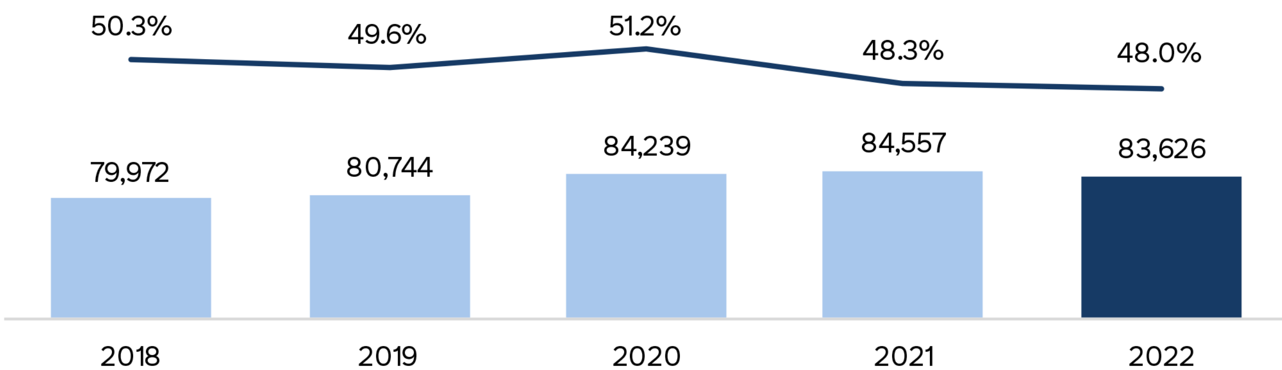
Revenue from operations
(in millions of dollars)



Profit (loss) before tax
(in millions of dollars)



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



‡ 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's consolidated performance.

Years ended December 31, in millions of dollars

	2022	2021	$ change	% change	Explanation of significant variances
Consolidated statement of comprehensive income					Discussed in Section 5 Discussion of Operations.
Revenue from operations	10,142	10,112	30	0.7%	Growth in the Purolator segment, partly offset by declines in the Canada Post and SCI segments.
Cost of operations	10,378	10,308	70	1.1%	Higher operating costs in the Purolator segment. In the Canada Post segment, lower employee benefits and labour were partially offset by higher non-labour costs.
Loss from operations	(236)	(196)	(40)	(20.8)%	Loss in the Canada Post segment, partially offset by profit in the Purolator and SCI segments.
Investing and financing expense, net	(56)	(50)	(6)	(10.9)%	Loss on disposal of capital assets in 2022 compared to gains in 2021, partially offset by higher interest income, in the Canada Post segment.
Loss before tax	(292)	(246)	(46)	(18.8)%	
Tax recovery	(64)	(59)	(5)	(9.3)%	Mainly due to a higher loss before tax in the Canada Post segment.
Net loss	(228)	(187)	(41)	(21.8)%	
Comprehensive income	3,354	3,968	(614)	(15.5)%	Remeasurement gains on pension and other post-employment plans due to an increase in discount rates offset by remeasurement losses resulting from lower-than-expected asset returns, as well as experience and other actuarial assumption adjustments.
Consolidated statement of cash flows					Discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	300	664	(364)	(54.8)%	Due to a non-cash decrease in pension expenses, timing of customer receipts and higher loss from operations.
Cash used in investing activities	(283)	(674)	391	57.9%	Mainly due to lower cash purchases of securities (net of sale proceeds).
Cash used in financing activities	(133)	(125)	(8)	(6.6)%	Higher payments of lease liabilities in the Canada Post segment.

2. Core Businesses and Strategy

A discussion of the business and strategy of our core businesses.

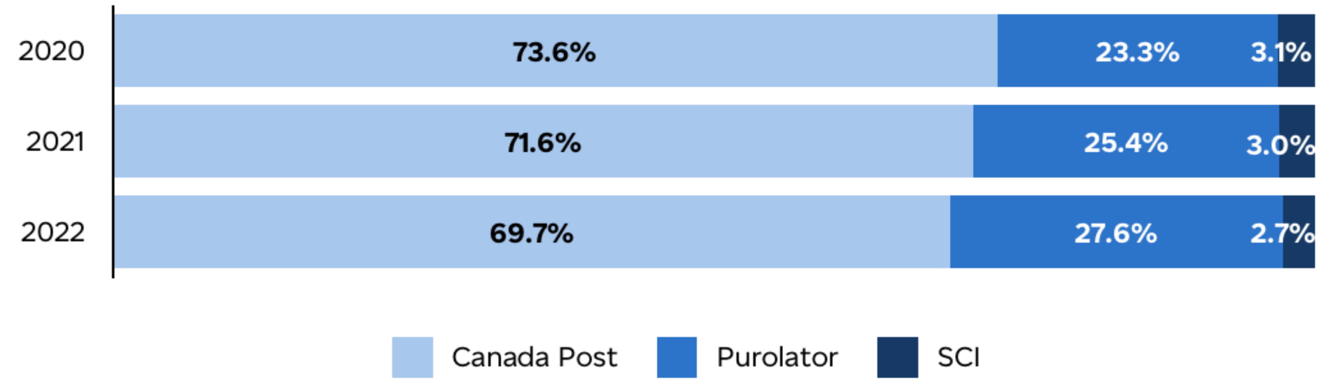
2.1 Our business

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

The Group provides a full range of delivery, logistics and fulfillment services to customers, and combined, they have annual revenue of over $10.1 billion. Demand for services is generally 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 has the largest retail network in Canada with over 8,000 retail locations, operates a fleet of over 20,400 vehicles and employs over 83,600 people (paid full-time and part-time employees, including temporary, casual and term employees).

In 2022, our employees delivered approximately 6.7 billion pieces of mail, parcels and messages to over 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 almost $7.2 billion in 2022. 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 $2.8 billion in 2022.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions. Its 2022 revenue was $327 million.

Innovapost Inc., 98% 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.

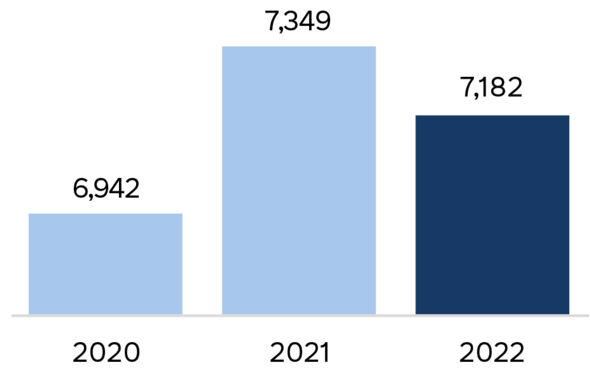
To ensure oversight of the subsidiaries, Canada Post executives sit on their boards and committees.

Canada Post segment

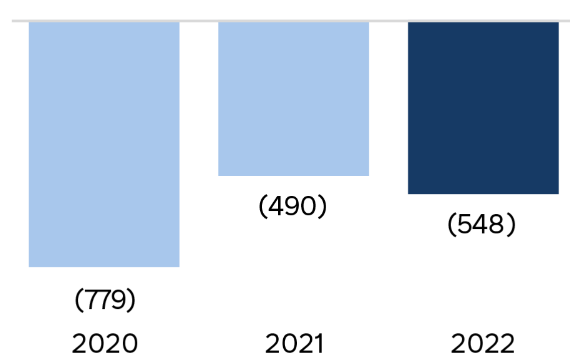
CANADA POSTES
POST CANADA

Canada Post operates Canada's largest retail network with almost 5,900 retail post offices and a fleet of over 14,300 vehicles that delivered almost 6.6 billion pieces of mail, parcels and messages in 2022. With almost 68,000 employees (full-time and part-time employees, including temporary, casual and term employees), Canada Post provides service to over 17 million addresses.

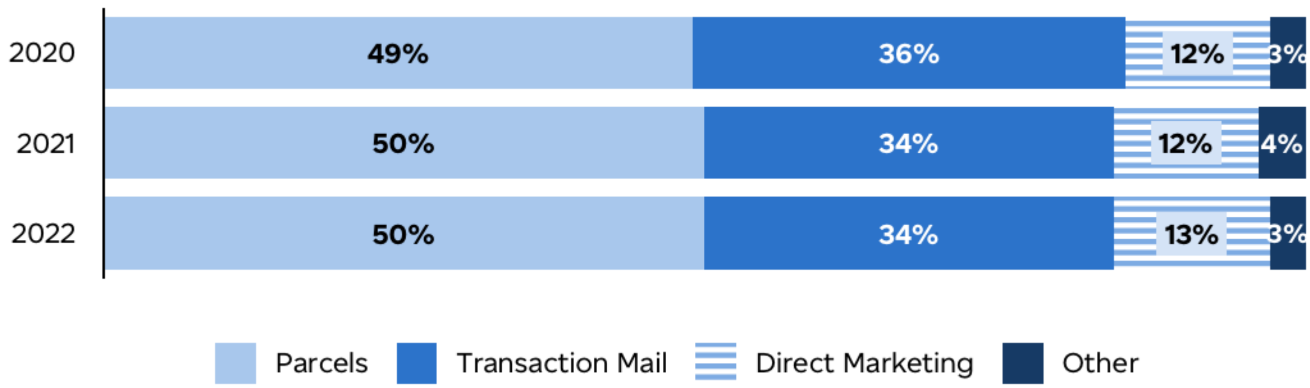
Revenue
(in millions of dollars)



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 very competitive market. Customers include private consumers, ecommerce platforms, businesses and retailers of all sizes, 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 continue to decline 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

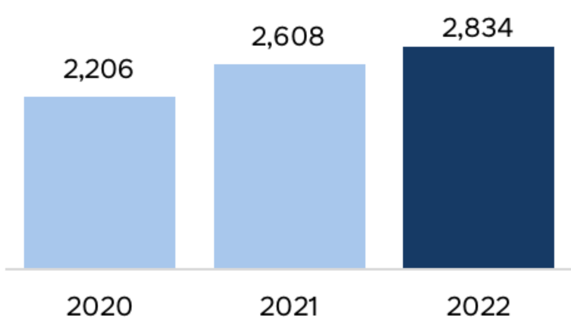
The Other category consists of a broad array of products and services, including mail redirection, data products, commemorative stamps, gifts and coins, and financial services.

Purolator segment

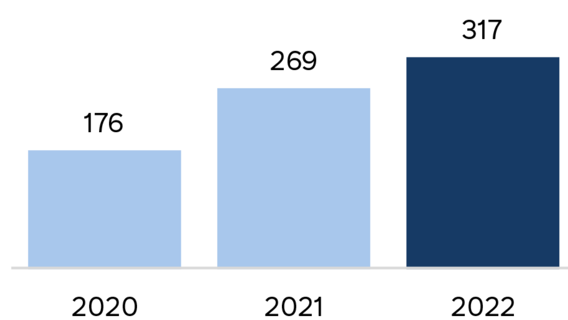
Purolator

Purolator is a leading Canadian company that proudly delivers premium courier services through its extensive transportation network across Canada and the U.S. With over 60 years of service in the marketplace, Purolator employs approximately 13,500 individuals across Canada and the U.S., while serving a diversified mix of more than 140,000 active customers across business-to-business (B2B) and business-to-consumer (B2C) segments. Purolator has 190 operations facilities, more than 6,000 vehicles, over 1,950 access points (shipping agents and centres, Mobile Quick Stop vehicles in metropolitan areas, self-serve kiosks and drop boxes, and parcel lockers) and 20 U.S. branches.

Revenue
(in millions of dollars)

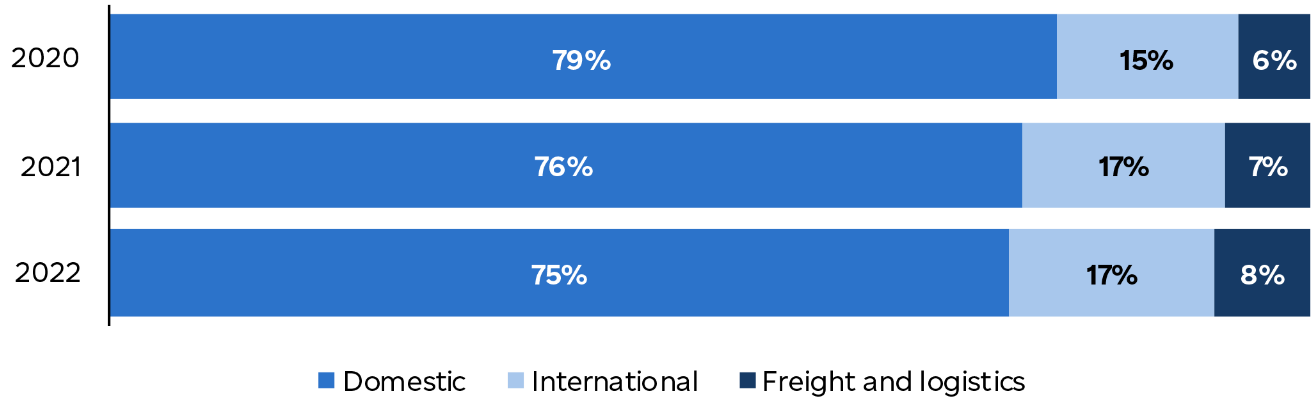


Profit before tax
(in millions of dollars)



Purolator has cultivated a strong brand and reputation in the marketplace with customers and employees. Purolator's efforts to advance its purpose-driven culture were recognized in Q1 2022, when Forbes named Purolator as Canada's Top Employer in the transportation and logistics industry, and again in Q3 2022, when Forbes recognized Purolator on the list of Canada's Best Employers for Diversity 2022. In addition, Purolator's strong history of philanthropic efforts is highlighted through the Purolator Tackle Hunger® program, which has delivered more than 19 million pounds of food to local food banks across Canada since the program began in 2003.

Revenue by line of business

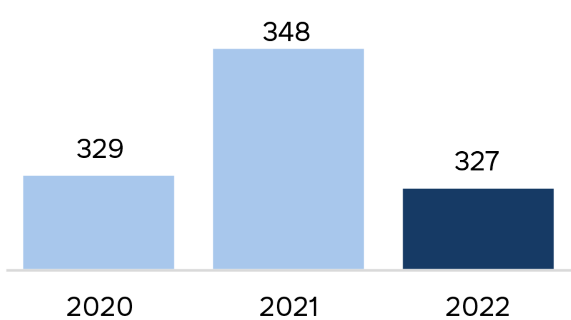


SCI segment

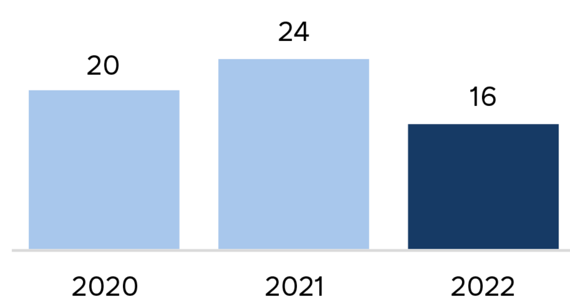
We'll make you even better.

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 an extensive Canada-wide distribution, fulfillment, and transport network, consisting of approximately 30 distribution centres coast to coast along with 35 field stocking locations and specialized transportation hubs.

Revenue
(in millions of dollars)



Profit before tax
(in millions of dollars)



SCI offers 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. Key market segments include omni-channel retail, technology, and health, beauty, and wellness. SCI's approximately 1,900 employees manage over $1 billion in client inventory every day and its broad scope of services allows the Group to offer end-to-end supply chain services to Canadian businesses.

Innovapost segment

Innovapost's revenue of $318 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

In 2022, COVID-19 restrictions loosened in many countries around the world, allowing for economic recovery to begin. However, supply chain issues like labour shortages, port closures and lack of shipping containers persisted, which resulted in container shipping costs increasing by tenfold at the height of COVID-19 in February 2022 compared to pre-pandemic pricing. These issues affected the ability of manufacturers and retailers to transport goods internationally and obtain inputs required to operate their businesses. In addition, geopolitical risks emerged, including the Russia-Ukraine conflict, which contributed to increased global commodity prices, primarily affecting coal, wheat and gas. With the demand for goods continuing to outpace supply and the rise of global commodity prices, consumers experienced significant inflation in the cost of goods. Consumer spending began to slow in the latter part of the year, a trend that is forecasted to continue in 2023. To help counteract global economic uncertainty and inflation, central banks around the world have increased interest rates. It is expected that a mild recession in key markets will develop in the first half of 2023, which may cause lower or negative growth in the gross domestic product and a rise in unemployment.

Canada

Canadians and Canadian retailers were not immune to the impact of the global economic uncertainty, inflation and supply chain issues which saw the consumer price index rise to 6.7% during 2022. Businesses were negatively affected by these macroeconomic challenges, which reduced consumer confidence and led to softening in ecommerce demand. Many businesses continued to have challenges acquiring goods and inputs, causing inventory levels to remain a problem. A shift from foreign to domestic suppliers is anticipated in 2023 to help counteract these issues in Canada. As COVID-19 restrictions were lifted in Canada in the first part of 2022, the Canadian market saw a slight shift from ecommerce back to in-person shopping, with the share of online spend dropping slightly compared to the prior year when pandemic restrictions kept many shoppers at home. This shift has not slowed delivery market competition, which has continued to see new entrants with low-cost labour models entering the market. Additionally, wage inflation increased in 2022, leading to competition for employers when hiring and retaining critical employees. This situation presents a significant challenge and risk to Canada Post.

With increased pandemic-driven digital substitution, the growth of digital advertising continues to increase. Notably, the emergence of niche influencer marketing has doubled since 2019, and it is providing businesses with greater reach to potential consumers and additional competition for traditional physical forms of advertising such as Smartmail Marketing™.

Since 2006, declining mail volumes have resulted in a reduction of 64% 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 2022 and the preceding four years were as follows:

Transaction Mail (excluding outbound)	**2022**	2021	2020	2019	2018
Delivered volume change	(6.0)%	(2.0)%	(10.4)%	(6.3)%	(6.1)%
Delivery address change	1.3%	1.3%	1.2%	1.0%	1.2%
Mail volume decline per address	(7.2)%	(3.3)%	(11.5)%	(7.3)%	(7.2)%

2.3 Our strategy and strategic priorities

Canada Post segment

In 2022, Canada Post shared its new purpose and transformation plan, A Stronger Canada – Delivered, with Canadians. This plan positions Canada Post to meet Canadians' changing needs for service and demonstrates the leadership they expect. The ecommerce market is expected to more than double over the next decade, and our plan supports Canadians' growing needs for parcel delivery.

Canadians also expect Canada Post to be a leader on the environment; to value equity and diversity; to act against racism and discrimination; to improve relationships with its bargaining agents and be an employer of choice; and to help mend the national fabric by better serving and including Indigenous and northern communities. Canadians look to us to be a positive force for change.

The Government of Canada expects the Corporation to operate in a manner that is financially self-sustaining. The Corporation submitted to the Government of Canada a strategic plan that acknowledges the magnitude and significance of recurring financial losses over the past five years and reinforces the importance of transformation to serve Canadians.

A Stronger Canada – Delivered, has three pillars and 10 initiatives summarized in the table below. By putting Canadians first, by building capacity and improving service, we're establishing the path to financial self-sustainability.

Pillar	Strategic imperative
Providing a service all Canadians can count on	• Helping Canadians stay connected and businesses succeed • Expanding capacity • Improving service and tracking • Enhancing our retail services
Committed to social and environmental leadership	• Promoting equity, diversity and inclusion • Making our environment a priority • Fostering reconciliation with Indigenous Peoples
Doing right by our people	• Embedding health and safety in our culture • Building alignment • Creating a fair and respectful workplace

Our progress on initiatives supporting this strategy is included in Section 4 Capabilities.

Purolator segment

Throughout the next five years, the company will undertake a full-scale evolution in how it operates across the first-, last- and middle-mile of the delivery cycle. It is creating industry-specific solutions for industrial, retail, healthcare and technology sectors to support customers' ambitions in high-growth segments like residential, cross-border and international shipping and special-handling services such as returns and heavyweight parcel delivery. Additionally, Purolator focuses on improving yield through enhanced revenue quality (for example, balancing value and volume) and dynamic pricing strategies.

The company recently opened a state-of-the-art National Hub in Toronto, Ontario. This new facility houses world-class automation features and is designed to handle any package or freight to be delivered to business and consumer recipients across Canada or worldwide. Purolator is integrating its network through enhanced package visibility and automation technology to ensure packages move in and out of its facilities in a cycle that meets delivery times and guarantees strong performance.

Purolator is making it easier than ever to send and receive deliveries – where and when the customers want – 24 hours a day, seven days a week. It has added flexibility to last-mile delivery with innovations such as self-serve kiosks, integrated parcel lockers, package-free returns and e-bike delivery.

Dedicated to contributing to local communities and the environment, Purolator is investing in delivering and actively pursuing its goal to be Canada's greenest courier. It is looking to achieve net-zero emissions by 2050.

The company continues to achieve success in its commitment to diversity, equity and inclusion in its workforce through applying this lens to its hiring processes, fostering open and honest employee discussions, offering training programs like Diverse Talent Matters, incorporating diversity considerations into its procurement process and engaging with our communities.

SCI segment

SCI

We'll make you even better.

SCI strives to make its customers' businesses even better, helping them reduce costs and improve services. SCI is implementing its strategy to become Canada's leader of integrated supply chain solutions for high-value and high-growth segments in Canada. SCI will continue to strengthen key foundational elements, including additional investment in business-to-consumer and ecommerce fulfillment expansion, to accelerate growth through enhanced services focused on mid-market customers.

3. Key Performance Indicators

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. Our progress and achievements against 2022 targets reflecting our commitment to our people and to social and environmental leadership were as follows:

Key performance indicators		2022 target	2022 result	2023 target
Total injury frequency per 100 employees year-over-year (improvement) decline		(10%)	(10%)	(10%)
Fleet with telematics installed (to date)		Over 1,500	1,189	5,000
Employee engagement index		75%	71%	73%
Employee diversity[1]	Indigenous Peoples	2.9%	3.1%	3.1%
	People with disabilities	6.8%	7.9%	6.9%
Greenhouse gas emissions (GHGs)	Scopes 1 and 2 for fleet and buildings[2] (in kilotonnes of carbon dioxide equivalent emissions)	142.2	133.5[3]	127.0
Procurement spending with Indigenous Peoples (percentage of eligible direct expenditure in Indigenous businesses)		2.7%	2.7%	3.4%

1. Although goals 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 for 2022 (full year) will be reported in the 2022 Sustainability Report.

4. Capabilities

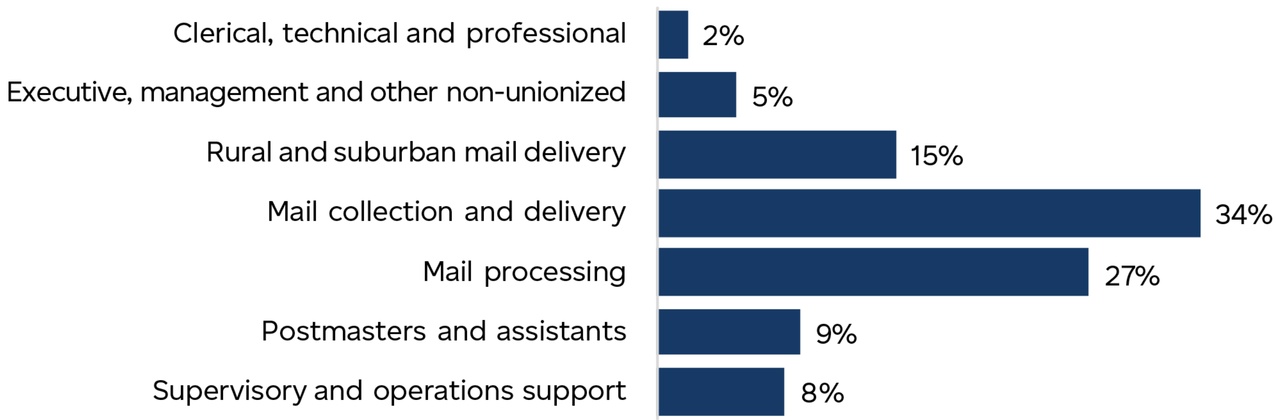
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results.

4.1 Our employees

With over 83,600 people, most of them employed by Canada Post, the Group is one of Canada's largest workforces. Our workforce is diverse and is found in nearly every urban, rural and remote community across Canada.

Canada Post segment

Workforce by type of work – 2022



Talent management, learning and development

Our 67,700 employees (2021 – 68,400) are the company's greatest ambassadors and proud to serve the communities they live and work in.

Canada Post hired nearly 7,300 temporary employees into the Canadian Union of Postal Workers bargaining unit in 2022. This represented a combination of annual peak recruiting and additional hiring throughout the year to meet operational demands.

Attracting and retaining top talent has become a significant challenge and risk to the Corporation, especially for our management and exempt employees who play an important role in managing and leading our people and successfully implementing our transformation plan. Competition for talent, caused by prolonged general labour market uncertainty resulting from COVID-19 and other macroeconomic factors, left the Canadian labour market constrained due to higher-than-normal resignations and recruitment challenges. Compensation restrictions exist under the *Directive for Setting Terms and Conditions for Management and Except Employees* (per Order in Council 2013-1354, or Bill C-60), which are making it increasingly difficult for Canada Post to compete for and retain top talent in the current market. By not being able to adjust our compensation packages to meet market conditions, we are limited in our ability to retain and attract skilled professionals required to manage an entity of our size and scope in an increasingly competitive market.

Because of these challenges, talent management and employee growth became increasingly important through 2022. Our leadership efforts were concentrated on modernizing our employee recognition program, conducting annual employee engagement surveys and acting on the feedback, communicating more with employees, improving Indigenous employment and retention in our workforce, placing greater emphasis on career development planning to prepare employees for leadership positions and support their career goals, and launching a hybrid work practice that allows for flexible work arrangements.

In 2022, our employees took over 829,000 hours of training delivered through e-learning, self-directed courses or blended e-learning and in-person courses. Safety training remained a critical component with courses such as Standard First Aid and AED (defibrillator), handling dangerous goods, basic driver training and health and safety orientations.

Employee engagement

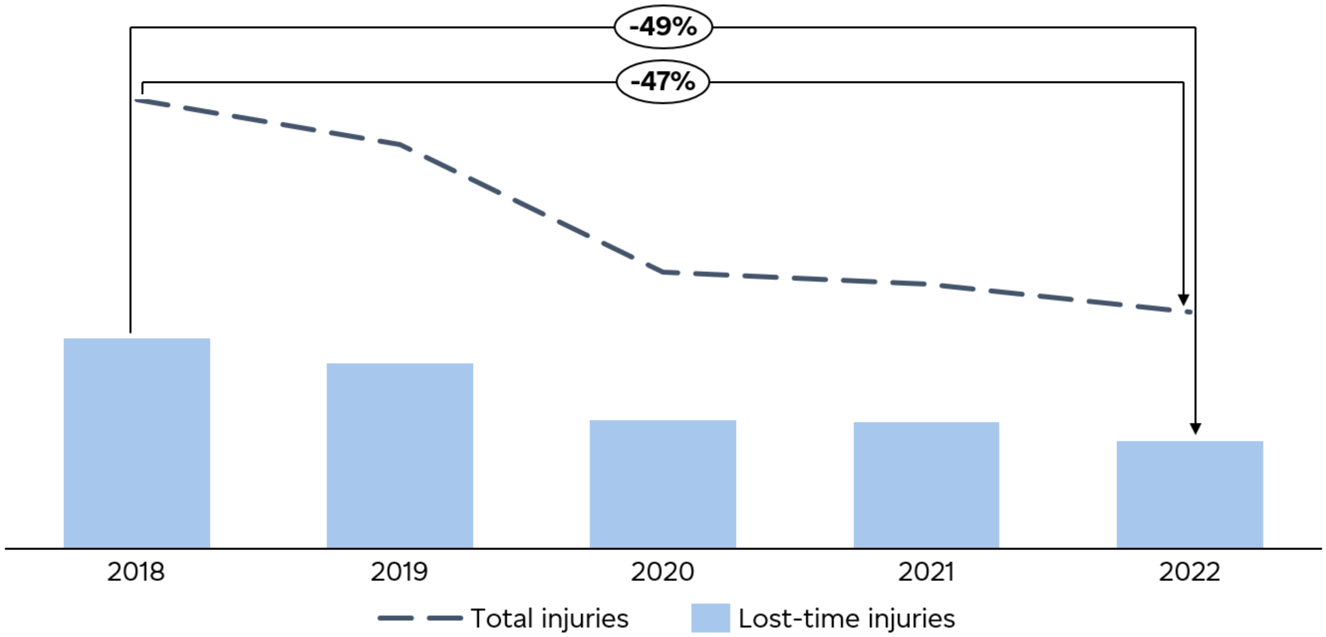
The 2022 employee engagement index decreased slightly to 71 from 73 in 2021. We experienced a response rate of nearly 53% (our highest ever, and a 2% improvement from 2021) and received more than 56,000 comments. The results show we have made strides in many areas. For example, there was an improvement in the number of employees who see Canada Post as an environmentally responsible company and who believe that it is taking a genuine interest in the well-being of communities in which it does business. However, we still have work to do in these areas. The survey results also show us that we need to further improve how we communicate with employees.

Health and safety

Canadians expect that we put the safety of our people first and this continues to be a major focus area for the Corporation. Our commitment to identifying, preventing, and controlling hazards and risks that affect employees, contractors, visitors and members of the public demonstrates our ambition for zero harm. In 2022, we received the Canadian HR Team of the Year (500 Employees or More) award at the Canadian HR Awards, which recognizes our People and Safety team's collaborative approach to the human resources function.

In 2022, the total injury frequency rate and lost-time injury frequency rate improved by 10% and 15%, respectively, from the previous year, while slips, trips and falls, our most common type of injury, improved by 5%. The severity of lost-time injuries, counted as the rate of days lost due to injuries per working hours, improved by 7% over 2021. Telematics technology, which reduces safety risks in operational facilities, is now deployed in 8% of our fleet and will be in its majority by the end of 2023. Overall improvements in safety results are due to the launch of many initiatives discussed below, and through reinforced messaging to employees, including the distribution of health and safety newsletters started in 2022.

Injury frequency (% change over a five-year trend)



In 2022, and as part of our 10-year Health and Safety Strategy and five-year Mental Health Strategy Canada Post progressed on several initiatives:

- Held the first ever Humans of Health and Safety virtual conference to offer guidance on how best to perform our roles and discuss the importance of the health, safety, and wellness of our employees.
- Shared a series of short videos on the topic of psychological support – a key factor in ensuring psychological safety at work – and started the first wave of psychological health and safety pilots to identify workplace factors that are linked with mental health.
- Launched slip simulator training pilots where employees can practise walking on a slippery surface with various simulated obstacles to raise awareness about slips, trips and falls in a safe and controlled environment.
- Delivered safe lifting workshops, demonstrations and learning materials across the country to support health and safety improvement plans in operations to reduce musculoskeletal-related injuries.
- Introduced an additional certification process and upskilling for maintenance personnel in working at heights and electrical work.

COVID-19

During 2022, our COVID-19 response team, composed of employees from multiple functions, continued to monitor and respond to changes in risk levels across the country by modifying protocols, including removal of distancing requirements in certain operations facilities and suspension of the Canada Post Mandatory Vaccination Practice. We reached the final phase of our COVID-19 de-escalation plan in the third quarter, following expert advice from public health and guidelines set by Employment and Social Development Canada. Our Tactical Pandemic Response Toolkit will guide our response to protecting the health and safety of our employees, contractors and visitors for facilities identified as a hot spot or red zone.

Canada Labour Code – Amendments to Bill C-3 (paid medical leave)

To comply with amendments to the *Canada Labour Code*, Canada Post is providing every permanent, full-time and part-time employee with six additional paid personal days (for a total of 13 days), effective December 31, 2022.

Road safety

Following the Board of Director's review of the five-year road safety strategy the Corporation rolled out a number of initiatives to increase regulatory compliance and improve driving behaviour. Among the accomplishments in 2022:

- Conducted over 300 on-road evaluations to identify unsafe driver behaviour, and knowledge and skill gaps, to develop targeted driver training and in-cab evaluations.
- Shared tools and resources as part of National Road Safety Month.
- Delivered road safety orientations and refresher training (such as collision avoidance) to 11,200 employees nationally, including team leader support, safety talks, safe backing up of vehicles, defensive driving and inspections.
- Provided training to 1,220 non-operational employees through the Smith System, Smith5Keys® online driver course, a world-leading crash-avoidance training program.
- Provided Smith System, Smith5Keys® one-day in-class training session for 390 at-risk drivers and team leads.
- Held our second annual Driver Safety Recognition Awards to reinforce positive road safety behaviours.
- Created a best-in-class road safety standard, which will begin to be deployed in 2023.

Culture

In 2022, we unveiled our refreshed values and explained our new values and signature behaviours through the delivery of 40 team leader forums across the country. These sessions included in-person business updates and culture workshops. The graphic below is a visual representation of how our purpose, the pillars of our transformation plan and the elements of our culture – including our values and behaviours – fit together:

Our purpose: A Stronger Canada – Delivered

Our transformation plan

Providing a service all Canadians can count on	Social and environmental leadership	Doing right by our people

Our culture: Stronger together

Our values

Trust | Respect | Deliver

Our behaviours

Make the call	Know the destination	Deliver for others	Ignite our pride

Hybrid Workplace Practice

During the year, we used our Hybrid Workplace Practice to guide our return to the workplace, providing the flexibility needed for the future. 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.

Equity, diversity and inclusion

Canada Post's vision is to represent Canada's diversity and provide a safe and welcoming workplace that embraces and celebrates all of us. In 2022, we continued our work on our five-year strategy for equity and diversity, which was launched in 2021 with our bargaining agents. An action plan was developed as part of our commitment to keeping employees informed of our efforts to support Canada Post's equity, diversity and inclusion vision. This plan outlines 10 key initiatives implemented in 2022 or planned for 2023:

- Published the Anti-Racism and Anti-Discrimination Charter in 2022, which outlines the Corporation's zero tolerance for racism and protects all employees and customers from discrimination.
- Continuing the equity census campaign with our 2022 census conducted from May to June.
- Providing Indigenous culture awareness training. Employees working in the area of the Membertou community hub received this training in 2022; in 2023, it will be expanded in targeted areas.
- Providing inclusive washrooms to ensure every person feels free to be themselves at work. In 2022, we began installing inclusive signage in some facilities, while in others, we are making small changes to create the safe space employees requested.
- Expanding the Employee resource groups. Voluntary, employee-led groups for anti-racism, Indigenous Peoples, people with disabilities, and LGBTQ2S+ Pride play an important role in creating a diversity-safe workspace. We are looking at expanding membership in 2023 after the initial pilot completed in 2022.
- Launching the equity, diversity and inclusion website in 2023 to connect with customers and attract and retain diverse talent.
- Creating a human rights training toolkit in 2023 based on the United Nations' 13 grounds of discrimination, which outline universal rights that must be respected.
- Enrolling employees from diverse backgrounds in leadership programs to prepare them promotions and advancement opportunities. More than 40 employees registered for these in 2022, and additional programs will be launched for under-represented people of specific bargaining groups in 2023.
- Providing land acknowledgement banners to facilities in 2023 to renew our relationship with Indigenous People across the country.

We remain committed to our equity targets and goals to achieve 80% of Canadian Labour Market Availability (CLMA)* by 2026 for Indigenous Peoples and by 2031 for people with disabilities, per the 2016 Census baseline. Targets will be re-evaluated in 2023 with the release of the 2021 Census CLMA results.

Diversity goals	2022 result	2022 goal (at minimum)
Women	47.4%	48.6%
Indigenous Peoples	3.1%	2.9%
People with disabilities	7.9%	6.8%
Members of visible minorities	24.9%	19.8%

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

Pay equity

The 2021 *Pay Equity Act* (part of Bill C-86) requires federal employees to regularly review compensation practices to ensure equal pay for work of equal value through pay equity committees. Canada Post is continuing to work with its bargaining agents, unionized committee members and non-unionized committee members to establish a pay equity plan. According to the legislation, members of the pay equity committee will work to accomplish the following:

- identify job classes and determine their gender predominance;
- establish the value of work and compensation of each job class and compare the compensation to relative male-dominated job classes;
- provide recommendations for compensation increases needed to establish and maintain pay equity.

Canada Post acknowledges that pay equity is a basic human right. Consequently, any disparity in pay on the basis of gender is unacceptable.

Labour and employee relations

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
CUPW-UPO[b]	36,071	January 31, 2024
CUPW-RSMC[c]	8,855	December 31, 2023
CPAA[d]	5,214	December 31, 2023
APOC[e]	4,309	March 31, 2025
PSAC/UPCE[f]	1,364	August 31, 2024
Total	55,813	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2022; excludes 18,247 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.

Building alignment

Canada Post is dedicated to working with our bargaining agents in a spirit of partnership to move forward together, while demonstrating leadership on important issues to Canadians. In 2022, the Corporation continued to engage with the CUPW, APOC and PSAC in regular relationship committee meetings, as a means of addressing issues of mutual interest, for example:

- transitioning CUPW-RSMC employees to an hourly rate of pay;
- assessing a new, more flexible CUPW staffing model to improve employee retention and alleviate pressure on hiring;
- resolving grievances in a number of significant areas;
- executing social and environmental strategies;
- leading a job evaluation exercise with PSAC and APOC to determine the inclusion of certain jobs in the appropriate bargaining unit;
- forming a plan to ensure compliance with pay equity legislation.

Purolator segment

Purolator

Purolator addressed challenges in the talent market with retention and leadership programs designed to develop and secure our top talent. During 2022, over 150 managers completed Evolve, our five-month, award-winning leadership development program designed to help our managers gain skills to become effective leaders. In addition, the company launched its Future Leader program, an 18-month personalized leadership course, focused on preparing future executives and leaders for critical roles across the organization. Learning and development was also a focus in 2022, with the launch of the New Hub Ontario (NHO) training programs, which were recognized on the international stage with the win of two gold medals of the Brandon Hall Group Awards for Best Advance in Learning Technology.

Number of employees covered by collective agreements.

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Teamsters[b]	11,144	December 31, 2026
Teamsters[c]	560	December 31, 2022
PSAC[d]	170	December 31, 2022
Unifor[e]	109	December 31, 2022
Total	**11,983**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2022; excludes 97 temporary, casual and term employees.

b. Teamsters represent employees in operations (drivers and warehouse staff).

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.

In 2022, Purolator and the Canada Council of Teamsters, representing drivers and warehouse staff, ratified a new collective agreement to replace the one that expired December 31, 2021. The new five-year agreement provides annual wage increases retroactive to January 1, 2022, and other provisions, including a new mental health benefit, and extends to December 31, 2026.

The collective bargaining process for new agreements to replace those that expired December 31, 2022, between Purolator and PSAC, Unifor and the Canada Council of Teamsters (representing clerical and administrative employees), is progressing, with further updates expected to be disclosed in the Canada Post Corporation 2023 First Quarter Financial Report.

A continued focus on health and safety was a top priority for 2022. A back-to-basics approach was developed that focused on coaching, mentoring and recognition for our frontline employees. Advanced incident investigation training with root cause analysis was also rolled out in 2022, across the regions. These simple yet effective tools along with an increased focus on reward and recognition resulted in some of the best results seen to date in total injury frequency, lost-time injury frequency, and motor vehicle collisions.

SCI segment

SCI
We'll make you even better.

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Unifor – Toronto	329	December 31, 2023
Unifor – Laval	24	November 30, 2026
Total	**353**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2022.

4.2 Our network and infrastructure

Canada Post segment

CANADA POST | POSTES CANADA

With a vast operating network that requires significant coordination between collection, processing, transportation and delivery activities, the Canada Post segment delivers to 17.2 million addresses. Canada Post has Canada's largest delivery network and one of its largest transportation networks. In 2022, nearly 6.6 billion pieces of mail, parcels and messages were processed in our plants, which represents on average 26 million items sorted and delivered daily. To process and deliver all the mail and parcels, our network includes:

- **21** processing plants
- **20,636** indoor parcel lockers
- **7,213** outdoor parcel lockers
- **5,873** post offices, corporately owned or managed by authorized dealers
- **468** letter carrier depots
- **13,435** letter carrier routes
- **1,205** mail service carrier routes
- **8,251** rural and suburban mail carrier routes
- **17.2** million points of delivery
- **22,191** street letter boxes
- **1.7 million** post office boxes (including general delivery)
- **217,079** community mailbox sites

In 2022, we focused on meeting customer needs through additional capacity, enhanced service and improved technology in our network to help Canada stay connected and businesses succeed. Our progress with transformation projects throughout 2022 was negatively impacted by macroeconomic factors, including labour shortages for our contractors and global supply chain issues that began in 2021 and continued in 2022.

Service and capacity

Projects to increase capacity, support ecommerce growth and meet the evolving needs of Canadians progressed through 2022. We believe the following enhancements were essential for us to achieve financial sustainability, be cost competitive and grow our business.

New and improved facilities

- Installed and tested sorting equipment during the final construction phase of the Albert Jackson Processing Centre, which is set to become fully operational in Q2 2023. With the capacity to process more than one million packages per day (50% more than the Gateway facility in Mississauga, currently the largest parcel plant in our network), this hub is our first zero-carbon building and the largest industrial project in Canada with the Zero Carbon Building Standard designation.
- Expanded our pickup offering in areas that align with locations of our strategic customers, including Fredericton, New Brunswick, Laval, Quebec, Smiths Falls, Ontario, and Lloydminster, Alberta.
- Opened 14 new facilities:

Province	City	Facility type(s)
New Brunswick	Lepreau	Retail post office
Quebec	Montréal-East	Letter carrier depot
	Buckingham	Letter carrier depot and retail post office
	Saint-Michel, Chambly	Letter carrier depot, separate retail post office
	Saint-Alphonse-Rodriguez, Auclair, Pointe-aux-Trembles	Retail post office
Ontario	Scarborough (280 Progress)	Letter carrier depot
	Penetanguishene	Letter carrier depot, separate retail post office
Manitoba	Niverville	Retail post office
Alberta	Fort McMurray	Letter carrier depot and retail post office
British Columbia	Whistler, Cobble Hill (Vancouver Island)	Letter carrier depot

Asset replenishments and other demands

- Increased the number of electric and hybrid electric vehicles in our fleet, including receipt of the first dozen electric vehicles (EVs) in 2022. The remainder of the first 100 EVs ordered are expected to be received in early 2023. Canada Post is committed to 50 per cent electrification of its last-mile fleet by 2030 and 100 per cent by 2040.
- Installed nearly 3,900 indoor parcel lockers in 2022, for a total of over 20,600 installed nationwide in residential apartment buildings and condominiums.
- Installed over 4,800 additional outdoor parcel lockers at existing delivery points, for a total of over 7,200 installed nationwide.

International end-to-end network

Part of our network includes facilitating the movement of international mail through the postal clearance process. For 2022:

- In partnership with Canada Border Services Agency (CBSA), we continued to increase the adoption of advanced electronic data with the implementation of enhanced IT capabilities.
- Canada Post achieved the Universal Postal Union's (UPU) Gold+ Security Certification at the Léo Blanchette and Gateway foreign exchange offices. Canada Post was the first postal administration in the world to achieve this recognition, which is one on the highest levels of certification for security excellence in the operational, physical, personnel and transportation functions of international mail.

Technology

To improve service and tracking, enable our network and capacity and provide exceptional experiences to Canadians, we progressed with technology projects through 2022:

- Improved customer service with the addition of nearly 11,800 personal data terminals (PDTs) with new features and upgraded technology to increase stability and communication range, and improve tracking.
- Tested and began to use 10 autonomous guided vehicles (AGVs) at the Léo Blanchette facility in Montréal to transport products within the plant between work centres. These units are capable of self-parking and charging and are equipped with a multitude of safety sensors to detect obstructions such as objects, vehicles or people in the path and are designed to slow down or stop accordingly.
- Completed the deployment of new retail point-of-sale technology to all-automated post offices to equip employees with intuitive workflow and provide customers with a more accessible point-of-sale interface.
- Completed the design phase of the Experience Transformation (XT) project. XT will transform the broad business experiences that have impeded Canada Post's ability to compete in the ever-changing and increasingly competitive marketplace. This multi-year, multi-phase project goes above and beyond stand-alone processes and technology improvements, and it focuses on enhancing the end-to-end experience for customers and employees. The XT project is a critical juncture on the road to transformation, and it will modernize and improve technical platforms across multiple business processes within Canada Post.

Purolator segment

Purolator

In 2022, challenges related to COVID-19 continued. However, the impact on Purolator's operations was lower compared to 2021, when high levels of infection were experienced. In 2022, Purolator focused on network improvements:

- Completed construction of our Calgary facility, which will combine freight and courier operations. Freight operations will move from an existing facility in Q2 2023. Approval was received to proceed with four facility expansions in 2023. These capacity and network enhancement projects support 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.

- Concluded a successful pilot with 100 Best Buy locations across Canada now offering pickup and drop-off services as a Purolator Quick Stop Agent.
- Partnered with Swiftpost Smarthubs to offer pickup and drop-off options in more than 50 locations in 2022. The partnership also supports returns, making it easy for customers to scan QR codes to print labels. More than 350 additional locations will be added in 2023.
- Introduced sustainable mini hubs (Purolator Urban Quick Stops) through a collaboration of internal teams and external partners. With two locations in Toronto, the 40-foot shipping container solution is a sustainable approach to shipping. It hosts a full-serve shipping centre and environmentally friendly e-bikes to reduce truck deliveries in the community.
- Officially opened our National Hub in Etobicoke, Ontario, a state-of-the-art package sorting facility. With 430,000 square feet and investments in world-class automation features, goods can be moved quickly across Canada, serving businesses in all sectors and providing a scalable workspace to match demand during peak volume periods. This building was designed to meet the requirements of the Toronto Green Standard.

In 2023, Purolator is focused on adjusting to market conditions, investing in its network infrastructure to deliver efficiencies and service improvements, and working toward its sustainability goals.

4.3 Our environmental, social and governance priorities

Canada Post segment

Canadians want to protect the environment for future generations. Because we are one of Canada's largest employers, with a presence in virtually every community, Canadians expect us to view our responsibility to the country through a wider lens – beyond the services we provide. From diversity and inclusion to environmental performance, we embrace these expectations. We can be a leader in making this country stronger, greener and more inclusive.

Climate action and net-zero roadmap

Our actions speak to our commitment: Canada Post was the first Crown corporation in Canada to have an approved science-based target for reducing greenhouse gas emissions. We're investing in innovations and technology to reduce our environmental impact and to deliver a sustainable future. The Environmental Action Plan (EAP), published jointly by Canada Post and its bargaining units in 2021, focused on four key areas of impact: climate action, zero waste, sustainable delivery and employee engagement.

In 2022, Canada Post revised its emissions reduction targets following the release of the Sixth Assessment Report by the United Nations Intergovernmental panel on Climate Change (IPCC), which confirmed that impacts of climate change are larger than previous estimates. These updated targets were built to meet the 1.5°C pathway of the Science Based Targets initiative (SBTi) and were approved December 28, 2022, along with our net-zero target. In fact, Canada Post is one of the first 150 companies in the world to have an officially approved net-zero target.

The 2030 emissions reduction target was strengthened to set us on a path to net-zero emissions by 2050, as follows:

- 50% reduction of scopes 1 and 2 greenhouse gas (GHG) emissions by 2030 (measured against 2019 levels);
- the transformation of our last-mile fleet to 50% electric vehicles (or better) by 2030 and 100% by 2040 will help us achieve this goal.

We will continue our work to engage 67% of suppliers by spend and all subsidiaries to adopt science-based targets by 2025.

In 2022, we supported the implementation of our Net-Zero 2050 Roadmap:

- Invested in the design and construction of a zero-carbon building, the Albert Jackson Processing Centre, designed to meet the Canada Green Building Council's Zero Carbon Building – Design Standard. This highly energy-efficient building produces (or procures) carbon-free renewable energy or high-quality carbon offsets in an amount sufficient to offset the annual carbon emissions associated with building materials and operations. Any GHG emissions are intended to be offset by generating clean, renewable energy on-site or off-site (through Renewable Energy Credits, known as RECs, or offsets). This building will have highly efficient HVAC, solar photovoltaic panels, and sensor-controlled light fixtures that dim based on volume of daylight and occupancy. It will also have electric vehicle charging stations for employee use and the infrastructure for future use of electric five-ton trucks.
- Completed 13 GHG reduction retrofits at existing facilities, including installation of geothermal heat pump systems with electric boiler backup, replacing HVAC systems with efficient electric systems, upgrading and replacing equipment and installing solar panels on rooftops and grounds.
- Began our transition to a more sustainable fleet, with hybrid and electric vehicles now surpassing 10% of total vehicles.
- Established a power purchase agreement in partnership with Public Services and Procurement Canada and nine federal government departments to purchase clean electricity in Alberta.
- Engaged our suppliers and subsidiaries in setting science-based targets.
- Completed the installation of 172 touchless water bottle filling stations, bringing the total number installed across our network since 2018 to 491.
- Continued the elimination of single-use plastic to package items sold in our retail post offices and worked with suppliers on creating packaging that meets government mandates for recycled content of shrink-wrap.
- Achieved recognition as an environmentally sustainable employer by 49% of workers (compared to a goal of 60%).
- Invested responsibly through our pension plans by integrating ESG principles into our strategy, while keeping a focus on returns for members.
- Launched our inaugural Task Force on Climate-Related Financial Disclosures (TCFD) Report, outlining our climate risks and opportunities.
- Continued to report publicly to the CDP (formerly Carbon Disclosure Project), maintaining a B score.

We are on track to have customers' and consumers' domestic parcel deliveries (with Regular Parcel™ and Expedited Parcel™ services) carbon neutral in 2023, balancing the emissions generated from shipments by purchasing carbon offsets and neutralizing our impact. Track our progress in our annual Sustainability Report.

Employee and community engagement

Achievement of our environment, social and governance goals require engagement by our employees and the communities we serve. Our 2022 achievements:

- Operated four community hubs in the provinces of Nova Scotia, Ontario and Alberta. These hubs improve service to underserved Indigenous, northern and rural communities, as they offer a wide range of services that otherwise may not be available.
- Invested $1 million to enhance and expand postal services with a focus on increasing service to Indigenous and northern communities.

- Issued a second round of Sustainability Action Fund grants, funding over 80 projects across the country. This fund is a $500,000 grant program that enables employees to bring forward and implement projects that support sustainability and employee engagement on sustainability at Canada Post.
- Accepted a Canada's Clean50 award for leadership in reducing emissions and greening the Corporation's operations.

Supporting wellness and safety of Indigenous and northern communities

In 2022, to support wellness and safety of Indigenous and northern communities, we worked to reduce the non-mailable matter, such as alcohol and illicit drugs, that enter these communities:

- In collaboration with Indigenous and northern communities that have self-identified as dry communities, inspected over 3,500 items destined for these communities, resulting in the removal of non-mailable matter with an estimated street value of over $4 million compared to $3 million in 2021.
- Completed 120 formal outreach and awareness sessions with leaders from Indigenous communities and law enforcement agencies.
- Canada Post was presented with the 2022 Policing Partnership Award by the Canadian Association Chiefs of Police in Quebec City for its efforts to support the safety and wellness of Indigenous communities through the removal of illicit substances, collaboration and partnership.

Governance

Canadians expect Canada Post to provide a safe and welcoming workplace that embraces and celebrates our differences. In addition to the equity, diversity and inclusion developments included in section 4.1, we achieved the following in 2022:

- Continued preparations for the upcoming Official Languages Regulations Re-Application Exercise by developing an action plan that will help us meet our new bilingual service requirements.
- Engaged with employees in bilingual regions through a new language-of-work survey to better understand whether these employees feel their work environment is conducive to the use of both official languages and establishing a baseline of our culture around bilingualism. Survey results are being analyzed by a third party to identify gaps and opportunities for improvement.
- Canadians and Canada Post employees entrust their personal information to the Corporation, with an expectation that the Corporation will handle this information in a responsible manner and protect it in accordance with Canada's *Privacy Act*. Underpinning the Act are fundamental privacy principles such as data minimization; proactive identification of privacy risks when developing products, services, and programs; respect for individuals' privacy rights; and meaningful data governance and accountability. Compliance with these principles is critical to maintaining the trust Canadians have in our brand and ensure we are an employer of choice. In 2022, the following privacy enhancing initiatives supported our environmental, social and governance (ESG) aspirations and efforts:
    - Initiated a comprehensive privacy impact assessment (PIA) to support our multi-year, multi-phase Experience Transformation project (XT). The XT project is intended to transform the broad business experiences that have impeded the Corporation's ability to compete in the ever-changing and increasingly competitive marketplace. The PIA will be key in establishing appropriate data lifecycle management and ensuring compliance with the data minimization principle in the context of the XT project.
    - Established an ethics assessment panel to review key corporate initiatives that use customer and employee personal information.

- Expanded the user consent management toolkit to include a third-party solution to enable visitors to **canadapost.ca** to set their website preferences in relation to cookies and other tracking technologies. The new solution will be deployed in early 2023.
- Reviewed and revised internal privacy policies to ensure their currency, accuracy, and adequate protection of personal information under Canada Post's control. The updated policy instruments will be completed and rolled out in 2023.
- Procured and configured a third-party tool to assist with a multi-year project of preparing a comprehensive inventory of corporate personal information holdings with the goal of mapping personal information to identify and address privacy risks in a proactive and timely manner.
- Began work to review and update the vendor management toolkit.

Accessibility

As required by the *Accessible Canada Act*, Canada Post finalized its Accessibility Plan, following consultation with people with disabilities and the Canadian public. The final Accessibility Plan and formal feedback process was published December 16, 2022. In support of this plan, the following achievements were made in 2022:

- Conducted 246 accessibility audits to determine if corporate-owned facilities in our network adhere to our National Accessibility Design Standards for the built environment. Of these, 121 facilities received a passing score. The audits are used to identify the accessibility construction projects for the following years. Upgrades to remove barriers include improved vehicular access, accessible parking and pathways to the main entrance including ramps, and accessible emergency systems and signage.
- Invested over $10 million in the completion of 23 accessibility construction projects in our corporate facilities and delivered a further 80 projects to enhance accessibility in our retail stores.
- Renovated an administration building in Ottawa and achieved an Accessibility Certified Gold rating from the Rick Hansen Foundation – the highest level of accessibility.
- Achieved a measure of 88.8% on digital accessibility across all active digital products in 2022, exceeding our 2021 result of 85.9% as well as our goal of improving on the prior year's score by 2%. Canada Post requires that all new public-facing digital products be built to meet the Web Content Accessibility Guidelines (WCAG) 2.1 at level AA.

4.4 Sales channels and product enhancement

Canada Post segment

Retail

Our extensive retail network of post offices is an essential point of contact for Canadians, who rely on Canada Post for important services, parcel and mail pickup, induction and product returns. We have more retail locations than any other business in Canada, with 5,873 post offices across the country. Corporate locations account for 3,624 of these, including 957 located in rural Canada, where the owner of the establishment is responsible for providing the facility, and private dealers operating the remaining 2,249 locations. 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 it continually strives to improve the customer experience, reduce transaction times, expand services, become more environmentally friendly, and provide more pickup points for customers, particularly during peak season. This includes small business customers who use retail locations to induct parcels. In the second quarter, to support this sector of our economy, we introduced a shipping pricing promotion to provide relief support to Canada Post Solutions for Small Business™ and other smaller commercial customers in underserved communities across Canada.

Parcel pick and drop

Our pick and drop retail locations (formerly parcel pickup locations) offer convenience and flexibility for consumers and small businesses by providing them with additional locations to retrieve or drop off prepaid parcels, and purchase basic mailing supplies such as stamps, flat rate boxes or prepaid envelopes. Some of these are established on a short-term basis and allow us to temporarily expand our network to accommodate surges in parcel volumes. By the end of 2022, all of our 166 parcel pickup locations had been converted to the pick-and-drop model to help manage demand for parcels.

Indigenous, northern and rural communities

Canada Post's focus on improving service and providing more convenient access to underserved Indigenous, northern, and rural communities continued in 2022, with the opening of three more community hub post offices, in Membertou, Nova Scotia, Little Current, Ontario, and Fort Qu'Appelle, Saskatchewan. In addition to core postal products and services, varying slightly by location, community hubs provide access to secure 24-hour contactless parcel drop-off and pickup services, parcel lockers, and range of financial services. Electric vehicle (EV) charging and small-business support services are also available, such as a community directory to showcase local businesses, rentable meeting rooms, secure printing and shredding options, and publicly available computers for videoconferencing.

We continue to work with Indigenous communities to identify areas that are underserved. In 2022, we began to implement the retail five-year roadmap of Canada Post's Indigenous and Northern Reconciliation Strategy:

- Invested $1 million to enhance and expand postal service to Indigenous and northern communities in collaboration with leaders of involved communities.
- Improved postal services in eight Indigenous communities, such as issuing new postal codes for identity and community recognition, upgrading postal boxes and adding new full service and pick-and-drop locations.
- Opened three full-service post offices in rural locations (Christian Island First Nation, Ontario, Nahanni Butte Dene First Nation, Northwest Territories, and Sagamok First Nation, Ontario) in 2022 and announced that a second post office will open in Iqaluit, Nunavut, in 2023.

Retail technology modernization

By the end of 2022, our multi-year retail technology modernization project was completed with all of our automated sites using our new hardware and software. Customers can follow transactions as they occur using a separate customer-facing point-of-sale screen. For people who may not be able to access the customer-facing screen, accessibility and ergonomics are enhanced with a secondary mobile handheld device to receive payment and capture signatures.

Customer experience

Canadians want more choice, convenience, control and visibility in every delivery. A key part of our strategy is improving the customer experience. With the conclusion of our retail modernization project in 2022, the collection of anonymous real-time customer satisfaction ratings from our customer-facing screens gives us greater insight into how to better serve our customers. In 2022, this new solution provided us with nearly 7.5 million responses.

In 2022, we successfully delivered over 80 proactive and reactive (as a result of customer requests) accessibility projects in our retail stores, primarily counter replacements and automatic door openers.

To continuously improve customer experience, we maintained focus on developing and improving wait-time initiatives in 2022:

- Launched options for customers to prepare customs forms online, through **canadapost.ca** and on our app, before reaching a post office, and then present a 2D barcode at the retail counter.
- Coached our frontline retail employees on ways to reduce MoneyGram™ transaction times for repeat customers.
- Introduced a new coaching methodology, enabling post office clerks to better identify customer needs to increase efficiencies and customer satisfaction.
- Improved contactless transactions to allow customers to mail labelled packages without interacting with a clerk, by installing over 90 contactless induction boxes and piloting free-standing induction equipment and new customer-facing signage to highlight our contactless induction feature.

Financial services

Over the last two years, we studied, tested, and confirmed that there are financial needs across the country that Canada Post is uniquely positioned to fill. We are working on more ways to expand our financial services as part of our commitment to deliver more for Canadians. This includes a strategy that considers Canada Post's reach into Indigenous communities across the rural and remote Canadian landscape to address the needs of these communities from a financial literacy and financial inclusion perspective.

After a successful pilot in 2021, Canada Post launched the Canada Post MyMoney™ loan program in partnership with TD Bank in 2022. While new, it built on our longstanding legacy as a trusted provider of financial services to Canadians. Following a temporary pause to the program in late 2022, Canada Post and TD Bank jointly decided to pause the MyMoney Loan application indefinitely in early 2023. While this means the MyMoney Loan application will no longer be offered, we are committed to exploring new ways to provide financial services to Canadians.

In 2022, we successfully relaunched the Canada Post Prepaid Reloadable Visa™ card and Visa Single Load Prepaid Card in partnership with Payment Source and issuing bank Peoples Trust.

Online services

We are innovating to better serve our country. Although digital solutions continue to disrupt our Lettermail™ and Direct Marketing business, this same trend means that our online service offerings play an increasingly important role in how our customers interact with us. 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™.

To reduce customer irritants and simplify the user experience online, we progressed with the following digital channel improvements in 2022:

- Launched a visualization tool for marketers using our Neighbourhood Mail™ services for businesses to focus their direct marketing campaign planning and design by connecting with the right customers, through the use of advanced data mapping technologies.
- Launched automatic tracking in Canada Post's Android[MC] mobile app (following the website and mobile iOS launch in 2021). Over 263,000 Canadians are currently using the service, which automatically adds parcels to users' track list and allows them to set default delivery preferences for all parcels delivered by Canada Post.

- Launched text message tracking notifications on our website and mobile app. Text notifications provide customers with an omni-channel tracking experience and allow them to stay informed on the delivery status and expected delivery date of their packages.
- Supported the increased customer use of our website and app to find a postal code, a post office, a rate or to track a package. In 2022, the Canada Post app was ranked 7th and 16th in the free business apps for iOS and Android, respectively with high ratings of 4.6 and 4.5 stars (out of 5), respectively.

International

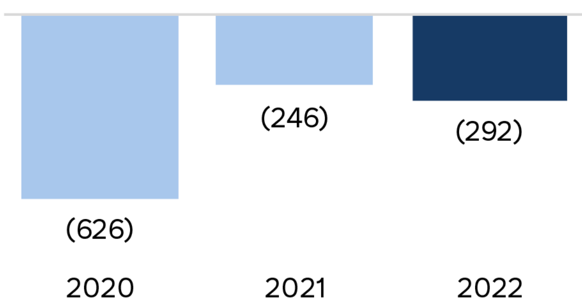
In 2022, we continued to strive for productivity improvements while increasing capacity to support ecommerce parcel growth. We also expanded our Tracked Packet™ – International service to more destinations including China, Taiwan and the United Arab Emirates.

5. Discussion of Operations

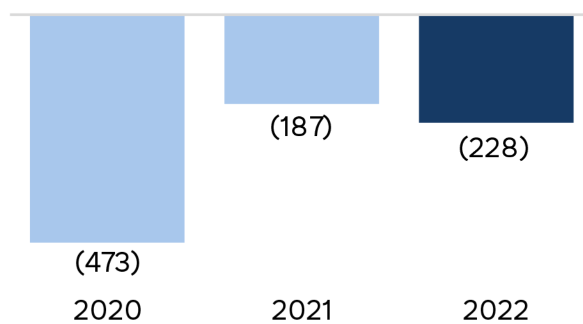
A detailed discussion of our financial performance in 2022.

5.1 Consolidated results from operations

Loss before tax
(in millions of dollars)



Net loss
(in millions of dollars)

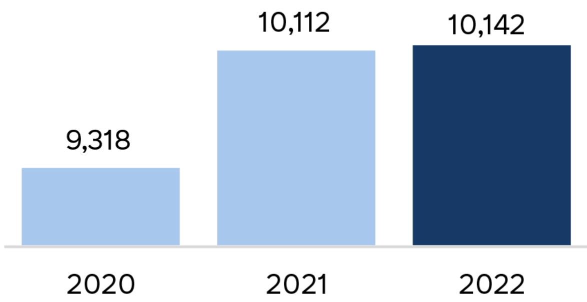


(in millions of dollars)

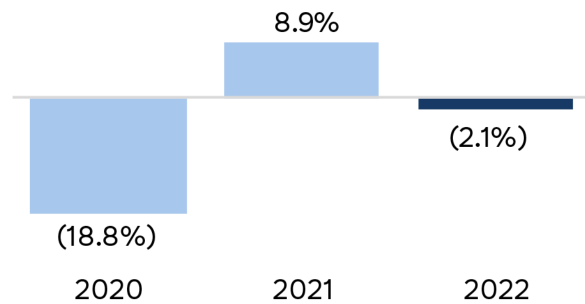
	2022	2021	$ change	% change
Revenue from operations	10,142	10,112	30	0.7%
Cost of operations	10,378	10,308	70	1.1%
Loss from operations	(236)	(196)	(40)	(20.8)%
Investing and financing expense, net	(56)	(50)	(6)	(10.9)%
Loss before tax	(292)	(246)	(46)	(18.8)%
Tax recovery	(64)	(59)	(5)	(9.3)%
Net loss	(228)	(187)	(41)	(21.8)%
Other comprehensive income	3,582	4,155	(573)	(13.8)%
Comprehensive income	3,354	3,968	(614)	(15.5)%

Revenue from operations

Revenue from operations
(in millions of dollars)



Total volume increase (decline)



Revenue from operations increased by $30 million (+0.7%) in 2022, compared to 2021, mainly due to growth in the Purolator segment and an increase in Direct Marketing in the Canada Post segment. This increase was partially offset by declines in Parcels and Transaction Mail in the Canada Post segment as well as declines in the SCI segment.

Cost of operations

The cost of operations increased by $70 million (+1.1%) in 2022 compared to 2021, mainly due to higher non-labour costs in the Canada Post segment and higher operating costs at Purolator partly offset by lower employee benefits and labour costs in the Canada Post segment.

Other comprehensive income

The consolidated other comprehensive income of $3,582 million was mainly due to remeasurement gains resulting from an increase in the discount rate on pension and other post-employment plans, partly offset by lower-than-expected asset returns, as well as experience, and other actuarial assumption adjustments.

5.2 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)

	2022	2021	2020	2019	2018
Canada Post	(594)	(518)	(798)	(187)	(281)
Purolator	338	293	200	164	177
SCI	18	26	24	23	22
Other	2	3	4	7	–
Canada Post Group of Companies	**(236)**	**(196)**	**(570)**	**7**	**(82)**

Segmented results – Profit (loss) before tax

(in millions of dollars)

	2022	2021	2020	2019	2018
Canada Post	(548)	(490)	(779)	(153)	(276)
Purolator	317	269	176	152	161
SCI	16	24	20	20	20
Other	(77)	(49)	(43)	(42)	(23)
Canada Post Group of Companies	**(292)**	**(246)**	**(626)**	**(23)**	**(118)**

5.3 Canada Post segment

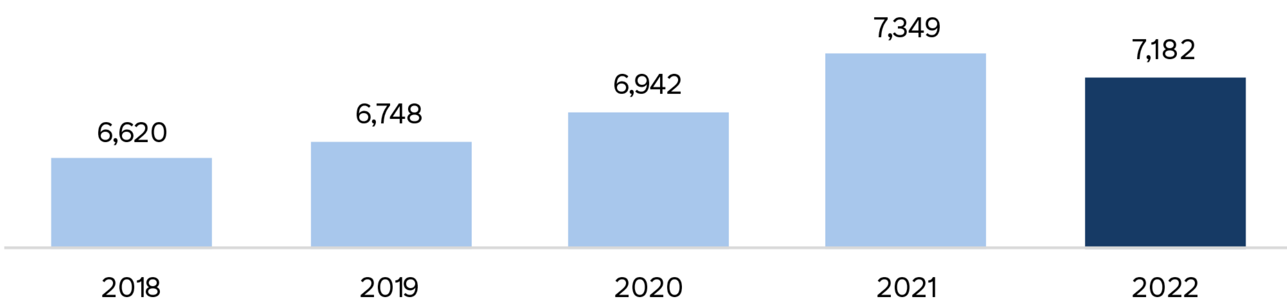
Summary of results

(in millions of dollars)

	2022	2021	$ change	% change
Revenue from operations	7,182	7,349	(167)	(1.9)%
Cost of operations	7,776	7,867	(91)	(0.8)%
Loss from operations	**(594)**	**(518)**	**(76)**	**(14.6)%**
Investing and financing income, net	46	28	18	61.1%
Loss before tax	**(548)**	**(490)**	**(58)**	**(11.9)%**

Revenue from operations

(in millions of dollars)



The decrease in revenue from operations of $167 million (-1.9%) was mainly due to declining Parcels volume in 2022 compared to the higher-than-normal 2021 volumes during store closures, compounded by macroeconomic factors in 2022 that lead to decreased consumer spending. Transaction Mail declined in 2022 compared to the same period in the prior year as a result of Census and federal election mailings in 2021. Revenue declines were partially offset by promotional direct marketing pieces used by our business customers after the post-lockdown return to in-store shopping.

Revenue and volumes by line of business

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	2022	2021	$ change	% change	**2022**	2021	change	% change
Parcels								
Domestic Parcels	2,924	2,912	12	0.8%	230	279	(49)	(17.2)%
Outbound Parcels	308	329	(21)	(6.3)%	11	13	(2)	(13.6)%
Inbound Parcels	316	409	(93)	(22.4)%	45	69	(24)	(34.7)%
Other	25	22	3	11.3%	–	–	–	–
Total Parcels	**3,573**	**3,672**	**(99)**	**(2.3)%**	**286**	**361**	**(75)**	**(20.4)%**
Transaction Mail								
Domestic Lettermail	2,296	2,368	(72)	(2.6)%	2,220	2,386	(166)	(6.6)%
Outbound Letter-post	75	78	(3)	(4.8)%	34	35	(1)	(5.2)%
Inbound Letter-post	53	48	5	8.3%	59	57	2	3.6%
Total Transaction Mail	**2,424**	**2,494**	**(70)**	**(2.4)%**	**2,313**	**2,478**	**(165)**	**(6.3)%**
Direct Marketing								
Personalized Mail™	425	404	21	5.8%	727	706	21	3.2%
Neighbourhood Mail™	370	356	14	4.3%	3,071	3,016	55	2.2%
Total Smartmail Marketing™	**795**	**760**	**35**	**5.1%**	**3,798**	**3,722**	**76**	**2.4%**
Publications Mail™	126	127	(1)	(0.2)%	176	182	(6)	(3.2)%
Business Reply Mail™ and Other Mail	18	19	(1)	(4.7)%	11	14	(3)	(7.5)%
Other	15	16	(1)	(7.8)%	–	–	–	–
Total Direct Marketing	**954**	**922**	**32**	**3.9%**	**3,985**	**3,918**	**67**	**2.1%**
Other Revenue	231	261	(30)	(10.7)%	–	–	–	–
Total	**7,182**	**7,349**	**(167)**	**(1.9)%**	**6,584**	**6,757**	**(173)**	**(2.2)%**

Parcels

Parcels revenue decreased by $99 million (-2.3%) compared to 2021. Details by product category were as follows:

- Domestic Parcels volume decreased compared to 2021 when in-person shopping was restricted and use of ecommerce increased. These volume declines were also impacted by general economic uncertainty in 2022, causing consumers to reduce spending, which lowered demand for parcel delivery services. Our share of domestic ecommerce delivery was negatively impacted by our ability to meet rapidly evolving consumer expectations in a highly competitive market. The financial impact of lower volume was partially offset by rate action, proactive management of our commercial customer and product mix to make better use of existing capacity and fuel-price surcharges tied to market rates, which are an industry practice to mitigate financial exposure of fuel-price volatility. Improving efficiencies within our network and expanding our processing capacity remained a focus as the fundamentals remain strong for long-term growth in the ecommerce market.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to foreign postal administrations [posts]) was lower than the prior year as Canadians sent fewer packages to the United States and internationally with the lifting of travel and other COVID-19-related restrictions.

- Inbound Parcels revenue (fees paid to Canada Post by other posts for delivering mail originating outside of Canada) and volume declined compared to higher-than-normal 2021 volumes and due to limited shipping capacity out of China, supply chain disruption and increased competition from commercial consolidators throughout 2022.
- Other Parcels revenue, which mostly comprises fees from the Customs Postal Program, improved in 2022 due to an increase in the volume of items requiring customs and duties collection for which we receive an administration fee per piece.

Transaction Mail

Transaction Mail revenue decreased by $70 million (-2.4%) compared to 2021. Details by product category were as follows:

- Digital communications continue to replace our traditional Lettermail™ service in this eroding line of business. In addition to this erosion, Domestic Lettermail experienced lower revenue and volume in 2022 compared to the prior year due primarily to the 2021 Census and federal election mailings. Regulated stamp prices were maintained at the 2020 levels, which negatively impacted revenue. Increases from commercial rate action in January 2022, partly offset revenue declines. Looking ahead, we will connect Lettermail to a digital experience through investments in innovative services such as the MyMailbox app, which provides users a notification that mail is on the way to their registered address or community mailbox and informs them of the sender and the number of mail pieces delivered.
- Inbound Letter-post revenue and volumes increased in 2022, due to modest recovery from significant declines in the past two years, while Outbound Letter-post revenue and volumes declined in 2022 due to 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 $32 million (+3.9%) compared to 2021. Details by product category were as follows:

- Personalized Mail and Neighbourhood Mail revenue and volume increased slightly in 2022, but they started to slow down due to economic uncertainty. While supply chain challenges continued to stabilize, continued declines in consumer spending and global paper shortages resulted in delays and cancellations of marketing campaigns. A slow recovery occurred in 2022 after in-person shopping restrictions negatively impacted 2021 volumes. Looking forward, to help businesses acquire new customers, secure repeat purchases and generate customer loyalty, we are investing to maximize our value proposition by connecting our products to a digital experience.
- Publications Mail revenue and volumes declined slightly due to the timing of mailing campaigns and a continued drop in paper subscriptions as digital subscriptions are increasingly becoming the preferred method of delivery.

Other revenue

Other revenue decreased by $30 million (-10.7%) in 2022, mainly due to decreases in consumer products and services, including logistics services such as warehousing and transportation in the prior year related to the 2021 Census and federal election.

Cost of operations

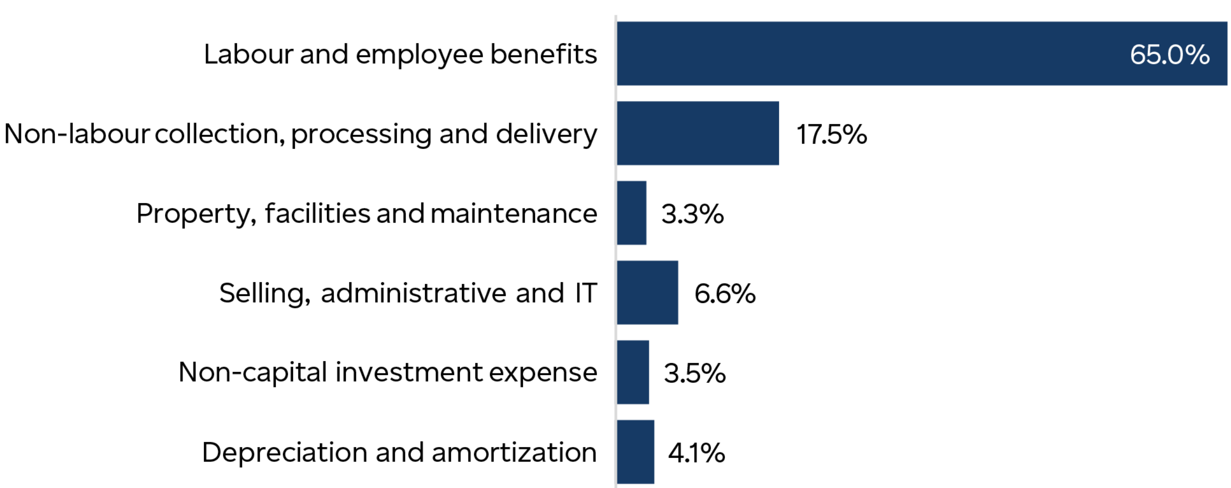
In 2022, the Canada Post segment's cost of operations decreased by $91 million (-0.8%) compared to 2021, due mainly to lower employee benefits and labour costs. This was partly offset by higher transportation, IT services and facilities costs, along with increased spending to sustain the network and improve capacity.

The table and chart below show the breakdown of each cost category as a percentage of revenue and cost of operations. Labour and employee benefits costs consumed 70.3% of revenue from operations and comprised 65.0% of the total cost of operations in 2022, demonstrating the labour-intensive nature of Canada Post's business.

(in millions of dollars)

	For the years ended December 31				Cost as % of revenue from operations	
	2022	2021	$ change	% change	**2022**	2021
Labour	3,710	3,746	(36)	(0.6)%	51.7%	51.0%
Employee benefits	1,341	1,600	(259)	(15.8)%	18.7%	21.8%
Total labour and employee benefits	**5,051**	**5,346**	**(295)**	**(5.2)%**	**70.3%**	**72.8%**
Non-labour collection, processing and delivery	1,360	1,315	45	3.8%	18.9%	17.9%
Property, facilities and maintenance	259	237	22	10.1%	3.6%	3.2%
Selling, administrative and IT	514	449	65	14.8%	7.2%	6.1%
Non-capital investment expense	269	197	72	36.9%	3.7%	2.7%
Total other operating costs	**2,402**	**2,198**	**204**	**9.7%**	**33.4%**	**29.9%**
Depreciation and amortization	323	323	–	(0.2)%	4.5%	4.4%
Total	**7,776**	**7,867**	**(91)**	**(0.8)%**	**108.3%**	**107.1%**

Components of operating expenses – 2022



Labour

Labour costs decreased by $36 million (-0.6%) compared to 2021, with one less paid day in 2022, mainly due to lower parcel volumes as a result of the general slowdown in ecommerce and less reliance on overtime and temporary personnel. We continued to incur costs associated to employee special leave relating to COVID-19, though to a lesser extent than 2021.

Employee benefits

(in millions of dollars)

	2022	2021	$ change	% change
Pension	558	828	(270)	(32.4)%
Post-employment health benefits	134	152	(18)	(12.0)%
Other post-employment and other long-term benefits	102	85	17	20.5%
Interest on segregated assets	(15)	(16)	1	(7.6)%
Total post-employment and other long-term benefits	**779**	**1,049**	**(270)**	**(25.5)%**
Active employee benefits and other	562	551	11	2.7%
Employee benefits	**1,341**	**1,600**	**(259)**	**(15.8)%**

Employee benefits decreased by $259 million (-15.8%) compared to 2021, as detailed below:

- The pension and post-employment health benefits expense decreased by $270 million (-32.4%) and $18 million (-12.0%), respectively, in 2022, mainly due to the increase in the discount rate used to measure the expense.
- The other post-employment and other long-term benefits expense increased by $17 million (+20.5%) mainly due to a 2022 actuarial loss compared to a 2021 actuarial gain resulting from actuarial assumption adjustments.
- The active employee benefits and other expense increased by $11 million (+2.7%) mainly due to increased statutory deductions and insurance costs.

Other operating costs, and depreciation and amortization

Changes in these costs in 2022 were as follows:

- Contracted collection, processing and delivery costs increased by $45 million (+3.8%) in 2022 compared to 2021, due to higher spending on transportation and automotive services, which was partly offset by lower dealer fees and international settlements due to lower parcel volumes.
- The cost of facilities increased by $22 million (+10.1%) for 2022 when compared to 2021, mainly due to higher janitorial and maintenance costs.
- Selling, administrative and IT expenses increased by $65 million (+14.8%) for 2022 compared to 2021, mainly due to higher IT service costs.
- Non-capital investment expenses increased by $72 million (+36.9%) for 2022 compared to 2021, due to increased investments to sustain the network, enhance our services and improve capacity. Details on achievements and initiatives that support our pivotal transformation strategy are included in Section 4 Capabilities.

5.4 Purolator segment

The Purolator segment's profit before tax increased by $48 million (+17.6%) compared to 2021.

Summary of results

(in millions of dollars)

	2022	2021	$ change	% change
Revenue from operations	2,834	2,608	226	9.1%
Cost of operations	2,496	2,315	181	8.2%
Profit from operations	**338**	**293**	**45**	**15.4%**
Investing and financing expense, net	(21)	(24)	3	10.4%
Profit before tax	**317**	**269**	**48**	**17.6%**

Revenue from operations increased by $226 million (+9.1%) in 2022, compared to 2021. The increase primarily relates to changes in fuel prices, mix and yield initiatives.

Labour costs increased by $47 million (+2.9%) compared to 2021, due to annual wage increases and the ratification of the new Teamsters Canada collective agreement, which resulted in an $11 million pension plan amendment loss from the revaluation of the pension liability. Non-labour costs increased $134 million (+10.0%) compared to 2021, as a result of higher fuel costs, inflation and the return to normal spending levels for sales and general administration expenses.

5.5 SCI segment

We'll make you even better.

In 2022, SCI's profit before tax decreased by $8 million (-31.2%) compared to the prior year.

Summary of results

(in millions of dollars)

	2022	2021	$ change	% change
Revenue from operations	327	348	(21)	(5.5)%
Cost of operations	309	322	(13)	(3.5)%
Profit from operations	**18**	**26**	**(8)**	**(30.2)%**
Investing and financing expense, net	(2)	(2)	–	20.8%
Profit before tax	**16**	**24**	**(8)**	**(31.2)%**

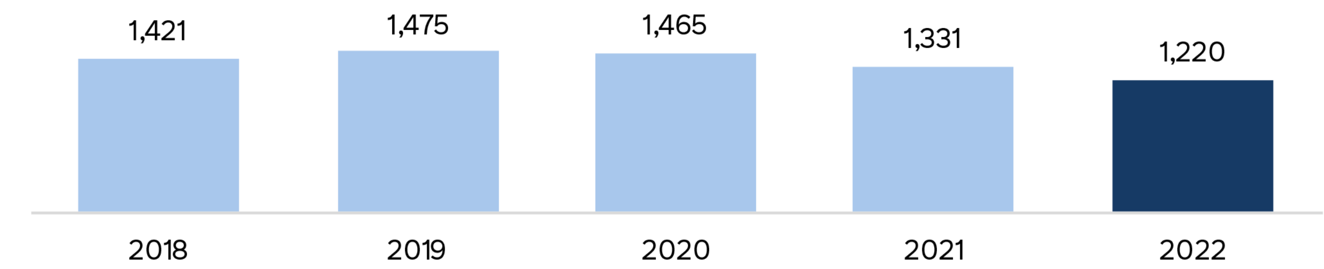
Attrition of several customers, partially offset by volume growth from new and existing customers, resulted in a net decrease in revenue from operations of $21 million (-5.5%) compared to 2021. This attrition resulted in lower salary and occupancy costs, which led to a decrease in cost of operations of $13 million (-3.5%) compared to 2021.

6. Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources.

6.1 Cash and cash equivalents

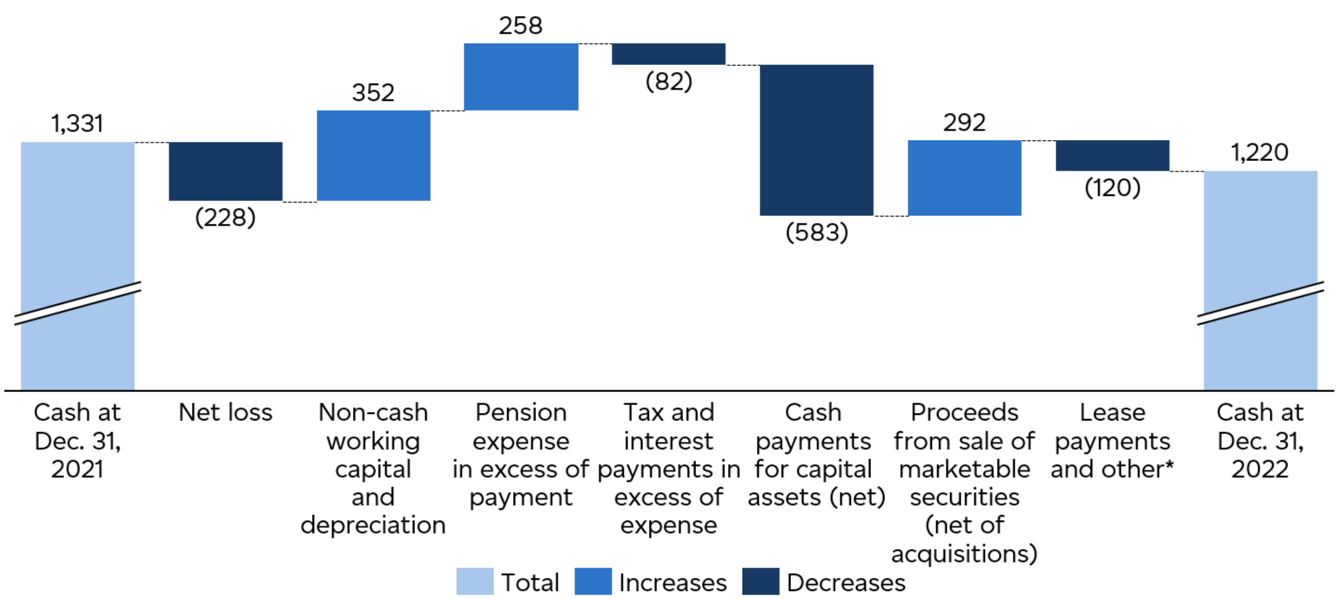
(in millions of dollars)



Cash and cash equivalents held by the Group at December 31, 2022, was $1,220 million, a decrease of $111 million (-8.4%) compared to December 31, 2021. This decrease was mainly due to increased operating losses, cash payments for pension contributions, capital assets and lease payments, partly offset by proceeds from sales of securities in excess of acquisitions.

Change in cash and cash equivalents for the year ended December 31, 2022

(in millions of dollars)



* Includes effect of foreign currency exchange rate changes on cash and cash equivalents.

Consolidated statement of cash flows

(in millions of dollars)

	2022	2021	$ change	% change	Explanation
Cash provided by operating activities	300	664	(364)	(54.8)%	Mainly from lower pension expenses, primarily from an increase in discount rates, timing of customer receipts and a higher loss from operations.
Cash used in investing activities	(283)	(674)	391	57.9%	Due to lower cash purchases of marketable securities (net of sale proceeds).
Cash used in financing activities	(133)	(125)	(8)	(6.6)%	Higher payments of lease liabilities in the Canada Post segment.

Capital expenditures

For the year ended December 31

(in millions of dollars)*

	2022	2021	$ change	Explanation
Canada Post	453	438	15	Capital expenditures* for the Group decreased by $26 million in 2022, compared to 2021, due to lower acquisitions in the Purolator segment offset by higher acquisitions in the Canada Post segment.
Purolator	189	232	(43)	
SCI	9	6	3	
Innovapost and intersegment	–	1	(1)	
Canada Post Group of Companies	651	677	(26)	

* Capital expenditures include assets purchased but not yet paid for; they differ from the amount presented as cash payments for capital assets on the Consolidated Statement of Cash Flows.

Canada Post segment

The Canada Post segment invested significantly in 2022 to support our strategic transformation. Investments of $722 million were made, with capital and non-capital expenditures of $453 million, and $269 million, respectively.

In 2022, to help Canada Post compete in the ecommerce market with enhanced service as well as to address immediate capacity challenges, we continued investments in the construction of the new Albert Jackson Processing Centre in the Greater Toronto Area, set to open in 2023. Other significant investments in 2022 focused on adding parcel lockers to our network, replenishing our street furniture, facility improvement projects, and upgrading our enterprise resource planning (ERP) system through the completion of the design phase of the Experience Transformation project.

Capital and non-capital investments underlying the many achievements and initiatives that support our pivotal transformation strategy are included in Section 4 Capabilities.

Looking ahead to 2023, investments will be guided by our strategy and the needs of our employees and customers:

- Replenish vehicles and enhance the efficiency of our fleet by continuing to explore clean energy alternatives.
- Modernize and improve technical platforms across multiple business processes through the upgrade of our ERP system through our Experience Transformation project.
- Replenish street furniture, and upgrade systems reaching their end of life.
- Upgrade our network to meet long-term parcel volume growth projections as well as continue and accelerate the implementation of capacity solutions.

- 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.
- Create new delivery service operations to provide the best experience for all Canadians.

6.2 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a fair value of $29.6 billion as at December 31, 2022, 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.

Solvency relief

Without the relief afforded under the regulations of the Act, Canada Post would have been required to make special solvency payments for 2022 totalling $1.0 billion (including special payments made to cover transfer deficiencies). This relief was fully utilized during the year and in April 2022, the Government of Canada approved the *Canada Post Corporation Pension Plan Funding Regulations* to provide Canada Post with full temporary relief from its solvency funding obligations until December 31, 2024. Without this temporary relief, Canada Post would have been required to make special solvency payments of $794 million for 2022 and an estimated $339 million for 2023.

Funding status

The going-concern and solvency funded positions of the RPP are as follows:

(in billions of dollars)

	2022[1]	2021
Going-concern surplus using the smoothed value of RPP assets	6.5	4.9
Solvency surplus (deficit) using market value of plan assets	2.4	(2.6)
Solvency deficit to be funded using the three-year average solvency ratio basis	(1.7)	(4.9)

1. The current estimate of the financial position of the RPP as at December 31, 2022, to be filed in 2023.

The going-concern and solvency funded positions improved during the year, mainly due to an increase in the discount rate offset by lower-than-expected asset returns of -6.7% (excluding administrative and management fees). The solvency position (using market value of plan assets) and going-concern position (using the smoothed value of plan assets) of the RPP improved in 2022 such that the funded ratios are estimated to exceed 105% and 125%, respectively, for the Canada Post Registered Pension Plan as at December 31, 2022. As a result, Canada Post may be required to make mandatory use of the surplus and not be permitted to make regular contributions once the actuarial valuation is filed in 2023. Final actuarial valuation results may differ significantly from these estimates.

Contributions and special payments

Contributions and special payments to the defined benefit pension plan are as follows:

(in millions of dollars)

	2023 (estimate)	**2022[1]**	2021
Employer's current service contributions	91	318	321
Employer's special transfer deficiency payments	2	32	32

1. In October 2022, the Office of the Superintendent of Financial Institutions (OSFI) withdrew restrictions that had been in place on the RPP special transfer deficiency payments. This change allows funding requirements for these payments to be consistent with the rules applied to other federally regulated plans.

Remeasurements

As the RPP sponsor, Canada Post records an accounting remeasurement, net of tax, in other comprehensive income. In 2022, a remeasurement gain, net of tax, for the RPP amounted to $2.6 billion, primarily due to a discount rate increase offset by lower-than-expected asset returns as well as experience and other actuarial assumption adjustments.

6.3 Liquidity and capital resources

The Group manages capital, which it defines as loans and borrowings, other liabilities (non-current) and equity of Canada. 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, 2022, and during 2022, the liquidity required by the Group 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 $1,921 million of unrestricted liquid investments on hand as at December 31, 2022, for a net liquidity position of $923 million (2021 – $1,251 million), after outstanding loans and borrowings of $998 million (2021 – $998 million). The decline in the segment's net liquidity position of $328 million is due to operating losses and higher costs to expand capacity and sustain the network.

The Corporation's subsidiaries had a total of $324 million of unrestricted cash on hand and undrawn credit facilities of $170 million as at December 31, 2022, 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*, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion, including 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, 2022, 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 2022 and the pension plan funding relief permitted by legislation.

6.4 Risks associated with financial instruments

The Group 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	–	1,200	1,200
Cash equivalents	20	–	20
Marketable securities	1,083	–	1,083
Trade, other receivables and contract assets	–	1,053	1,053
Segregated securities	373	–	373
Total financial assets	**1,476**	**2,253**	**3,729**
Non-interest bearing[b]	–	1,417	1,417
Loans and borrowings	–	998	998
Total financial liabilities	**–**	**2,415**	**2,415**

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. Financial liabilities consist mostly of trade payables (non-interest bearing) and bonds.

Market risk

Interest rate risk

The Groups' 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 10 years as at December 31, 2022 (2021 – 11 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 $37 million (2021 – $54 million), which would represent an impact on the fair value of the Groups' investments at December 31, 2022, and on other comprehensive income or loss.

Loans and borrowings of $998 million include fixed-rate debt with prepayment options.

Commodity risk

The Group 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 tied to market rates on some of its products.

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 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 invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors.

In April 2022, the Government of Canada approved 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. Market volatility could have a significant effect on such payments for 2023 and thereafter.

6.5 Contractual obligations and commitments

The following table represents the Groups' contractual obligations to make future payments and excludes $130 million of contractual arrangements with third-party suppliers that do not contain a termination for convenience clause.

(in millions of dollars)

	Less than 1 year	1-5 years	More than 5 years	Total
Non-interest bearing[a]	1,417	–	–	1,417
Bonds[b]	–	500	500	1,000
Interest on bonds	42	128	284	454
Lease liabilities[c]	149	632	1,320	2,101

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

b. 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%.

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

6.6 Related party transactions

Government of Canada

The Corporation has 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 2022 was $264 million (2021 – $307 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 people who are blind sent free of postage, which amounted to $22 million (2021 – $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 $15 million for the year ended December 31, 2022 (2021 – $13 million), which included compensation related to short-term benefits and post-employment benefits. The $2 million increase in 2022 was due to increased executive compensation in the Purolator segment.

6.7 Contingent liabilities

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

7. Changes in Financial Position

A discussion of significant changes in our assets and liabilities between December 31, 2022, and December 31, 2021.

(in millions of dollars)

ASSETS	2022	2021	$ change	% change	Explanation of significant variances
Cash and cash equivalents	1,220	1,331	(111)	(8.4)%	Refer to Section 6 Liquidity and Capital Resources.
Marketable securities	1,025	1,279	(254)	(19.8)%	Maturities and lower surplus cash resulted in lower purchases of marketable securities.
Trade, other receivables and contract assets	1,053	968	85	8.8%	Higher receivables in all segments.
Income tax receivable	42	66	(24)	(37.2)%	Mainly due to lower recovery from carry-back of non-capital losses for the Canada Post segment.
Other assets	139	134	5	3.9%	Higher prepaid expenses in the Purolator and SCI segments.
Total current assets	**3,479**	**3,778**	**(299)**	**(7.9)%**	
Marketable securities	58	82	(24)	(28.8)%	Maturity of corporate bonds.
Property, plant and equipment	3,779	3,473	306	8.8%	Acquisitions in excess of depreciation.
Intangible assets	196	169	27	15.9%	Increase in software under development.
Right-of-use assets	1,384	1,326	58	4.4%	Acquisitions (new leases and lease renewals) exceeded depreciation in all segments.
Segregated securities	373	482	(109)	(22.6)%	Unrealized losses in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	4,933	1,450	3,483	240.4%	Remeasurement gains in the Canada Post Registered Pension Plan (RPP) primarily from an increase in the discount rate offset by lower-than-expected return on assets, experience, and other actuarial assumption adjustments.
Deferred tax assets	3	572	(569)	(99.5)%	Mainly due to a net surplus in post-employment plans from an increase in discount rates, compared to a net deficit in 2021.
Goodwill	130	130	–	–	
Other assets	52	54	(2)	(3.2)%	
Total non-current assets	**10,908**	**7,738**	**3,170**	**41.0%**	
Total assets	**14,387**	**11,516**	**2,871**	**24.9%**	

(in millions of dollars)

LIABILITIES	2022	2021	$ change	% change	Explanation of significant variances
Trade and other payables	**1,015**	881	134	15.3%	Mainly due to an increase in goods received in the Canada Post segment.
Salaries and benefits payable and related provisions	**651**	700	(49)	(7.0)%	Lower accrued salaries in the Canada Post segment, primarily due to timing.
Provisions	**55**	57	(2)	(4.8)%	
Income tax payable	**2**	20	(18)	(92.0)%	Primarily due to a decrease in tax liability for the Purolator segment.
Deferred revenue	**166**	186	(20)	(10.3)%	Mainly due to a decrease in deferred Parcel revenue in the Canada Post segment.
Lease liabilities	**129**	123	6	4.5%	
Other long-term benefit liabilities	**56**	62	(6)	(9.7)%	
Total current liabilities	**2,074**	**2,029**	**45**	**2.2%**	
Lease liabilities	**1,454**	1,391	63	4.5%	Acquisitions (new leases and lease renewals) net of lease payments.
Loans and borrowings	**998**	998	–	–	
Pension, other post-employment and other long-term benefit liabilities	**2,847**	3,969	(1,122)	(28.2)%	Remeasurement gains primarily from an increase in discount rates on other post-employment plans.
Deferred tax liabilities	**536**	12	524	+	Net surplus in post-employment plans from an increase in discount rates from 2021, compared to a net deficit in 2021.
Other liabilities	**46**	32	14	36.3%	Mainly due to higher employee share ownership plan liability in the Purolator segment.
Total non-current liabilities	**5,881**	**6,402**	**(521)**	**(8.1)%**	
Total liabilities	**7,955**	**8,431**	**(476)**	**(5.6)%**	
EQUITY					
Contributed capital	**1,155**	1,155	–	–	
Accumulated other comprehensive income (loss)	**(10)**	59	(69)	*	Unrealized losses on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Retained earnings	**5,214**	1,811	3,403	187.8%	Remeasurement gains offset by net operating losses in the Canada Post segment.
Equity of Canada	**6,359**	**3,025**	**3,334**	**110.2%**	
Non-controlling interests	**73**	60	13	22.2%	
Total equity	**6,432**	**3,085**	**3,347**	**108.5%**	
Total liabilities and equity	**14,387**	**11,516**	**2,871**	**24.9%**	

+ Large percentage change.

* 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. 2022 highlights:

- increased alignment of ERM with strategy-setting;
- developed a process to determine risk appetite and risk tolerance to be implemented in 2023.

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.

Risk appetite

Canada Post uses judgment to actively manage all risks in line with its risk appetite which is rooted by its mandate, mission and values. Canada Post is prepared to take informed and targeted risks that are as follows:

- ensure achievement of Canada Post's purpose, mandate and financial sustainability;
- are understandable and manageable in support of the Corporation's transformation goals;
- foster innovation and improvement to the employee and customer experience;
- will not result in a negative impact to the company's brand and trust with Canadians.

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

Economic uncertainty

Risk

Ongoing economic uncertainty worldwide and the potential for a recession in Canada threaten to impact our business and create challenges, for example:

- higher costs and delays to transformation and capital projects due to investment, global supply chain and labour challenges;
- decreased retail spending due to lower consumer confidence and disposable income resulting in lower ecommerce parcel volume;
- reduction in our customers' marketing budget negatively impacting Lettermail™ and Smartmail Marketing™ volumes;

- increased challenges in retaining talent amid new realities of the labour market (i.e. rising inflation, increased salary expectations, labour market tightness).

Mitigation

Economic uncertainty and the potential recession impact the following principal risks: parcel network capacity, business-to-consumer parcel market competition, core mail volume decline, and talent management. Each of these principal risks has its own mitigations, which are articulated below.

COVID-19

Risk

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

- workforce unavailability;
- health and safety risks;
- delays to capital projects due to global supply chain issues;
- ecommerce volume fluctuations impacting our network and ability to process and deliver parcels on time;
- increased costs;
- decrease in Lettermail and Smartmail Marketing volumes;
- increased pressure on IT security due to remote work.

Mitigation

The health and safety of our employees and Canadians remain our top priority. The Corporation continues to assess and enforce health and safety protocols established in post offices, plants, depots and the way we deliver items. Strategies have been implemented to improve the network and better manage the fluctuation in ecommerce volumes through investments focused on our infrastructure and building network capacity. A new hybrid return to work model has been deployed. We continue to provide increased customer account management support, engage with industry partners and provide customers with improved access to data. Additional guidance and measures are in place to ensure that data privacy requirements are followed.

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. Canada Post has an objective to achieve long-term financial sustainability while fulfilling its 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 11, 2022.

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.

Business-to-consumer parcel market competition

Risk

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

- competitors intensifying the deployment of delivery and return capabilities and partnering with other major competitors to strengthen their value proposition;
- 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 which may lead to declines in volume, revenue and market share, as well as negative brand impacts;
- capacity constraints in Canada Post's network have led to new competitors entering the market making it more challenging to maintain or win back business.

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 investment in parcel lockers, product strategies and initiatives designed to foster innovation, and opportunities to innovate our operating model. We are investing significantly 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.

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 our decision-making autonomy related to compensation of non-union employees, as well as competition for talent, 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. The Employee Engagement Survey results will be used to better understand employee feedback regarding their career goals and development needs, and to further inform which aspects of this topic might form part of the Employee Experience Roadmap. Talent and succession planning strategies are used to foster employee development and increase the talent pool. Hybrid 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. In 2022, Canada Post launched an Anti-Racism and Anti-Discrimination Charter, which was mailed to all employees' home and is focused on fostering a sense of belonging, where everyone can feel safe to be themselves at work. Special measures have been developed to implement preferential hiring for under-represented groups in geographical areas significantly below the Canadian Labour Market Availability (CLMA). Employment policies are evolving to foster greater accessibility and inclusion among Indigenous Peoples and people with disabilities, including the launch of another Indigenous community hub and cultural competency training. Periodic measurement and reporting of equity representation are also being deployed.

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 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 industry-standard security controls and incident response plans to reduce the threat of cyberattacks and ensure remediation of known and unknown threats. This approach includes advanced endpoint protection and network segmentation, and tiers of network and system protection. We also have an expanded vendor management program focused on cyber security risks of our supply chain and a new email security system to prevent unwanted emails.

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 regular monitoring and reporting ensure only authorized users access our data.

Anti-fraud corporate governance, policies and procedures ensure effective oversight and management of fraud risks. Measures are in place to detect, monitor and report on proceeds of crime activities. Employee training, simulation testing and awareness campaigns are undertaken.

Information technology: Transformation project execution

Risk

Canada Post faces risks with the implementation of critical information technology projects required for facilitating business transformation. The highly complex and customized nature of the current legacy IT system landscape has added significant risk to projects, which has been further exacerbated by challenges in attracting and retaining resources with unique technical skills. This risk may lead to an inability to achieve planned growth, decreased customer experience and investment cost overrun.

Risk mitigation

Canada Post continues to make changes to its operating model to improve processes, agility, automation and cross-training. Several initiatives have been launched to train employees on new technology as well as to increase our talent pool and create knowledge transfer plans. Specialized partners are being engaged to support critical projects, and a comprehensive risk assessment of Canada Post's IT applications has been conducted.

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.

With two collective agreements set to expire on December 31, 2023, and January 31, 2024, negotiations pertaining to these bargaining units will likely begin in the fall of 2023. The impact or threat of labour disruption or arbitration (in the event that collective agreements are not achieved) beyond these dates could lead to negative brand impacts and loss of revenue for all products.

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:

- collective agreements provide for binding arbitration of all issues that remain unresolved in negotiations;
- ongoing implementation of its long-term collaborative labour strategy to guide successive rounds of negotiations;
- proactive and ongoing relationship building with all bargaining agents between rounds of negotiations, 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.

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, improved use of existing capacity and increased planning for peak staffing will continue.

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, 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 continue to transform our culture through a long-term strategy on health and safety management using a risk-based approach. Several new high-injury site reduction initiatives were deployed over the course of the year such as the engagement of a local joint health and safety committee, implementation of a road safety organization, implementation of a Tactical Pandemic Response Toolkit and a mental health strategy. New infrastructure and processes were 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 16th consecutive year of volume decline in 2022. This decline is a result of digital transformations, regulatory changes, economic impacts from the COVID-19 pandemic and economic uncertainty, mail product cost increases 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. The rising cost and lack of availability of paper place additional pressure on Smartmail Marketing, and all commercial mail.

Risk mitigation

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 use channels to promote the value and use of Smartmail Marketing, engaging partners through education and training, marketing and selling tools, and referrals. Canada Post Sales teams are also working closely with our large customers to provide incentive for growth and minimize volume decline. Similarly, our Solutions for Small Business program helps small businesses access Smartmail Marketing. We continue to invest in modernizing and improving our customer tools and data solutions to bolster our value proposition in market.

Canada Post is working with industry partners and retailers to reduce packaging waste in the mail stream and expand our offering of sustainable packaging and delivery solutions. Additionally, Canada Post is a member of the Sustainable Mail Group and is an active supporter of its current status as an industry-run group dedicated to transforming the mail industry in Canada to build a better, cleaner future and mitigate public concerns. Canada Post is developing and implementing strategies to reduce plastic-wrapped mail items by 2026.

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 the RPP obligations, including funding the pension and the value of obligations, may experience volatility due to low or declining long-term interest rates and lower than expected returns or losses on assets.

Risk mitigation

In April 2022, the Government of Canada approved the *Canada Post Corporation Pension Plan Funding 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 longer-term solvency deficit funding relief.

Measures taken to minimize RPP risks include a pension risk management framework to identify and quantify risks; and a revised strategic asset allocation involving reduced public equity exposure and increased exposure to long and real return bonds. In 2022, with capital market turbulence, the RPP's assets were reduced marginally while interest rates rose significantly, reducing the value of the liabilities by much more – resulting in a solvency surplus at year end.

Climate change

Risk

Physical risk: There is a risk that Canada Post may experience major disruptions caused by climate-induced weather events or disasters (e.g. tornados, flooding, wildfires) and the progressive impacts of climate change (e.g. the increasing number of extreme heat or cooling days). This risk may lead to an inability to deliver services through disruptions to the physical and digital network, an inability of employees to conduct their work and impacts to the supply chain causing decreases in volumes, revenues and negative brand impacts.

Transition risk: There is a risk that Canada Post will face increased costs through transition pricing schemes, new and increased taxes and levies (such as carbon taxes), and major changes to infrastructure planning.

Risk mitigation

A climate risk study is being 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

In 2022, the Corporation released a revised climate strategy, which commits the Corporation to a 50% reduction of scopes 1 and 2 greenhouse gas emissions by 2030. This strategy is aligned with the 1.5°C pathway of the Science Based Targets initiative (SBTi). 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 short-term focus is to transform our fleet of vehicles to fully electric (or better) technology and improve the performance of our real estate portfolio through the optimization of our buildings.

The long-term focus is to pursue renewable 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. A long-term plan is also being developed to meet net-zero emissions by 2050.

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.

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 Policies, Estimates and Judgments

A review of changes in accounting policies in 2022 and future years and critical accounting estimates.

9.1 Accounting policies

Information on Canada Post’s accounting policies are provided in Note 3 of Canada Post’s audited Consolidated Financial Statements for 2022.

9.2 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. Actual results may differ from the estimates and assumptions. 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.

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 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 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 2022 or 2021.

Provisions and contingent liabilities

A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group 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 Group 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. Plan-specific discount rates are determined using plan cash flows. 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	(174)	(1,571)	(2)	(116)
0.5% decrease in discount rates	166	1,684	2	130
Mortality table sensitivity:				
10% increase in mortality tables	(38)	(513)	(5)	(55)
10% decrease in mortality tables	39	562	5	61
Consumer price index (CPI) sensitivity:				
0.25% increase in CPI	70	659	–	–
0.25% decrease in CPI	(67)	(637)	–	–
Healthcare cost trend rate sensitivity:				
1% increase in healthcare cost trend rates	–	–	35	295
1% decrease in healthcare cost trend rates	–	–	(26)	(236)

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.

9.3 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, 2022.

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, 2022, 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, 2022. 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, 2022, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

10. Outlook for 2023

Our prospects for 2023.

10.1 Global economy and Canada

$ The Worldbank forecasts global economic growth to slow to 1.7% in 2023. This is due to elevated inflation, higher interest rates, reduced investment and disruptions caused by the Russia-Ukraine conflict. The current economic conditions are considered vulnerable – and any new adverse development (continued high inflation, COVID-19) could push the global economy into another recession. Global growth for advanced economies, like Canada's, is expected to decrease from 2.5% in 2022 to 0.5% in 2023.

The Canadian economy is expected to follow the global trend and fall from 3.3% annual gross domestic product (GDP) growth in 2022 to 0.9% growth in 2023. Slowing GDP growth is primarily due to Canadians reacting to the rising consumer price index, which increased to 6.7% in 2022, with households looking to save more and spend less as prices rise faster than wages. In response to an economic downturn, businesses generally slow production or layoff staff. However, due to the ongoing labour shortage, it is expected that the impact to the labour market will be more subtle as those impacted by layoffs may be offset with companies still seeking labour. Canada's continued natural resource sales of oil, gas, mining and agricultural products to foreign countries is expected to help counterbalance any potential drop in consumer spending. As consumers navigate this economic uncertainty, Canada Post may see volatility in all lines of business, as consumers and business modify their behaviour in a changing economy.

Pressure in the Canadian housing market due to supply constraints and affordability is expected to continue. The housing starts estimate is 225,000 new addresses in 2023. Address growth is a cost pressure on Canada Post's delivery operations as mail volumes continue to decline.

	2022	2023	2024
Economic (% change)			
Real gross domestic product (GDP)	3.3%	0.4%	1.4%
Inflation (consumer price index [CPI])	6.7%	4.0%	2.2%
Demographic (% change)			
Total population growth	1.0%	1.0%	1.0%
Household growth	(3.0)%	(5.2)%	1.0%

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 Our business

Canada Post segment

While online shopping continues to drive parcel growth and our business, Canada's ecommerce market has begun to settle after two years of accelerated growth, making 2022 very much a transition year. However, the fundamentals remain strong for long-term growth in the ecommerce market: We project that it will more than double in volumes and spend over the next decade. Ecommerce's share of total retail sales in Canada is two-thirds higher than three years ago.

We expect that Direct Marketing and Lettermail™ will continue to trend downward due to digital substitution over the same period. However, Direct Marketing and Lettermail remain important revenue generators for the business, and we are innovating to connect them to a digital experience and maximize their value.

It is increasingly important for us to address the following challenges, which impact our operating environment and ability to return to financial self-sustainability:

- We have seen customer and consumer expectations rise, putting pressure on price, performance, speed, and other service options. Canadians are returning to in-store shopping and returns. Shipping decisions are increasingly influenced by concern about the environmental footprint.
- Competition is accelerating for domestic and inbound parcels as competitors add capacity and innovate on ecommerce delivery and returns. Local and regional disruptive delivery services are pricing aggressively to win share based on low labour-cost operating models. Merchants are rate shopping to find the lowest possible delivery cost on every shipment.
- As an employer, Canada Post faces several challenges: Competition for talent is challenging our ability to attract and retain the people we need. Compensation restrictions under P.C. 2013-1354 (Bill C-60) are making it increasingly difficult for us to compete for and retain top talent in the current market. We are also looking ahead to upcoming negotiations with our bargaining agents, ensuring that we continue to build relationships and mitigate potential risks.

Our transformation plan addresses these challenges, and it is critical that we fully carry out this transformation to remain relevant to Canadians and Canadian businesses.

Purolator segment

In 2023, Purolator expects the normalization in volumes to continue as the country navigates recessionary pressures following COVID-19. The company remains steady in the execution of its five-year strategy to achieve long-term sustainable growth and enhance customer experience. Purolator will continue to prioritize premium growth, network modernization, digitization, and creating a safe, sustainable, inclusive, and inspiring culture, while also adding new capabilities to strengthen the company's market positioning. Focusing on these areas will position Purolator well as the company faces external challenges. To best position Purolator for both short- and long-term growth, Purolator is ensuring that its strategic actions are continually reviewed to ensure products and services align with evolving market demands.

SCI segment

In 2023, SCI will continue to focus on profitable growth from the retail, technology, and healthcare key markets and increase operational savings through continuous improvement initiatives. In addition, SCI will expand on proven capabilities including omni-channel fulfillment, reverse logistics, product life cycle solutions and specialized transportation services. SCI is investing to enhance business-to-consumer capabilities to provide added value services to new and existing mid-market customers to accelerate growth and profitability. Finally, SCI will continue to work with Canada Post, Purolator and Innovapost on initiatives that capitalize on existing Group of Companies capabilities.

Historical Financial Information

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

OPERATIONS	**2022**	2021	2020	2019	2018
Revenue from operations	**10,142**	10,112	9,318	8,899	8,672
Total cost of operations	**10,378**	10,308	9,888	8,892	8,754
Profit (loss) from operations	**(236)**	(196)	(570)	7	(82)
Percentage of revenue from operations	**(2.3)%**	(1.9)%	(6.1)%	0.1%	(0.9)%
Investing and financing expense, net	**(56)**	(50)	(56)	(30)	(36)
Loss before tax	**(292)**	(246)	(626)	(23)	(118)
Tax recovery	**(64)**	(59)	(153)	(9)	(25)
Net loss	**(228)**	(187)	(473)	(14)	(93)
Other comprehensive income (loss)	**3,582**	4,155	(329)	120	397
Comprehensive income (loss)	**3,354**	3,968	(802)	106	304
Net loss attributable to					
Government of Canada	**(244)**	(201)	(482)	(22)	(102)
Non-controlling interests	**16**	14	9	8	9
	(228)	(187)	(473)	(14)	(93)
Comprehensive income (loss) attributable to					
Government of Canada	**3,334**	3,944	(812)	103	294
Non-controlling interests	**20**	24	10	3	10
	3,354	3,968	(802)	106	304

STATEMENT OF FINANCIAL POSITION	**2022**	2021	2020	2019	2018
Assets					
Current	**3,479**	3,778	4,003	3,734	3,841
Segregated securities	**373**	482	537	514	495
Capital assets	**3,975**	3,642	3,301	3,066	2,793
Right-of-use assets	**1,384**	1,326	1,221	1,113	982
Pension benefit assets	**4,933**	1,450	25	75	95
Deferred tax assets	**3**	572	1,883	1,659	1,680
Other assets	**240**	266	239	366	325
Total assets	**14,387**	11,516	11,209	10,527	10,211
Liabilities and equity					
Current	**2,074**	2,029	2,165	1,901	2,035
Pension, other post-employment and other long-term benefit liabilities	**2,847**	3,969	7,601	6,498	6,277
Other liabilities	**3,034**	2,433	2,321	2,200	2,073
Non-controlling interests	**73**	60	41	35	36
Equity of Canada	**6,359**	3,025	(919)	(107)	(210)
Total liabilities and equity	**14,387**	11,516	11,209	10,527	10,211

ADDITIONS TO CAPITAL ASSETS	**2022**	2021	2020	2019	2018
Land and buildings	**86**	47	74	160	66
Other capital assets	**570**	630	498	431	321
	656	677	572	591	387

Historical Financial Information

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

LINE OF BUSINESS DIMENSIONS **REVENUE FROM OPERATIONS**	**2022**	**% change**	2021	% change[1]	2020	% change	2019	% change	2018
Parcels									
Domestic Parcels	**2,924**	**0.8%**	2,912	9.5%	2,681	29.1%	2,068	11.0%	1,864
Outbound Parcels (to other postal administrations)	**308**	**(6.3)%**	329	9.7%	302	24.2%	243	0.1%	242
Inbound Parcels (from other postal administrations)	**316**	**(22.4)%**	409	(4.5)%	432	7.2%	401	9.3%	367
Total – Parcels	**3,548**	**(2.4)%**	3,650	7.7%	3,415	25.4%	2,712	9.7%	2,473
Other	**25**	**11.3%**	22	14.5%	19	(17.0)%	23	(23.0)%	30
Canada Post segment	**3,573**	**(2.3)%**	3,672	7.8%	3,434	25.0%	2,735	9.3%	2,503
Purolator segment	**2,830**	**9.0%**	2,606	19.1%	2,205	13.5%	1,936	4.8%	1,847
SCI segment	**327**	**(5.5)%**	348	6.6%	329	(5.2)%	346	8.2%	319
Elimination of intersegment	**(199)**		(191)		(157)		(127)		(117)
Canada Post Group of Companies	**6,531**	**1.9%**	6,435	11.6%	5,811	18.4%	4,890	7.4%	4,552
Transaction Mail									
Domestic Lettermail	**2,296**	**(2.6)%**	2,368	2.2%	2,335	(8.5)%	2,540	(2.3)%	2,601
Outbound Letter-post (to other postal administrations)	**75**	**(4.8)%**	78	(5.0)%	83	(13.8)%	96	(3.7)%	99
Inbound Letter-post (from other postal administrations)	**53**	**8.3%**	48	(25.5)%	66	(16.2)%	78	(5.3)%	83
Canada Post segment	**2,424**	**(2.4)%**	2,494	1.2%	2,484	(8.9)%	2,714	(2.5)%	2,783
Elimination of intersegment	**(2)**		(2)		(2)		(2)		(2)
Canada Post Group of Companies	**2,422**	**(2.4)%**	2,492	1.2%	2,482	(8.9)%	2,712	(2.5)%	2,781
Direct Marketing									
Canada Post Personalized Mail™	**425**	**5.8%**	404	11.6%	365	(25.1)%	485	(3.2)%	501
Canada Post Neighbourhood Mail™	**370**	**4.3%**	356	26.8%	283	(29.7)%	401	(1.7)%	408
Total – Canada Post Smartmail Marketing™	**795**	**5.1%**	760	18.2%	648	(27.2)%	886	(2.5)%	909
Publications Mail™	**126**	**(0.2)%**	127	(0.4)%	129	(12.0)%	146	(5.2)%	153
Business Reply Mail™ and Other mail	**18**	**(4.7)%**	19	1.8%	19	(5.9)%	20	(8.3)%	22
Total – Mail	**939**	**4.1%**	906	14.8%	796	(24.6)%	1,052	(3.0)%	1,084
Other	**15**	**(7.8)%**	16	17.5%	13	0.4%	14	0.3%	14
Canada Post segment / Group of Companies	**954**	**3.9%**	922	14.8%	809	(24.3)%	1,066	(3.0)%	1,098
Other revenue									
Canada Post segment	**231**	**(10.7)%**	261	22.1%	215	(8.2)%	233	(0.9)%	236
Purolator segment	**4**	**112.8%**	2	179.4%	1	135.3%	(2)	(141.7)%	5
Canada Post Group of Companies	**235**	**(9.7)%**	263	22.6%	216	(7.0)%	231	(3.9)%	241
Revenue from operations									
Canada Post segment	**7,182**	**(1.9)%**	7,349	6.7%	6,942	2.5%	6,748	1.9%	6,620
Purolator segment	**2,834**	**9.1%**	2,608	19.2%	2,206	13.7%	1,934	4.4%	1,852
SCI segment	**327**	**(5.5)%**	348	6.6%	329	(5.2)%	346	8.2%	319
Innovapost and elimination of intercompany	**(201)**		(193)		(159)		(129)		(119)
Canada Post Group of Companies	**10,142**	**0.7%**	10,112	9.4%	9,318	4.3%	8,899	2.6%	8,672

1. Restated to exclude the National Day for Truth and Reconciliation as a trading day.

Historical Financial Information

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

LINE OF BUSINESS DIMENSIONS	**2022**	**% change**	2021	% change[1]	2020	% change	2019	% change	2018
VOLUME									
Parcels									
Domestic Parcels	**230**	**(17.2)%**	279	(3.9)%	292	30.9%	222	13.2%	196
Outbound Parcels (to other postal administrations)	**11**	**(13.6)%**	13	1.7%	13	31.2%	10	0.9%	10
Inbound Parcels (from other postal administrations)	**45**	**(34.7)%**	69	(17.3)%	84	(5.0)%	88	(1.5)%	90
Canada Post segment	**286**	**(20.4)%**	361	(6.6)%	389	21.0%	320	8.3%	296
Purolator segment	**170**	**(2.4)%**	174	8.7%	162	14.8%	140	4.8%	134
Elimination of intersegment	**(11)**		(13)		(12)		(8)		(7)
Canada Post Group of Companies	**445**	**(14.5)%**	522	(2.4)%	539	18.7%	452	7.2%	423
Transaction Mail									
Domestic Lettermail	**2,220**	**(6.6)%**	2,386	(1.1)%	2,432	(9.7)%	2,683	(6.3)%	2,863
Outbound Letter-post (to other postal administrations)	**34**	**(5.2)%**	35	(8.1)%	39	(15.2)%	45	(7.6)%	49
Inbound Letter-post (from other postal administrations)	**59**	**3.6%**	57	(16.7)%	69	(29.6)%	98	(7.8)%	106
Canada Post segment	**2,313**	**(6.3)%**	2,478	(1.6)%	2,540	(10.5)%	2,826	(6.4)%	3,018
Elimination of intersegment	**(2)**		(2)		(2)		(2)		(2)
Canada Post Group of Companies	**2,311**	**(6.3)%**	2,476	(1.6)%	2,538	(10.5)%	2,824	(6.4)%	3,016
Direct Marketing									
Personalized Mail	**727**	**3.2%**	706	9.8%	648	(27.1)%	886	(3.5)%	918
Neighbourhood Mail	**3,071**	**2.2%**	3,016	22.9%	2,474	(28.8)%	3,461	(0.7)%	3,486
Total – Smartmail Marketing	**3,798**	**2.4%**	3,722	20.2%	3,122	(28.5)%	4,347	(1.3)%	4,404
Publications Mail	**176**	**(3.2)%**	182	(1.7)%	187	(13.5)%	215	(6.9)%	231
Business Reply Mail and Other mail	**11**	**(7.5)%**	14	(4.4)%	14	(9.3)%	16	(13.4)%	18
Canada Post segment / Group of Companies	**3,985**	**2.1%**	3,918	18.8%	3,323	(27.7)%	4,578	(1.6)%	4,653
Total volume									
Canada Post segment	**6,584**	**(2.2)%**	6,757	8.9%	6,252	(19.4)%	7,724	(3.1)%	7,967
Purolator segment	**170**	**(2.4)%**	174	8.7%	162	14.8%	140	4.8%	134
Elimination of intersegment	**(13)**		(15)		(14)		(10)		(9)
Canada Post Group of Companies	**6,741**	**(2.1)%**	6,916	8.9%	6,400	(18.8)%	7,854	(2.9)%	8,092
EMPLOYMENT[2]									
Canada Post segment	**67,763**	**(1.0)%**	68,447	0.4%	68,153	3.4%	65,891	1.5%	64,912
Purolator segment	**13,222**	**(2.3)%**	13,533	5.5%	12,833	10.0%	11,670	(0.2)%	11,697
SCI segment	**1,877**	**3.6%**	1,811	(25.4)%	2,429	3.8%	2,341	(6.4)%	2,500
Innovapost business unit	**764**	**(0.3)%**	766	(7.0)%	824	(2.1)%	842	(2.4)%	863
Canada Post Group of Companies	**83,626**	**(1.1)%**	84,557	0.4%	84,239	4.3%	80,744	1.0%	79,972
MAIL NETWORK									
Post offices	**5,873**	**(1.1)%**	5,941	(1.4)%	6,026	(1.0)%	6,084	(0.9)%	6,137
Points of delivery (in thousands)	**17,194**	**1.3%**	16,976	1.3%	16,750	1.2%	16,547	1.0%	16,379
Pickup points (in thousands)[3]	**971**	**0.8%**	964	(1.2)%	975	2.3%	953	0.1%	952

1. Restated to exclude the National Day for Truth and Reconciliation as a trading day.
2. Includes paid full-time and part-time Canadian employees, including 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, 2022, 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, 2022.

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, 2022, 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, 2022, 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 23, 2023

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 62% 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, 2022	Exclusive privilege services[1]	Competitive services[2]	Concessionary services[3]	Other services[4]	**Total**
Revenue from operations	2,610	4,290	24	258	7,182
Long-run incremental costs	(1,646)	(3,018)	(23)	(133)	(4,820)
Long-run incremental contribution	**964**	**1,272**	**1**	**125**	**2,362**
Percentage of revenue	37%	30%	4%	48%	33%
Unallocated fixed costs					(2,956)
Contribution before the undernoted items					**(594)**
Investment and other income					114
Finance costs and other expense					(68)
Loss before tax – Canada Post segment					**(548)**

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, 2022

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, 2022.

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, 2022, 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 23, 2023

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, 2022, 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, 2022, 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 Accountant

Ottawa, Canada
March 23, 2023

Consolidated Statement of Financial Position

(in millions of Canadian dollars)

ASSETS	As at December 31, 2022	As at December 31, 2021
Current assets		
Cash and cash equivalents (Note 6)	**1,220**	1,331
Marketable securities (Note 6)	**1,025**	1,279
Trade, other receivables and contract assets (notes 19, 21)	**1,053**	968
Income tax receivable	**42**	66
Other assets (Note 7)	**139**	134
Total current assets	**3,479**	3,778
Non-current assets		
Marketable securities (Note 6)	**58**	82
Property, plant and equipment (Note 8)	**3,779**	3,473
Intangible assets (Note 8)	**196**	169
Right-of-use assets (Note 8)	**1,384**	1,326
Segregated securities (Note 6)	**373**	482
Pension benefit assets (Note 10)	**4,933**	1,450
Deferred tax assets (Note 11)	**3**	572
Goodwill (Note 12)	**130**	130
Other assets (Note 7)	**52**	54
Total non-current assets	**10,908**	7,738
Total assets	**14,387**	11,516

LIABILITIES AND EQUITY	As at December 31, 2022	As at December 31, 2021
Current liabilities		
Trade and other payables (Note 13)	**1,015**	881
Salaries and benefits payable and related provisions	**651**	700
Provisions (Note 14)	**55**	57
Income tax payable	**2**	20
Deferred revenue (Note 21)	**166**	186
Lease liabilities (Note 17)	**129**	123
Other long-term benefit liabilities (Note 10)	**56**	62
Total current liabilities	**2,074**	2,029
Non-current liabilities		
Lease liabilities (Note 17)	**1,454**	1,391
Loans and borrowings (Note 16)	**998**	998
Pension, other post-employment and other long-term benefit liabilities (Note 10)	**2,847**	3,969
Deferred tax liabilities (Note 11)	**536**	12
Other liabilities	**46**	32
Total non-current liabilities	**5,881**	6,402
Total liabilities	**7,955**	8,431

LIABILITIES AND EQUITY	As at December 31, 2022	As at December 31, 2021
Equity		
Contributed capital	**1,155**	1,155
Accumulated other comprehensive income (loss) (Note 25)	**(10)**	59
Retained earnings	**5,214**	1,811
Equity of Canada	**6,359**	3,025
Non-controlling interests	**73**	60
Total equity	**6,432**	3,085
Total liabilities and equity	**14,387**	11,516

Contingent liabilities (Note 15)

Commitments (Note 20)

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, 2022	For the year ended December 31, 2021
Revenue from operations (Note 22)	**10,142**	10,112
Cost of operations		
Labour	**4,867**	4,887
Employee benefits (Note 9)	**1,604**	1,861
	6,471	6,748
Other operating costs (Note 23)	**3,452**	3,110
Depreciation and amortization (Note 8)	**455**	450
Total cost of operations	**10,378**	10,308
Loss from operations	**(236)**	(196)
Investing and financing income (expense)		
Investment and other income (notes 6, 24)	**43**	54
Finance costs and other expense (notes 17, 24)	**(99)**	(104)
Investing and financing expense, net	**(56)**	(50)
Loss before tax	**(292)**	(246)
Tax recovery (Note 11)	**(64)**	(59)
Net loss	**(228)**	(187)
Other comprehensive income (Note 25)		
Items that may subsequently be reclassified to net profit (loss)		
Change in unrealized fair value of financial assets	**(70)**	(32)
Foreign currency translation adjustment	**1**	(1)
Item never reclassified to net profit (loss)		
Remeasurements of defined benefit plans	**3,651**	4,188
Other comprehensive income	**3,582**	4,155
Comprehensive income	**3,354**	3,968
Net loss attributable to		
Government of Canada	**(244)**	(201)
Non-controlling interests	**16**	14
	(228)	(187)
Comprehensive income attributable to		
Government of Canada	**3,334**	3,944
Non-controlling interests	**20**	24
	3,354	3,968

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, 2022	Contributed capital	Accumulated other comprehensive income (loss)	Retained earnings	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2021	**1,155**	**59**	**1,811**	**3,025**	**60**	**3,085**
Net profit (loss)	**–**	**–**	**(244)**	**(244)**	**16**	**(228)**
Other comprehensive income (loss) (Note 25)	**–**	**(69)**	**3,647**	**3,578**	**4**	**3,582**
Comprehensive income (loss)	**–**	**(69)**	**3,403**	**3,334**	**20**	**3,354**
Transactions with shareholders – Dividend	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Balance at December 31, 2022	**1,155**	**(10)**	**5,214**	**6,359**	**73**	**6,432**

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

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, 2022	For the year ended December 31, 2021
Cash flows from operating activities		
Net loss	**(228)**	(187)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization (Note 8)	**455**	450
Pension, other post-employment and other long-term benefit expense (Note 10)	**884**	1,168
Pension, other post-employment and other long-term benefit contributions and payments (Note 10)	**(626)**	(639)
Loss (gain) on sale of capital assets and assets held for sale (Note 24)	**1**	(35)
Tax recovery and other items affecting net income tax receivable (Note 11)	**(64)**	(61)
Net interest expense (Note 24)	**41**	66
Change in non-cash operating working capital:		
(Increase) decrease in trade and other receivables	**(84)**	97
Increase in trade and other payables	**69**	4
Decrease in salaries and benefits payable and related provisions	**(49)**	(114)
Decrease in provisions	**(7)**	(4)
Net increase in other non-cash operating working capital	**(31)**	(53)
Other income not affecting cash, net	**(2)**	(15)
Cash provided by operating activities before interest and tax	**359**	677
Interest received	**55**	36
Interest paid	**(83)**	(82)
Tax (paid) received	**(31)**	33
Cash provided by operating activities	**300**	664
Cash flows from investing activities		
Acquisition of securities	**(1,101)**	(1,541)
Proceeds from sale of securities	**1,393**	1,495
Cash payments for capital assets	**(585)**	(677)
Proceeds from sale of capital assets and assets held for sale	**2**	52
Other investing activities, net	**8**	(3)
Cash used in investing activities	**(283)**	(674)
Cash flows from financing activities		
Payments of lease liabilities, net of sublease proceeds	**(124)**	(120)
Dividend paid to non-controlling interests	**(7)**	(5)
Other financing activities, net	**(2)**	–
Cash used in financing activities	**(133)**	(125)
Net decrease in cash and cash equivalents	**(116)**	(135)
Cash and cash equivalents, beginning of year	**1,331**	1,465
Effect of exchange rate changes on cash and cash equivalents	**5**	1
Cash and cash equivalents, end of year	**1,220**	1,331

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

Notes to Consolidated Financial Statements

December 31, 2022

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 His 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 6% (2021 – 7%) of the Canada Post segment revenue.

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.

The Corporation maintained regulated prices for stamps and Registered Mail™ items at 2020 levels through 2021 and 2022.

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]).

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 23, 2023.

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," the "Group of Companies" or the "Group." Details of the Corporation's material subsidiaries at December 31, 2022, are set out below.

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

(b) Financial instruments – Financial assets are measured at fair value at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income or at fair value through profit or loss. This classification is based on the business model and the contractual cash flow characteristics. After initial recognition at fair value, the financial asset is not reclassified, unless there is a change in the business model used for managing the financial assets. Financial assets are derecognized when rights to receive cash flows from assets have expired or have been transferred, and substantially all risks and rewards of ownership are transferred.

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. Financial liabilities cannot be reclassified and are derecognized when the contractual obligation is discharged, cancelled or has expired.

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. Unrealized changes in fair value are recognized as they occur in other comprehensive income.

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 the date of acquisition and are recognized at the settlement date. Marketable securities with maturities exceeding 12 months at acquisition are classified as non-current.

Segregated securities are intended to be held to fund specific restricted benefit plans 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. Interest income and realized gains and losses on sale of investments are included in the employee benefit expense.

Impairment – The Corporation estimates a 12-month expected credit loss impairment provision using historical default rates implied from external credit agencies for similar grade debt securities. If impaired, 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 due to expected credit loss.

Impairment – The expected credit loss allowance is estimated using a 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. Lifetime expected losses are estimated using a combination of historical write-off percentages and forward-looking information used to identify a deterioration of credit, either at the company or macro-economic 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 are initially recognized at fair value. After initial recognition, trade and other payables and salaries and benefits payable 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 (at the component level, if applicable) 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. Costs that do not meet these recognition criteria are expensed as incurred.

(c.2) Depreciation and amortization – The cost of all capital assets (at the component level, if applicable and excluding land and assets under construction), less their estimated residual value, is amortized over the asset's estimated useful life, as described in the table below. Depreciation or amortization commences when assets are available for use.

Type of capital asset or component	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	3 to 20 years
Software, including internally generated software	Straight-line	3 to 5 years

The appropriateness of depreciation or amortization methods and useful life estimates and residual values is assessed annually and revised on a prospective basis.

(c.3) Decommissioning obligations – Obligations associated with the retirement of property, plant and equipment are recorded in the period the asset is acquired at the present value of the best estimate of the expenditure, discounted at a risk-free interest rate. The obligation is adjusted to reflect the passage of time through accretion expense, changes in the estimated amounts and significant changes in the discount rate. The associated costs are capitalized as part of the carrying value of the related asset.

(c.4) Impairment of capital assets – At each reporting date, capital assets are reviewed for an indication of impairment. If any indication exists, the recoverable amount of assets is estimated at the higher of an asset's fair value less costs of disposal and its value in use. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss is recognized immediately as a charge to net profit or loss.

(c.5) Capital assets to be disposed of by sale – When the Group 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. It is measured at the lower of its carrying amount and fair value less costs to sell, and no further depreciation or amortization is recorded.

(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 allocated to the Group's cash-generating units (CGUs) and tested for impairment annually or whenever there are indicators for impairment. Goodwill is initially recognized at cost and is subsequently measured at cost, less any accumulated impairment losses. An impairment loss is recognized when the carrying value of a CGU, 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.

(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 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 settle the present obligation. 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 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 – 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 the customer has contracted. 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, revenue is recognized in the amount to which it has a right to invoice the customer. The Group 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 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 consideration 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, there is no significant financing component.

(g.4) Revenue recognition – Revenue is generally recognized over time due to the continuous transfer of control to the customers. Customers receive the benefit of delivery services. Basic warranties for lost, damaged or missing content, as well as warranties for on-time delivery are not sold separately and are therefore 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 may enter into arrangements with subcontractors, mostly resellers and delivery agents, to provide services to customers. If the Group 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 relate to the Group’s 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. 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 for which there is an unconditional right to consideration 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 current service cost, 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 at the beginning of the annual period or when a plan amendment, curtailment or settlement occurs. Separate discount rates are used to reflect the different timing of benefit payments for past service (the defined benefit obligation) and future service (the current service cost).

Remeasurements of defined benefit plans are recognized in other 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 subsequent reclassification to net profit or loss.

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.

(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. Termination benefits are recognized at the earliest of when the Group 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 (DTAs) and liabilities (DTLs) are recognized for the tax effect of the difference between carrying values and tax bases of assets and liabilities. DTAs are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that their realization is probable. DTAs 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. DTAs and DTLs are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each reporting period. The Group offsets DTAs and DTLs if it has a legally enforceable right and amounts relate to income taxes levied by the same taxation authority on the same taxable entity.

(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 Group 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 – A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At inception and as a lessee, 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 specified at the time that the asset is made available for use by the customer;
- the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use;
- the Group has the right to direct the use of the asset and considers only decision-making rights that are most relevant to changing how and for what purpose the asset is used.

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.

The Group 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.

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 recognized as an expense in the period incurred. 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. The Group has elected not to separate non-lease components in gross leases for buildings using the practical expedient under IFRS 16.

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.

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

(k.2) Lease liabilities – Obligations that arise from lease contracts are collectively referred to as lease liabilities.

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. Variable lease payments that do not depend on an index or rate are expensed in the period in which the event or condition that triggers those payments occurs.

Subsequent measurement – Lease liabilities are subsequently measured at amortized cost using the effective interest method.

(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 based on Government of Canada bond yields adjusted for entity-specific financing spreads.

(k.4) Modifications – A lease modification is often triggered upon execution of a lease extension when there is a change in future lease payments, duration of the lease or a change in the assessment of renewal or termination options. Upon modification, the lease liability is remeasured using revised discount rate, terms and conditions, with a corresponding adjustment to the right-of-use asset.

(k.5) Lessor accounting – As a lessor, the Group 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, and considers risks and rewards incidental to ownership of the underlying asset and whether the lease is for the major part of the economic life of the asset. Lease payments received under operating leases are recognized as income on a straight-line basis over the lease term.

(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.

4. Critical Accounting Estimates and Judgments

The preparation of these 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 that management has made in the process of applying these accounting policies that have the most significant effect 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.

(a.2) Provisions and contingent liabilities – In determining whether a liability should be recorded in the form of a provision, management exercises judgment in assessing whether the Group 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. 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 uses judgment to assess, at the inception of a contract, whether contracts contain 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 considered are listed in Note 3 (k).

Where practicable, renewal or termination options are included in lease contracts 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.

(a.4) Revenue from contracts with customers – As control transfers over time, delivery service revenue is recognized to the extent of progress toward completion of the performance obligation, and estimated using a straight-line output method based on delivery performance days to date (a key performance indicator for transfer of services in the industry). Progress toward completion included in other revenue is estimated using time elapsed over the contract period. Retail product revenue included in other revenue is recognized at a point in time, as the customer takes physical possession of the product.

Variable considerations in the transaction price, such as discounts or rebates, performance bonuses, refunds for sales with right of return are estimated using 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 considers the impact of outside factors such as labour disruptions, experience or history with uncertainties and the length of time uncertainties will remain.

(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) Impairment of financial assets – The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. Judgment is used 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.

(b.2) Capital assets – Capital assets are depreciated or amortized over their useful lives, based on management's best estimates of the periods of service provided by the assets. The appropriateness of useful lives is assessed annually. Changes to useful life estimates would affect future depreciation or amortization and future carrying values of assets.

The impairment test for capital assets 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 estimates for market value, selling costs or future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money.

(b.3) Goodwill – Goodwill is tested annually for impairment. 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 reflect the time value of money.

(b.4) Leases – Right-of-use assets 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. Terms are reassessed annually and based on historical use of available options, operational requirements and strategic decisions about asset 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.

(b.5) Deferred revenue – Deferred revenue is estimated 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 revenue is made based on delivery service statistics and dealer outlet and meter customer actual usage patterns.

(b.6) 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. The significant actuarial assumptions used 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 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 can realize future economic benefits from them. In establishing the economic benefit, the Group 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 Group has a unilateral right to the surplus are not subject to asset limit adjustment requirements.

(b.7) Provisions – In determining a reliable estimate of the obligation, management makes assumptions about the amount, likelihood and timing of outflows and considers the nature of the provision, existence of a claim amount, opinions or views of legal counsel and other advisers, experience in similar circumstances, and how management intends to settle the obligation.

(b.8) Income taxes – The Group 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 (DTAs and DTLs) comprise temporary differences between carrying values and tax bases of assets and liabilities, as well as tax losses carried forward. DTAs 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.

Future deferred income tax adjustments would not result in an immediate cash outflow, nor would they affect the Group's immediate liquidity.

5. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

The following amendments issued by the International Accounting Standards Board (IASB) that required mandatory adoption by the Group of Companies on or after January 1, 2022, resulted in no changes in the Corporation's financial statements.

Standard	Subject matter and significance
IFRS 3 "Business Combinations – Reference to the Conceptual Framework"	Amendments update a reference to the 2018 Conceptual Framework for Financial Reporting and add an exception to the recognition principle for liabilities and contingent liabilities within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" or IFRIC 21 "Levies". Amendments also clarified existing guidance for contingent assets.

Standard	Subject matter and significance
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.
IAS 37 “Onerous Contracts – Cost of Fulfilling a Contract”	Amendments specify that in assessing whether a contract is onerous, the cost of fulfilling a contract includes both the incremental costs and an allocation of other costs that relate directly to fulfilling contracts.
IFRS 9 “Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities”	Amendment clarifies which fees an entity includes when it applies the “10 per cent” test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.
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.

(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, 2023. The Group is not expecting any impact from the adoption 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.
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).

Effective for the annual periods beginning on or after January 1, 2024. The Group is assessing the impact of these amendments.

Standard	Subject matter and significance
IAS 1 “Presentation of Financial Statements – Non-current Liabilities with Covenants”	Amendments clarify that only covenants with which an entity must comply on or before the reporting date will affect the classification of a liability as current or non-current. Additional disclosures are required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within 12 months after the reporting period.
IFRS 16 “Leases – Lease Liability in a Sale and Leaseback”	Amendments specify how a seller-lessee subsequently measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use it retains. The new requirements allow a seller-lessee to recognize a gain or loss relating to the partial or full termination of a lease.

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, 2022		As at December 31, 2021	
	$	**%**	$	%
Cash and cash equivalents				
Cash	1,200	98%	1,331	100%
Money market instruments issued by Provincial governments	20	2%	–	–%
Total cash and cash equivalents	**1,220**	**100%**	1,331	100%
Marketable securities				
Money market instruments issued by				
Government of Canada	204	19%	239	17%
Provincial governments	276	25%	394	29%
Financial institutions	313	29%	432	32%
Corporations	152	14%	69	5%
Bonds issued by corporations	138	13%	227	17%
Total marketable securities	1,083	100%	1,361	100%
Current marketable securities	**1,025**	**95%**	1,279	94%
Non-current marketable securities	**58**	**5%**	82	6%
Segregated securities				
Cash	11	3%	15	3%
Bonds issued by				
Government of Canada	84	22%	104	22%
Provincial governments	166	45%	212	44%
Corporations	112	30%	151	31%
Total segregated securities	**373**	**100%**	482	100%

All money market instruments and bonds held as at December 31, 2022, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2022, was 4.3% for money market instruments (2021 – 0.6%) and 4.4% for bonds (2021 – 1.8%).

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 is obligated to use these funds exclusively for related benefit payments. Segregated securities, if held to maturity, have terms expiring over a 20-year period.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $40 million (2021 – $15 million). Interest income and gains and losses on segregated securities amounted to $15 million (2021 – $16 million).

(c) Fair values of financial instruments

The estimated fair values of cash equivalents, marketable securities and segregated securities used to measure amounts in the consolidated financial statements are classified 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, 2022, and 2021.

7. Other Assets

(in millions)

	As at December 31, 2022	As at December 31, 2021
Prepaid expenses	147	141
Assets held for sale	1	1
Other receivables	43	46
Total other assets	**191**	188
Current other assets	**139**	134[1]
Non-current other assets	**52**	54

1. Comparative figures have been reclassified to conform to the current period presentation, where income tax receivable of $66 million is reclassified from other current assets to a stand-alone item in the statement of financial position.

As at December 31, 2022, 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.

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, 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
Additions	25	61	14	64	90	16	141	169	580
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	(6)	(1)	(28)	(19)	(29)	(9)	–	(92)
Transfers	–	128	7	162	–	7	5	(309)	–
December 31, 2022	**482**	**2,520**	**397**	**1,413**	**820**	**340**	**1,292**	**409**	**7,673**
Accumulated depreciation									
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
Depreciation	–	59	16	71	52	18	57	–	273
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	(5)	(1)	(28)	(19)	(29)	(9)	–	(91)
December 31, 2022	**–**	**1,355**	**292**	**897**	**480**	**269**	**601**	**–**	**3,894**
Carrying amounts									
December 31, 2021	457	1,036	100	361	302	66	602	549	3,473
December 31, 2022	**482**	**1,165**	**105**	**516**	**340**	**71**	**691**	**409**	**3,779**

(b) Intangible assets

(in millions)

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2020	856	67	22	945
Additions	6	69	–	75
Transfers	98	(98)	–	–
December 31, 2021	960	38	22	1,020
Additions	4	72	–	76
Retirements	(3)	–	–	(3)
Transfers	18	(18)	–	–
December 31, 2022	**979**	**92**	**22**	**1,093**
Accumulated amortization				
December 31, 2020	782	–	22	804
Amortization	47	–	–	47
December 31, 2021	829	–	22	851
Amortization	47	–	–	47
Retirement	(1)	–	–	(1)
December 31, 2022	**875**	**–**	**22**	**897**
Carrying amounts				
December 31, 2021	131	38	–	169
December 31, 2022	**104**	**92**	**–**	**196**

(c) Right-of-use assets

(in millions)

	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
December 31, 2020	118	284	804	14	1	1,221
Additions	2	52	173	7	1	235
Depreciation	(4)	(29)	(89)	(8)	–	(130)
December 31, 2021	116	307	888	13	2	1,326
Additions	–	38	155	–	1	194
Depreciation	(3)	(29)	(97)	(5)	(1)	(135)
Terminations	–	–	(1)	–	–	(1)
December 31, 2022	**113**	**316**	**945**	**8**	**2**	**1,384**

9. Employee Benefits

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

(in millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Active and other employee benefits	735	709
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	869	1,152
Employee benefits	**1,604**	1,861

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

(a) Characteristics of benefit plans

The Group 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; however, the other post-employment and other long-term benefit plans are unfunded and the benefits are paid directly by the employer.

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 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.

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 selfinsured 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 April 2022, the Government of Canada approved the *Canada Post Corporation Pension Plan Funding Regulations* to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024.

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.

Funding risk is managed by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with each plan's 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. 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.

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 (asset) liability

A reconciliation of the net defined benefit (asset) 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, 2022		As at December 31, 2021	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	32,866	4,025	34,622	4,435
Current service cost	636	120	794	136
Interest cost	912	117	920	121
Employee contributions	297	–	297	–
Benefits paid	(1,247)	(156)	(1,174)	(155)
Actuarial (gains) losses (Note 10 [f])	(7,234)	(1,200)	(2,593)	(512)
Losses (gains) from plan amendments (Note 10 [e])	11	(6)	–	–
Balance, end of year	26,241	2,900	32,866	4,025
Fair value of plan assets				
Balance, beginning of year	34,310	–	31,416	–
Interest income on plan assets	961	–	831	–
Return on plan assets, excluding interest income on plan assets (Note 10 [e])	(3,569)	–	2,502	–
Employer regular contributions	386	–	388	–
Employer special contributions	49	–	64	–
Employee contributions	297	–	297	–
Other administration costs	(15)	–	(14)	–
Benefits paid	(1,247)	–	(1,174)	–
Balance, end of year	31,172	–	34,310	–
Total net (surplus) deficit	(4,931)	2,900	(1,444)	4,025
Effect of asset ceiling[1]	(1)	–	–	–
Net defined benefit (asset) liability	**(4,930)**	**2,900**	(1,444)	4,025

1. The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis.

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

(in millions)

	As at December 31, 2022		As at December 31, 2021	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit (asset) liability, beginning of the year	(1,444)	4,025	3,206	4,435
Remeasurements of defined benefit plans (Note 10 [e])	(3,664)	(1,205)	(5,095)	(494)
Benefits paid directly to beneficiaries (Note 10 [i])	–	(156)	–	(155)
Employer regular contributions paid (Note 10 [i])	(386)	–	(388)	–
Employer special contributions paid (Note 10 [i])	(49)	–	(64)	–
Defined benefit expense (Note 10 [e])	613	236	897	239
Net defined benefit (asset) liability, end of the year	**(4,930)**	**2,900**	(1,444)	4,025

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

(in millions)

	As at December 31, 2022	As at December 31, 2021
Pension benefit assets	**4,933**	1,450
Pension benefit liabilities	3	6
Other post-employment and other long-term benefit liabilities	2,900	4,025
Total pension, other post-employment and other long-term benefit liabilities	2,903	4,031
Current other long-term benefit liabilities	**56**	62
Non-current pension, other post-employment and other long-term benefit liabilities	**2,847**	3,969

(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 were as follows:

As at December 31, 2022

(in millions)

	Level 1		Level 2		Level 3		Total	
	$	%	$	%	$	%	$	%
Cash and short-term securities	306	1%	356	1%	–	–%	662	2%
Fixed income	–	–%	12,065	39%	36	–%	12,101	39%
Equities	9,335	30%	66	–%	2	–%	9,403	30%
Real estate	10	–%	–	–%	4,355	14%	4,365	14%
Private equity	–	–%	–	–%	2,114	7%	2,114	7%
Infrastructure	–	–%	–	–%	2,012	7%	2,012	7%
Derivatives	1	–%	(109)	–%	–	–%	(108)	–%
Other	1	–%	–	–%	448	1%	449	1%
Total investment assets	**9,653**	**31%**	**12,378**	**40%**	**8,967**	**29%**	**30,998**	**100%**
Non-investment assets less liabilities							174	
Fair value of plan assets							**31,172**	

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	

Total plan assets included $3,882 million (2021 – $4,942 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $116 million (2021 – $139 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, 2022, 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's pension plans do not own financial instruments or any other assets of the Group.

(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, 2022			For the year ended December 31, 2021		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	636	120	756	794	136	930
Interest cost	912	117	1,029	920	121	1,041
Interest income on plan assets	(961)	–	(961)	(831)	–	(831)
Actuarial losses (gains) (Note 10 [f])[1]	–	5	5	–	(18)	(18)
Other administration costs	15	–	15	14	–	14
Losses (gains) from plan amendments	11	(6)	5	–	–	–
Defined benefit expense (Note 10 [c])	613	236	849	897	239	1,136
Defined contribution expense	35	–	35	32	–	32
Total expense	648	236	884	929	239	1,168
Return on segregated securities (Note 6 [b])	–	(15)	(15)	–	(16)	(16)
Component included in employee benefits expense (Note 9)	**648**	**221**	**869**	929	223	1,152
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	3,569	–	3,569	(2,502)	–	(2,502)
Actuarial gains (Note 10 [f])	(7,234)	(1,205)	(8,439)	(2,593)	(494)	(3,087)
Change in asset ceiling (Note 10 [c])	1	–	1	–	–	–
Component included in other comprehensive (income) loss (Note 10 [c])[2,3]	**(3,664)**	**(1,205)**	**(4,869)**	(5,095)	(494)	(5,589)

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, 2022, was 5.23% (2021 – 2.86%).
2. Amounts presented in this table exclude income tax expense of $1,218 million for the year ended December 31, 2022 (income tax expense of $1,401 million at December 31, 2021).
3. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at December 31, 2022, was 5.27% and 5.28% respectively, compared to 3.22% and 3.26%, respectively, at December 31, 2021.

(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, 2022			For the year ended December 31, 2021		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial losses (gains) on other long-term benefit obligations:						
Actuarial losses (gains) arising from changes in demographic assumptions	–	14	14	–	(11)	(11)
Actuarial gains arising from changes in financial assumptions	–	(17)	(17)	–	(12)	(12)
Actuarial losses arising from experience adjustments	–	8	8	–	5	5
Actuarial losses (gains) included in net profit (Note 10 [e])	–	5	5	–	(18)	(18)
Actuarial (gains) losses on defined benefit obligations:						
Actuarial gains arising from changes in demographic assumptions	(710)	(72)	(782)	–	(41)	(41)
Actuarial gains arising from changes in financial assumptions	(7,020)	(1,133)	(8,153)	(2,982)	(496)	(3,478)
Actuarial losses arising from experience adjustments	496	–	496	389	43	432
Actuarial gains included in other comprehensive income (Note 10 [e])	**(7,234)**	**(1,205)**	**(8,439)**	(2,593)	(494)	(3,087)
Total actuarial gains (Note 10 [c])	**(7,234)**	**(1,200)**	**(8,434)**	(2,593)	(512)	(3,105)

(g) Significant actuarial assumptions

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

	As at December 31, 2022		As at December 31, 2021	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	5.27%	5.28%	3.22%	3.26%
Consumer price index[1]	2.00%	2.00%	2.00%	2.00%
Defined benefit expense:				
Discount rate – current service cost	3.35%	3.42%	2.67%	2.74%
Discount rate – interest cost and interest income on plan assets	2.82%	2.94%	2.67%	2.74%
Consumer price index	2.00%	2.00%	2.00%	2.00%
Healthcare cost trend rate[2]	N/A	4.99%	N/A	4.97%

1. For 2022, 3.7% for 2023, 2.2% for 2024 and 2.0% thereafter.
2. For 2022 and 2021, the healthcare cost trend rates were 4.99% and 4.97%, 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, 2022	As at December 31, 2021
Life expectancy[1] at age 60 at December 31, 2022, and 2021 (in years):		
Males	26	26
Females	29	29
Life expectancy[1] at age 60 at December 31, 2042, and 2041 (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 103% (Males) and 102% (Females) of the rates of the CPM 2014 Private Sector Mortality Tables with the CPM improvement scale B. A study of Canada Post pension plan experience was performed in 2022, the results of which show that these adjusted tables give the best agreement with past experience.

(h) Sensitivity analysis

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

(in millions)

	As at December 31, 2022			As at December 31, 2021		
	Pension benefit plan	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:						
0.5% increase in discount rate	(1,659)	(182)	(1,841)	(2,482)	(310)	(2,792)
0.5% decrease in discount rate	1,784	203	1,987	2,704	352	3,056
Consumer price index (CPI) sensitivity:						
0.25% increase in CPI	662	22	684	1,085	35	1,120
0.25% decrease in CPI	(641)	(21)	(662)	(1,049)	(33)	(1,082)
Mortality table sensitivity:						
10% increase in mortality tables	(523)	(40)	(563)	(761)	(90)	(851)
10% decrease in mortality tables	572	47	619	780	105	885
Healthcare cost trend rate sensitivity:						
1% increase in healthcare trend rates	N/A	298	298	N/A	498	498
1% decrease in healthcare trend rates	N/A	(239)	(239)	N/A	(388)	(388)

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.

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 ranges from 12 to 19, 7 to 17, and 2 to 7 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 were as follows:

(in millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Benefits paid directly to beneficiaries for other benefit plans (Note 10 [c])	156	155
Employer regular contributions to pension benefit plans (Note 10 [c])	386	388
Employer special contributions to pension benefit plans (Note 10 [c])	49	64
Cash payments for defined benefit plans	591	607
Contributions to defined contribution plans	35	32
Total cash payments	**626**	639

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 would have been required to make solvency special payments of $794 million for 2022 and an estimated $339 million for 2023, as the solvency relief available under the Act was fully utilized; however, under the *Canada Post Corporation Pension Plan Funding Regulations*, Canada Post has temporary relief from its solvency funding obligations until December 31, 2024.

In October 2022, the Office of the Superintendent of Financial Institutions (OSFI) withdrew restrictions that had been in place on the Canada Post Registered Pension Plan transfer deficiency payments. This change allows funding requirements for these payments to be consistent with the rules applied to other federally regulated plans.

(j) Future expected contributions

In 2023, the Group's total contributions to defined benefit pension plans are estimated to be $138 million including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $91 million.

The solvency position (using market value of plan assets) and going-concern position (using the smoothed value of plan assets) of the RPP improved in 2022 such that the respective funded ratios are estimated to exceed 105% and 125%, respectively, for the Canada Post Registered Pension Plan as at December 31, 2022. As a result, Canada Post may be required to make mandatory use of the surplus and will not be permitted to make regular contributions once the actuarial valuation is filed with OSFI and CRA later in 2023. Final actuarial valuation results may differ significantly from these estimates. The funded position and impacts on regular contributions will be reassessed at the next valuation date.

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, 2021	**Recognized in net loss**	**Recognized in OCI**	**December 31, 2022**
Net deferred tax assets (liabilities)				
Capital assets	(131)	(35)	–	(166)
Right-of-use assets	(338)	(15)	–	(353)
Salaries and benefits payable and related provisions	19	(3)	–	16
Lease Liabilities	386	18	–	404
Pension, other post-employment and other long-term benefit liabilities	633	67	(1,218)	(518)
Non-capital losses carry forward	–	65	–	65
Other	(9)	5	23	19
Net deferred tax assets (liabilities)	560	**102**	**(1,195)**	**(533)**

(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 (liabilities)	1,883	68	(1,391)	560

As presented in the consolidated statement of financial position:

(in millions)

	December 31, 2022	December 31, 2021
Deferred tax assets	3	572
Deferred tax liabilities	536	12
Net deferred tax (liabilities) assets	**(533)**	560

While the Corporation is in a net deferred tax liability position, recognition of deferred tax assets is based on management's assessment of all available evidence, such as long-term forecasted operating results, which suggests that realizing deferred tax assets 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, 2022, was $985 million (2021 – $791 million).

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

(in millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Current tax expense	38	9
Deferred tax recovery relating to origination and reversal of temporary differences	(102)	(68)
Tax recovery	**(64)**	(59)

The tax recovery differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2021 – 25%) to loss before tax. The reasons for the differences were as follows:

(in millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Loss before tax	(292)	(246)
Federal tax at Corporation's statutory rate	(73)	(61)
Subsidiaries' provincial tax less federal tax abatement	5	4
Adjustments for prior years	–	(1)
Other	4	(1)
Tax recovery	**(64)**	(59)

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, and 2022		
	Purolator segment	SCI segment	**Total**
Balance, beginning and end of the year	121	9	**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% (2021 – 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 16.1% (2021 – 15.9%), which is based on Purolator's weighted-average cost of capital.

13. Trade and Other Payables

(in millions)

	As at December 31, 2022	As at December 31, 2021
Trade payables	235	219
Accruals and other payables	584	494
Payables to foreign postal administrations	116	88
Outstanding money orders	16	17
Taxes payable	64	63
Total	**1,015**	881

Market and liquidity risks relating to trade and other payables are disclosed in Note 19.

14. Provisions

The following table presents the movement in provisions for the year ended December 31, 2022:

(in millions)

	Claims	Other	Total
Balance at December 31, 2021	42	15	57
Additional provisions recognized	17	9	26
Provisions used during the year	(13)	(12)	(25)
Reduction from remeasurement of provisions	(3)	–	(3)
Balance at December 31, 2022	**43**	**12**	**55**

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 including decommissioning provisions, which represents management's best estimate of the probable cash outflows.

15. Contingent Liabilities

(a) On October 25, 2022, a class-action application was filed in the Superior Court of Québec against several defendants, including Canada Post. The application alleges that the defendants promote and sell predetermined spending limit prepaid cards (Visa, Mastercard, American Express) at a price that is higher than advertised – a practice that is claimed to be in violation of Quebec's *Consumer Protection Act* and Canada's *Competition Act*. The proposed class action includes all consumers in Canada who purchased a prepaid card from any of the defendants since May 8, 2019, and who paid a price higher than the price advertised on the card (excluding sales tax). The class action has not yet been certified by the Court. The Corporation has determined that the possibility of an outflow of resources is remote.

(b) 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.

(c) In the normal course of business, the Group enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group 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 or as directors or officers or in a similar capacity of another entity at the request of the Group.

These agreements generally do not contain specified limits on the Group's 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 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. 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. Loans and Borrowings

(in millions)

	As at December 31, 2022		As at December 31, 2021	
	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]	500	499	545	499
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16[1,2]	510	499	653	499
Total loans and borrowings (all non-current)	**1,010**	**998**	1,198	998

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 years ended December 31, 2022, and 2021.

Additional information regarding the Group's externally imposed capital requirements and borrowing capacity is disclosed in notes 18 and 19 (c).

Interest expense on loans and borrowings amounted to $42 million (2021 – $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, 2022	As at December 31, 2021
Maturity:		
2025	500	500
2040	500	500
	1,000	1,000

17. Lease Liabilities

(a) Lease liabilities

(in millions)

	As at December 31, 2022	As at December 31, 2021
Maturity analysis – contractual undiscounted cash flows[1,2]		
Less than one year	149	159
One to five years	632	567
More than five years	1,320	1,240
Total undiscounted lease liabilities	**2,101**	1,966
Lease liabilities in the consolidated statement of financial position	**1,583**	1,514
Current lease liabilities	**129**	123
Non-current lease liabilities	**1,454**	1,391

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 $27 million for premises used in postal operations (2021 – $30 million).
2. Leases that have not yet commenced, but which have been committed as at December 31, 2022, have future cash outflows of $71 million that are excluded from the measurement of lease liabilities (December 31, 2021 – $62 million).

(b) Changes in liabilities arising from financing activities

(in millions)

	December 31, 2020	Payments	Interest	Net lease additions	December 31, 2021	Payments	Interest	Net lease additions	December 31, 2022
Lease liabilities	1,414	(164)	39	225	1,514	(165)	41	193	**1,583**

18. 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, 2022 (2021 – $998 million). The equity of Canada was in a surplus position of $6,359 million at December 31, 2022 (2021 – $3,025 million). The increase in the equity of Canada was attributable to the 2022 remeasurement gains of defined benefit plans, which are recognized in other comprehensive income and are included immediately in retained earnings or accumulated deficit, partially offset by the net loss. In April 2022, the Government of Canada approved the *Canada Post Corporation Pension Plan Funding 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 (b).

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 2023-27 Corporate Plan was filed with the Minister responsible for Canada Post on November 11, 2022.

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 19 (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 19 (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.

19. Financial Instruments and Risk Management

Financial risk factors

The Group's 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 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 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 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's 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 10 years as at December 31, 2022 (2021 – 11 years).

The Group 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 $37 million at December 31, 2022 (2021 – $54 million). Such change in value would be partially offset by the change in value of certain post-employment benefit liabilities. All the Group's 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. There were no outstanding forward contracts held at December 31, 2022. The mark-to-market adjustment on outstanding forward contracts held at December 31, 2021, was not significant.

Foreign exchange and derivative gains (losses) recognized for the years ended December 31, 2022, and 2021, were not significant. The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2022, all other variables held constant, would have been an increase or decrease in net loss for the year by $21 million (2021 – $21 million).

(a.3) Commodity risk – The Group 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. 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's maximum exposure to credit risk. The Group 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 regularly reviews the credit ratings of issuers with which the Group holds investments and disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels.

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 2022. There were no significant allowance and no impairment loss on investments recognized during the year and or held at year's end (2021 – 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, 2022			For the year ended December 31, 2021		
	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	**–**	**20**	**–**	–	–	–
Marketable securities	**578**	**446**	**59**	614	665	82
Segregated securities	**190**	**93**	**90**	242	117	123
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. 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 the highest credit quality.
5. AA: The loan portfolio (of debt securities) is superior credit quality.
6. A: The loan portfolio (of debt securities) is 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's large customer base, which covers substantially all business sectors in Canada. The Group 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.

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, 2022	As at December 31, 2021
Trade receivables:		
Current	562	505
1-15 days past due	104	88
16-30 days past due	46	24
Over 30 days past due	44	33
Allowance for doubtful accounts	(8)	(9)
Trade receivables – net	748	641
Trade receivables from foreign postal administrations	195	221
Other receivables	110	106
Trade and other receivables	**1,053**	968

A weighted average expected loss rate ranged from 0% to 1.1% (2021 – 0% to 1.5%), based on historical write-offs, is applied to current and past due amounts and trade receivables aging is monitored to identify potential credit deterioration.

c) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. Liquidity risk is managed 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. Investments are 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. In April 2022, the Government of Canada approved the *Canada Post Corporation Pension Plan Funding Regulations* to provide Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. 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 18). 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 (2021 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2022.

Letters of credit of $18 million (2021 – $16 million) were issued at December 31, 2022. No amounts were drawn on the short-term borrowing facilities as of December 31, 2022. The Canada Post segment had $1,921 million of unrestricted liquid investments on hand as at December 31, 2022, for a net liquidity position of $923 million (2021 – $1,251 million), after outstanding loans and borrowings of $998 million (2021 – $998 million).

As at December 31, 2022, the Corporation's subsidiaries had access to financing facilities totalling $170 million (2021 – $165 million), of which no amount (2021 – $2 million) was drawn at year's end. The subsidiaries also had letters of credit issued in the amount of $9 million (2021 – $9 million). Additional information regarding the Group's loans and borrowings is disclosed in Note 16.

The following table details contractual maturities for financial liabilities. The amounts represent undiscounted cash flows of financial liabilities based on the earliest required payment date. The table includes both principal and interest cash flows.

As at December 31, 2022

(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]	1,417	–	–	1,417
Bonds, Series 1	21	87	784	892
Bonds, Series 2	21	541	–	562
	1,459	**628**	**784**	**2,871**

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

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's management of debt and equity levels that is summarized in Note 18.

20. Commitments

In the normal course of business, the Group enters into contractual arrangements for the supply of goods and services over periods sometimes extending beyond one year. These contractual arrangements typically contain termination rights which allow the Group to terminate contracts without penalty at its discretion. Disbursements largely depend on future volume-related requirements and consumption. The most significant arrangements relate to contracted transportation and IT services, operating, facility and property management costs, and contracts for the purchase of vehicles and plant equipment.

Contractual arrangements with third-party suppliers for which there was no termination for convenience clause approximated $130 million at December 31, 2022, and are in effect until 2027.

21. Revenue from Contracts with Customers

(in millions)

	As at December 31, 2022	As at December 31, 2021
Receivables from contracts with customers	958	882
Other receivables	54	52
Contract assets	41	34
Total trade, other receivables and contract assets	**1,053**	968

(in millions)

	As at December 31, 2022	As at December 31, 2021
Contract liabilities included in:		
Deferred revenue (current)	166	186
Other liabilities (non-current)	5	1
Total	**171**	187

The following table includes a reconciliation of contract liabilities:

(in millions)

	As at December 31, 2022	As at December 31, 2021
Contract liabilities, beginning of period	187	225
Revenue recognized included in Deferred revenue (current) and Other liabilities (non-current), beginning of period	(182)	(224)
Increase due to cash received or amounts billed, excluding amounts recognized as revenue, during period	166	186
Contract liabilities, end of period	**171**	187

22. Disaggregation of Revenue

(a) 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 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, 2022	For the year ended December 31, 2021
Canada	9,728	9,611
United States	257	301
Rest of the world	157	200
Total revenue	**10,142**	10,112

(b) 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 revenues are reported separately, rather than being attributed to the lines of business.

(in millions)

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	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	6,692	(199)	6,493	6,552	(191)	6,361
Transaction Mail	1,786	(2)	1,784	1,820	(2)	1,818
Direct Marketing	955	–	955	922	–	922
Other revenue	542	(318)	224	561	(311)	250
	9,975	(519)	9,456	9,855	(504)	9,351
Unattributed revenue						
Stamp postage	309	–	309	363	–	363
Meter postage	377	–	377	398	–	398
	686	–	686	761	–	761
Total	**10,661**	**(519)**	**10,142**	10,616	(504)	10,112

(c) 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 22 (a).

(in millions)

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic						
Commercial	7,199	(201)	6,998	6,985	(193)	6,792
Retail	2,720	–	2,720	2,812	–	2,812
	9,919	(201)	9,718	9,797	(193)	9,604
International	414	–	414	501	–	501
Other	328	(318)	10	318	(311)	7
Total	**10,661**	**(519)**	**10,142**	10,616	(504)	10,112

23. Other Operating Costs

(in millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Non-labour collection, processing and delivery	2,222	2,065
Property, facilities and maintenance	341	319
Selling, administrative and other	889	726
Other operating costs	**3,452**	3,110

24. Investing and Financing Income (Expense)

(in millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Interest income	42	17
(Loss) gain on sale of capital assets and assets held for sale	(1)	35
Other income	2	2
Investment and other income	**43**	54
Interest expense	(83)	(83)
Other expense	(16)	(21)
Finance costs and other expense	**(99)**	(104)
Investing and financing expense, net	**(56)**	(50)

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 (loss)	Remeasurements of defined benefit plans	Other comprehensive income
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		
Gains (losses) arising	(93)	1	(92)	4,869	4,777
Income taxes	23	–	23	(1,218)	(1,195)
Net	**(70)**	**1**	**(69)**	**3,651**	**3,582**
Accumulated balance as at December 31, 2022	**(14)**	**4**	**(10)**		

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, 2022	For the year ended December 31, 2021
Related party revenue	**264**	307
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**	6
Related party expenditures	**12**	25

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, 2022	As at December 31, 2021
Due to/from related parties		
Included in trade and other receivables	**20**	21
Included in trade and other payables	**14**	9
Deferred revenue from related parties	**1**	5

For related party lease information, refer to Note 17 (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.

The remuneration of the KMP was as follows:

(in millions)

	For the year ended December 31, 2022	For the year ended December 31, 2021
Short-term employee benefits	**14**	12
Post-employment benefits	**1**	1
Total compensation	**15**	13

The KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.8 million (2021 – $0.8 million).

In 2022, there was no additional KMP remuneration relating to one-time termination benefits (2021 – $1.3 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. 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, 2022, were between Purolator and a company controlled by one of the Group's KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $15 million (2021 – $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 $15 million (2021 – $14 million). As at December 31, 2022, $12 million (2021 – $4 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, are disclosed in Note 10 (i).

27. Segmented Information

Operating segments –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, 2022, the IT business unit earned intersegment revenue of $318 million (2021 – $311 million), incurred cost of operations of $318 million (2021 – $311 million), and earned net profit of nil (2021 – nil). Total assets and liabilities at December 31, 2022, were $151 million and $98 million, respectively (2021 – $148 million and $94 million, respectively).

For the year ended and as at December 31, 2022

(in millions)

	Canada Post	Purolator	SCI	Other	Total
Revenue from external customers	7,068	2,799	275	–	10,142
Intersegment revenue	114	35	52	(201)	–
Revenue from operations	7,182	2,834	327	(201)	10,142
Labour and employee benefits	5,051	1,173	140	107	6,471
Other operating costs	2,402	1,230	132	(312)	3,452
Depreciation and amortization	323	93	37	2	455
Cost of operations	7,776	2,496	309	(203)	10,378
Profit (loss) from operations	(594)	338	18	2	(236)
Investment and other income	114	7	1	(79)	43
Finance costs and other expense	(68)	(28)	(3)	–	(99)
Profit (loss) before tax	(548)	317	16	(77)	(292)
Tax expense (recovery)	(156)	88	4	–	(64)
Net profit (loss)	(392)	229	12	(77)	(228)
Total assets	12,235	2,153	325	(326)	14,387
Cash payments for capital assets	393	183	9	–	585
Total liabilities	6,852	953	185	(35)	7,955

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
Cash payments for capital assets	438	232	6	1	677
Total liabilities	7,439	845	167	(20)	8,431

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