

# Live Life Well.®

Loblaw  
Companies  
Limited

2019 Annual Report





**We are focused  
on our purpose:  
Live Life Well.®**



## Our stores. Our colleagues. Our strategy. Everything we do reinforces the passion for customers that sits at the heart of our organization and our commitment to helping Canadians live *their* life well.

Day in and day out, through our five operating divisions, we strive to be the best in food, health and beauty. We believe that by rapidly expanding our use of data-driven insights and consistently delivering process and efficiency excellence, we will strengthen our core business while enabling ongoing investments in our future – in areas like everyday digital retail, payments and rewards, and connected healthcare. As we drive towards this vision of our future, we are grounded by a commitment to social responsibility and compliance, and guided by a shared set of values and culture that inform the decisions of our outstanding colleagues.

### Everyday Digital Retail

We are an omni-channel retailer. We take pride in operating many of the country's top store banners while simultaneously layering in the kinds of digital experiences Canadians now expect.

### Payments and Rewards

Driven by the data from millions of weekly customer interactions, we are able to offer unique personalization and rewards to our customers.

### Connected Healthcare Network

We continue to build upon the combination of one of Canada's single largest Electronic Medical Records (EMR) platforms and Loblaw's network of pharmacies and health-care professionals to empower Canadians with their own health information.

### Process and Efficiency Excellence

We have an ambitious strategy, which calls for investment in areas that matter most to our customers. Delivering on this strategy requires the adoption of more efficient processes and a continuous improvement mindset.

### Data-Driven Insights

We have a rich set of data that offers us unique insights into the needs and expectations of our customers. As we continue to enhance our data and analytical capabilities, our focus is on seeing, knowing and acting on their behalf, thereby helping them live *their* life well.

### Best in Food, Health and Beauty

We offer a variety of grocery options to meet all tastes and budgets, operate more than 1,750 pharmacies across the country, provide access to over 5,000 health and wellness professionals, and remain a top beauty destination for Canadians – all designed to meet and surpass the needs of our customers.

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# Financial Highlights

**+1.1%**

FOOD RETAIL  
SAME STORE SALES

**+3.6%**

DRUG RETAIL  
SAME STORE SALES

**+4.4%**

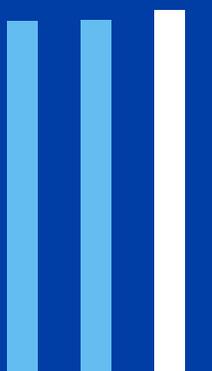
FRONT OF STORE

**+2.9%**

PHARMACY

**+2.9%**

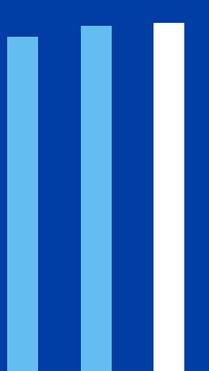
REVENUE<sup>2</sup>  
(\$ millions)



2017 2018 2019  
46,587 46,693 48,037

**29.7%**

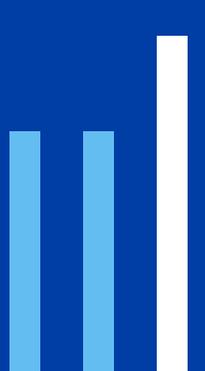
ADJUSTED RETAIL  
SEGMENT GROSS  
MARGIN<sup>1</sup>



2017 2018 2019  
28.5% 29.4% 29.7%

**+4.1%**<sup>3</sup>

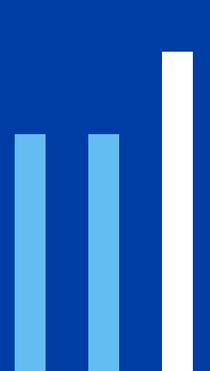
CONSOLIDATED  
ADJUSTED EBITDA<sup>1,2</sup>  
(\$ millions)



2017 2018 2019<sup>4</sup>  
3,521 3,528 4,912

**7.6%**<sup>3</sup>

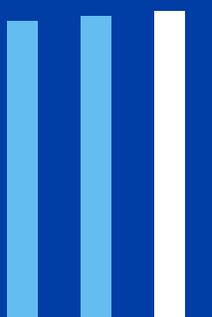
CONSOLIDATED  
ADJUSTED EBITDA  
MARGIN<sup>1,2</sup>



2017 2018 2019<sup>4</sup>  
7.6% 7.6% 10.2%

**+6.4%**<sup>5</sup>

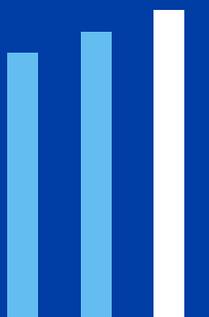
ADJUSTED DILUTED  
NET EARNINGS PER  
COMMON SHARE<sup>1,2</sup>  
(\$)



2017 2018 2019  
3.99 4.06 4.12

**+7.4%**

DIVIDEND DECLARED  
PER COMMON  
SHARE  
(\$)



2017 2018 2019  
1.07 1.16 1.24

<sup>1</sup> See the Non-GAAP Financial Measures section of the 2019 Annual Report – Financial Review

<sup>2</sup> Excluding the spin-out of Choice Properties business

<sup>3</sup> Excluding the impact of IFRS 16

<sup>4</sup> Including the impact of IFRS 16

<sup>5</sup> Excluding the impact of IFRS 16 and spin-out related depreciation

# Chairman's Message



**Galen G. Weston**  
Executive Chairman

Dear fellow shareholders,

We believe that Canada should aspire to be the happiest and healthiest country in the world. As a fourth generation Canadian company that helps one in three Canadians feed their families, care for loved ones, clothe themselves, or simplify their finances, we believe we have a vital role to play in achieving this goal.

We are in virtually every community across the country. So when we commit to something, we can make a difference. We know that no two Canadians live the same life, or even want the same life. Every one of us has our own unique struggles, joys, and aspirations. And at Loblaw, it's our job to provide the daily building blocks to help them create the best life and future that they can. For themselves and their families. For their friends and their communities.

Ultimately, the values, beliefs and actions of every one of our colleagues, start with one simple question: is this helping Canadians live *their* life well?

This is a rare privilege, and one that inspires us every day. We help Canadians live the life they want to live, as well as they can. In 2019, we turned this purpose into action every day, and I am pleased to share several highlights in the pages that follow.

We are retailers at our core, committed to running the very best stores in the country. In 2019, we once again offered Canadians the *Best in Food, Health and Beauty*. We invested \$1 billion to renovate stores, to introduce new services to our customers, and to build the future-ready skill set of our store-level colleagues.

Our world-famous control brand, President's Choice®, continued to innovate and introduced a full range of fresh meal kit solutions. Our low price brand, no name®, now has over 300 products with the Simple Check™ seal of approval, letting customers know that even our opening price point products are free of any ingredients of concern. And today, PC® and no name represent the #1 and #3 consumer brands<sup>1</sup> in the country, filling Canadians' kitchen cupboards from coast to coast.

When it comes to health and beauty, we were just as present in the lives of our customers. In 2019, we administered well over 1.6 million flu shots, launched an online platform for the sale of medical cannabis nationwide, and opened another 14 enhanced beautyBOUTIQUE™ locations, continuing to strengthen our position as the destination to help Canadians look and feel their best.

As a complement to these physical assets, we invested thoughtfully in our *Everyday Digital Retail* strategy. For the first time ever, our digital platforms delivered over \$1 billion dollars in revenue in 2019 – almost double that of the previous year. We launched our first standalone online grocery pick-up location in the Greater Toronto Area and we continued to build a network of hub-and-spoke pick-up locations at transit stations in major urban cities to supplement our delivery partnership with *Instacart*. Our online beauty business more than doubled in 2019, delivering

<sup>1</sup> Loblaw calculation based in part on data reported by Nielsen through its MarketTrack service for the President's Choice and No Name brands for the 52-week period ending 01/05/2020, for the Total Tracked sales, according to the Nielsen standard product hierarchy. Copyright © 2020, The Nielsen Company.



**We are in virtually every community across the country. So when we commit to something, we can make a difference.**



OUR CUSTOMERS SAY...

**“As a university student, I love the PC macaroni and cheese. Everyone on my floor loves it when I make this meal.”**

HARPER G., SUDBURY, ON

growing results for both mass and prestige cosmetics. And, we acquired PFTech – a leading online e-commerce platform developer – which allowed us to quickly introduce our own online Marketplace with a carefully curated assortment of Home, Baby, Toy and Pet products.

Loblaw Digital – the team that played a key role in these innovative offerings – was once again named a Top 10 tech employer in Toronto by [hired.ca](https://www.hired.ca). This team continues to attract outstanding talent from throughout North America, which we see as a clear sign of our growing leadership in digital retail.

We saw progress in our *Connected Healthcare* strategy in 2019. Our Medeo® virtual care technology that connects health providers with patients online, continues to grow at an accelerating pace. Our Accuro® electronic medical record (EMR) platform, is now available to over 15,000 healthcare providers, and our share of this market continues to grow. We also launched standalone e-prescribing in roughly 350 pharmacies and invested in digital caregiver services, helping to build our strength in this growing aspect of modern healthcare.

Our *Payments and Rewards* strategy continued to add value in meaningful ways for Canadians. At the centre of this ecosystem is PC Optimum™, which now boasts 18 million members, a highly active base of loyal users, and a 68% scan rate at checkout. In less than a year, our *PC Insiders* subscription service reached 100,000 subscribers, and PC Financial® laid the foundation for a next generation payment product to simplify everyday banking and deliver meaningful rewards for customers.

Delivering on these priorities required an intentional focus on *Process and Efficiency* (P&E), and an increasing strength in *Data-driven Insights*. In 2019, our P&E efforts delivered to plan, and we have significantly enhanced our analytical capabilities, hiring data scientists and analytics experts as part of a Data Centre of Excellence (CoE) serving all aspects of our operation. With the CoE's insights, we launched our Loblaw Media™ service as a means of tapping into the meaningful transaction-based insights at our disposal. We expect these efforts to contribute meaningfully to our results in the years ahead.

Thanks to these efforts, we delivered full-year results in line with our financial plan. For 2019, on a continuing operations basis, we achieved same store sales growth of +3.6% in drug retail and +1.1% in food retail, with revenue of \$48 billion, growing +2.9%. Consolidated adjusted EBITDA was \$4.9 billion (+39.2%), or +4.1% when excluding the impact of IFRS 16. Adjusted diluted net

**We have continued confidence in our strategy, our leadership team, and our colleagues.**



OUR CUSTOMERS SAY...

**“I’m thankful for your low prices and that’s why I choose your company. Your prices make a huge difference in a lot of lives. You make it so a single mom can afford food for the next week.”**

BRII S., SAINT STEPHEN, NB

earnings per share were \$4.12, or +1.5%, and adjusted diluted net earnings per share grew +6.4% (when normalized for the impacts of IFRS 16 and spin-out related depreciation). We generated over \$1.2 billion in free cash flow, and continued to return capital to shareholders by increasing our dividend by 7.4% and repurchasing 13.6 million shares under a common share repurchase program.

2019 was also a year where we reinforced our commitment to Corporate Social Responsibility (CSR), making significant progress in many areas. We remained one of Canada’s largest food donors, with more than 11.5 million pounds provided to food banks and recovery agencies as part of our commitment to reducing food waste by 50% by 2025. We have already overachieved our commitment for a 20% reduction in our carbon footprint by 2020, which sets us up to realize our ambition of a 30% reduction by 2030. And, *President’s Choice Children’s Charity* has already granted more than \$29 million since we announced our \$150 million commitment to tackle childhood hunger, while at the same time, the LOVE YOU by Shoppers Drug Mart™ program has raised more than \$70 million to support women’s health initiatives since 2011.

These, and so many other actions by our dedicated colleagues every day, are an increasingly important part of how we think about building value over the long-term. We believe that companies like ours should take a leadership role, and that by doing so we will continue to earn the trust of our customers and contribute towards a thriving Canadian society, both today and for generations to come.

On these, and many other fronts, we worked hard to achieve our plan in 2019. Our sales, customer satisfaction scores and employee engagement results were all solid, setting us up for success in 2020 and beyond. As we look ahead, we have continued confidence in our strategy, our leadership team, and the 194,000 colleagues who interact with and serve our customers every day – helping them live *their* life well.

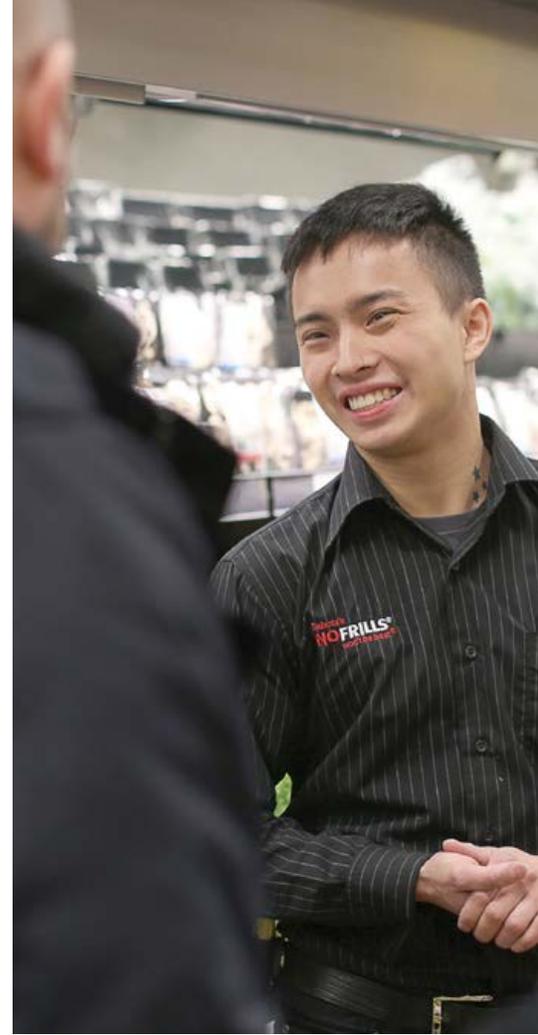
**Galen G. Weston**  
Executive Chairman

Our Divisions

OUR CUSTOMERS SAY...

“They have everything in every department that you could ever want, and they have great prices.”

LYNN O, REGINA, SK



# Our Divisions

**We operate stores and pharmacies in hundreds of Canadian communities, and 90% of Canadians live within 10 kilometres of these locations. That means we are interwoven with the communities we serve, and we take great pride in helping our customers lead better and healthier lives.**

## MARKET

Our **Market** division operates over 475 stores – including Loblaws®, Loblaws City Market®, Your Independent Grocer®, Atlantic Superstore®, Zehrs®, Provigo®, Provigo Le Marché®, Real Canadian Wholesale Club®, Real Canadian Liquorstore™, Fortinos® and T&T® stores – each led by a team of colleagues that are passionate about food, creating great customer experiences, and striving to be leaders in quality. Our assortment of products reflects the latest and greatest food trends and inspires Canadians to bring more to the table.

## JOE FRESH

Each **Joe Fresh**® collection for women, men, and children delivers quality basics and key fashion pieces for the season in an accessible way. The assortment of polished apparel, accessories, and footwear form the foundation of personal style.

## DISCOUNT

Our **Discount** division operates over 117 Real Canadian Superstore® locations, as well as 114 Maxi®, 13 Extra Foods®, and 263 No Frills® stores from coast to coast. Combined, these stores proudly offer Canadian families easy access to affordable necessities and collectively stand ready to Feed Everyone by providing freshness, value and a broad assortment of quality products in equal measure.

## SHOPPERS DRUG MART

**Shoppers Drug Mart** operates more than 1,300 Associate-owned stores, luxury beauty and home healthcare retail outlets, a specialty drug distribution network, pharmacy services for long-term care and retirement communities, a generic drug manufacturer, and an electronic medical records platform. This unique collection of assets offers convenient access to the best in health, beauty and food – either online, in-store or business-to-business.

## FINANCIAL

Our **PC Financial**® services offer value, convenience and simplicity by enabling customers to earn rewards on everyday purchases. With more than 3 million PC Financial® Mastercard® cardholders, we are redefining our customers' online, in-store and loyalty experiences.



## 3 million

PC FINANCIAL® MASTERCARD®  
CARDHOLDERS EARN REWARDS  
EVERYDAY

OUR CUSTOMERS SAY...

**“The organic aisle is amazing. They have everything you can buy in specialty stores, but at lower prices.”**

TARA J, EDMONTON, AB



# Strategic Enablers

**Our organizational focus on delivering value and solutions to our customers runs through every part of our business. We have a strategy to achieve our goals, the internal infrastructure to deliver against our expectations, and a colleague base that is guided by a unique culture and common set of values.**



OUR CUSTOMERS SAY...

**“The diversity of food they have is amazing because you don’t have to go around elsewhere if you want to try something.”**

ALEXANDRA J, REGINA, SK

## Brands

Our product developers travel the world in search of new and unique food experiences, and the result is a portfolio of control brand products – including President’s Choice®, no name®, Farmer’s Market™ and Life Brand® – that has become synonymous with quality and innovation.

## PC Optimum™

PC Optimum™ is unique in its size, scale and customer engagement, having already achieved over 18 million members. We continue to refine and enhance the program in search of even greater value and personalization – which we know our customers are craving.

## Colleagues, Culture and CORE Values

We understand the importance of an engaged and collaborative workforce. We embrace authenticity, trust and encourage strong connections, all while striving to reflect our CORE Values – Care, Ownership, Respect, Excellence – in our daily decision-making.

## Technology

In recent years we have aggressively expanded our digital and store-level infrastructure, by rapidly scaling innovation and improving our organizational efficiency through automation, machine-learning and more.

## Supply Chain

Our Supply Chain is among the most efficient, responsive and customer-centric networks in North America. We continue to adopt new processes and technology to increase our capacity, while also embracing automation as a means of improving our performance.

## Compliance and Ethical Conduct

Our commitment to compliance ensures our colleagues have the knowledge they need to meet the expectations and understand the risks associated with their jobs. We encourage colleagues to speak up and take action when necessary, and our policies and training ensure they can conduct themselves in an ethical and compliant manner.

OUR CUSTOMERS SAY...

**“It feels like shopping with friends. You come in here and they recognize you... they remember the little things you mentioned before.”**

JESSICA G. BARRINGTON, NS

**\$150 million**

OVER TEN YEARS TO HELP  
TACKLE CHILDHOOD HUNGER

**30%**

COMMITMENT TO REDUCE OUR  
CARBON FOOTPRINT BY 2030

**50%**

COMMITMENT TO REDUCE  
FOOD WASTE BY 2025

**\$70 million**

RAISED AND GRANTED TO  
SUPPORT WOMEN'S HEALTH  
INITIATIVES SINCE 2011



# Corporate Social Responsibility

**Our approach to Corporate Social Responsibility (CSR) is driven by our company purpose – Live Life Well. By sourcing responsibly, respecting the environment and making a positive difference in our communities, we aim to earn the trust of our customers and be recognized as a leading contributor towards a thriving Canadian society – today and for generations to come.**

## Sourcing

We are proud of our continued activity and leadership with respect to product sourcing both in Canada and around the world.

- We have played a central role in the creation and development of the Bangladesh Accord on Fire and Building Safety (the 'Accord'), driving greater building and worker safety in Bangladesh.
- As part of our efforts to provide our customers with more information about where our products are sourced, twice a year, we publicly disclose the factories which supply our apparel and footwear.
- We take great pride in working with local farmers, fishermen and producers across Canada. Approximately 50% of our produce is sourced in Canada during peak season and we have a commitment to 'repatriate' \$150M of produce that would have otherwise been imported by 2025.

## Environment

Our aim is to continue reducing the environmental impacts of our operations, specifically as they relate to carbon, food waste and packaging.

- We have committed to reduce our carbon footprint by 20% by 2020 and by 30% by 2030 relative to a 2011 baseline. We have an action plan focused on energy-efficient stores and distribution centres, fuel-efficient transportation, and managing refrigerant leaks and organic waste diversion. We have achieved our 2020 target, and we are making good progress towards our 30% carbon reduction goal by 2030.
- Our plastic bag reduction program, which includes a fee to purchase bags, has helped us eliminate nearly 13 billion plastic bags from landfill since the program launched in 2007. Partial proceeds from the sale of plastic bags are donated to WWF-Canada to support a variety of programs across Canada.
- In 2018, we committed to reducing food waste by 50% by 2025 and we are making strong early improvements. Notably, in the area of reclamation, we are one of Canada's largest food bank donors with more than 11.5 million pounds of food donated to food banks and food recovery agencies in 2019.

## Community

Our community investment activities focus on childhood hunger, putting women's health first, and advancing solutions to sustainable food challenges.

- We place our greatest efforts in the communities we serve, providing millions of dollars to charities and non-profit organizations across Canada with the help of our customers, colleagues, business partners, and franchisees and their employees.
- In the two years following its \$150 million commitment to tackle childhood hunger, *President's Choice Children's Charity* has granted more than \$29 million to improve food access and to deliver nutrition education for Canadian children. Supported by Loblaw's network of more than 1,100 grocery stores, millions of customers and almost 200,000 employees – the Charity maintained its status as Canada's top charitable funder of school breakfast programs by reaching more than 700,000 children nationwide in 2019.
- The LOVE YOU by Shoppers Drug Mart™ program works together with local charities to help advance women's health in mind, body and spirit, and provides support systems to help put women's health first. Since 2011, more than \$70 million has been raised and granted to support women's health initiatives in communities across Canada.



# Corporate Governance Practices

**The Board of Directors and senior executives of Loblaw Companies Limited are committed to sound corporate governance practices and believe they contribute to the effective management of the Company and its achievement of strategic and operational objectives.**

The Governance Committee regularly reviews the Company's corporate governance practices to ensure they reflect evolving best practices in a rapidly changing environment.

The Company's website, [loblaw.ca](http://loblaw.ca), includes additional governance information, including the Company's Code of Conduct (the "Code"), Disclosure Policy, Majority Voting Policy, the position description for the Executive Chairman and mandates of the Board of Directors (the "Board") and of its committees.

## Director Independence

The Canadian Securities Administrators' Corporate Governance Guidelines provide that a director is independent if he or she has no material relationship with the Company or its affiliates that could reasonably be expected to interfere with the exercise of the director's independent judgment.

At least 83% of the directors on the Board are independent. The independent directors meet separately following each Board meeting. Information relating to each of the directors, including their independence, committee memberships, other public company boards on which they serve, as well as their attendance record for all Board and committee meetings, can be found in the Company's Management Proxy Circular and on the Company's website, [loblaw.ca](http://loblaw.ca).

## Board Leadership

Galen G. Weston is the Executive Chairman of the Board. The Executive Chairman directs the operations of the Board. He chairs each meeting of the Board, is responsible for the management and effective functioning of the Board generally and provides leadership to the Board in all matters. These and other key responsibilities of the Executive Chairman are set out in a position description established by the Board. The Board has also appointed an independent director, William A. Downe, to serve as lead director. The lead director provides leadership to the Board and particularly to the independent directors. He ensures that the Board operates independently of management and that directors have an independent leadership contact.

## Board Responsibilities and Duties

The Board, directly and through its committees, supervises and oversees the management of the business and affairs of the Company. A copy of the Board's mandate can be found on the Company's website, [loblaw.ca](http://loblaw.ca). The Board reviews the Company's strategic direction, assigns responsibility to management for the achievement of that direction, approves major policy decisions, delegates to management the authority and responsibility of handling day-to-day affairs, and reviews management's performance and effectiveness. The Board's expectations of management are communicated to management directly and through committees of the Board.

The Board regularly receives reports on the operating results of the Company as well as reports on certain non-operational matters, including insurance, pensions, corporate governance, workplace health and safety, legal, compliance and treasury matters. The Board also oversees the enterprise risk management (ERM) process, which is designed to assist all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, a methodology and tools for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk management activities and develop a risk-based internal audit plan.

## Ethical Business Conduct

The Code reflects the Company's long-standing commitment to high standards of ethical conduct and business practices. The Code is reviewed annually to ensure it is current and reflects best practices in the area of ethical business conduct and integrity and includes a strong "tone from the top" message. All directors, officers and employees of the Company are required to comply with the Code and must acknowledge their commitment to abide by the Code on a periodic basis.



OUR CUSTOMERS SAY...

**“There are lots of points you can get with PC Optimum and that makes you want to come back.”**

MILENA B., REGINA, SK

The Company encourages the reporting of violations and potential violations and has established an Integrity Action Line, a toll-free number that any director, officer or employee may use to report conduct which he or she feels violates the Code or otherwise constitutes fraudulent or unethical conduct.

A fraud reporting protocol has also been implemented to ensure that fraud is reported to senior management in a timely manner. In addition, the Audit Committee has endorsed procedures for the anonymous receipt, retention and handling of complaints regarding accounting, internal control or auditing matters. These procedures are available on the Company’s website, [loblaw.ca](http://loblaw.ca).

**Board Committees**

The following is a brief summary of some of the responsibilities of each committee of the Board.

**Audit Committee**

The Audit Committee is responsible for the oversight of the integrity of the Company’s financial statements and related public disclosure. In doing so, the Audit Committee oversees the Company’s internal controls over financial reporting, disclosure controls and procedures and internal audit function. The Audit Committee also oversees procedures for the receipt, retention and follow-up of any complaints regarding the Company’s accounting, internal controls and auditing matters.

**Governance, Employee Development, Nominating and Compensation Committee**

The Governance Committee is responsible for the oversight of the Company’s governance practices, including the development and implementation of good governance principles, consistent with high standards of corporate governance. The Governance Committee oversees the succession planning and compensation for the Board and Senior Management. The Chair of the Governance Committee, who is an independent director, has also been appointed by the Board to serve as lead director.

**Pension Committee**

The Pension Committee is responsible for the oversight of the administration, management, design and governance of the Company’s pension plans, as well as the administration and management of the Company’s benefit obligations.

**Risk and Compliance Committee**

The Risk and Compliance Committee is responsible for the oversight of the Company’s legal and regulatory compliance program, ERM program, corporate social responsibility program, policies, management systems and performance with respect to various matters including pharmacy/ pharmaceutical matters and food safety and product safety matters.

# Board of Directors

## **GALEN G. WESTON**, B.A., M.B.A.

Executive Chairman, Loblaw Companies Limited; Chairman and Chief Executive Officer, George Weston Limited; Director, Wittington Investments, Limited; Chairman and Trustee, Choice Properties Real Estate Investment Trust; Chairman and Director, President's Choice Bank.

## **PAUL M. BEESTON**, C.M., F.C.A., F.C.P.A.<sup>1</sup>

Corporate Director; Former President and Chief Executive Officer, Toronto Blue Jays Baseball Team; Former President and Chief Executive Officer, Major League Baseball; Director, President's Choice Bank, National Baseball Hall of Fame; Former Chairman, Centre for Addiction and Mental Health; Former Director, Newport Partners Income Fund; Former Director, Gluskin Sheff & Associates Inc.

## **PAVITER S. BINNING**

President and Director, Wittington Investments, Limited; Director, George Weston Limited; Former President and Chief Executive Officer, George Weston Limited; Former Chief Financial Officer George Weston Limited.

## **SCOTT B. BONHAM**, B.Sc., M.B.A.<sup>1,4</sup>

Corporate Director and Co-Founder of Intentional Capital LLC; Former Co-Founder of GGV Capital; Former Vice-President, Capital Group Companies; Director, Magna International Inc.; Director, The Bank of Nova Scotia; Board Member of Canadian Institute of Advanced Research and the DenmarkBridge.

## **WARREN BRYANT**, B.S., M.B.A.<sup>2,4\*</sup>

Corporate Director; Director, Dollar General Corporation; Former Chairman, President and Chief Executive Officer, Longs Drug Stores Corp.; Former Executive, Kroger Co.; Former member of the Executive Advisory Committee, Portland State University Food Industry Leadership Center; Former Chairman of the Board of Directors and Former member of the Board Executive Committee, National Association of Chain Drug Stores (NACDS); Former member of the Board of Directors, California Governor's Council on Physical Fitness and Sports; Former Director, George Weston Limited, Pathmark Stores, Inc. and Office Depot Inc.

## **CHRISTIE J.B. CLARK**, B. COMM., M.B.A., F.C.A.<sup>1,3,4</sup>

Corporate Director; Former Chief Executive Officer and Senior Partner, PricewaterhouseCoopers LLP; Former Director, Hydro One Inc., Hydro One Limited; Director, Air Canada; Trustee, Choice Properties Real Estate Investment Trust; Former Director, IGM Financial Inc., Brookfield Office Properties Inc.

## **WILLIAM A. DOWNE**, C.M.<sup>1,2</sup>

Corporate Director, Former Chief Executive Officer, BMO Financial Group; Former Director, Board of Bank of Montreal and its subsidiaries, BMO Nesbitt Burns Holding Corporation and BMO Financial Corp.; Lead Director, ManpowerGroup Inc..

## **JANICE FUKAKUSA**, F.C.P.A., F.C.A.<sup>1</sup>

Corporate Director; former Chief Financial Officer and Chief Administrative Officer, Royal Bank of Canada; Director, Cineplex Inc.; Chair, Canada Infrastructure Bank; Chair, The Princess Margaret Cancer Foundation; Chancellor, Ryerson University.

## **M. MARIANNE HARRIS**, B.Sc., J.D., M.B.A.<sup>1,3,4</sup>

Corporate Director; Former Managing Director and President, Corporate and Investment Banking, Merrill Lynch Canada Inc., Former Head of Financial Institutions Group Americas, Merrill Lynch Pierce Fenner & Smith; Director, Sun Life Financial Inc.; Former Director, Hydro One Inc., Hydro One Limited; Former Director, Agrium Inc.; Former Chair, Investment Industry Regulatory Organization of Canada (IIROC); Member of Investment Committee, Princess Margaret Cancer Foundation; Member of Dean's Advisory Council, Schulich School of Business; Advisory Council, Hennick Centre for Business and Law.

## **CLAUDIA KOTCHA**, B.B.A., C.P.A.<sup>2,4</sup>

Corporate Director; Former Vice President, Design Innovation & Strategy, Procter & Gamble; Former Trustee, Cooper Hewitt Smithsonian Design Museum; Director, American Red Cross Greater Miami and the Keys.

## **BETH PRITCHARD**, B.A., M.B.A.<sup>1,4</sup>

Corporate Director; Former Principal and Strategic Advisor, Sunrise Beauty Studio, LLC; former North American Advisor, M. H. Alshaya Co.; Former President and Chief Executive Officer and Vice Chairman, Dean & DeLuca, Inc.; Former President and Chief Executive Officer, Bath & Body Works, Former Chief Executive Officer, Victoria's Secret Beauty; Former Director, Cabela's Incorporated, Shoppers Drug Mart Corporation, Zale Corporation, The Vitamin Shoppe, Inc., Border Free Inc.

## **SARAH RAISS**, B.S., M.B.A.<sup>2,3\*</sup>

Corporate Director; Former Executive, TransCanada Corporation; Director, Commercial Metals Company and Ritchie Bros. Auctioneers; Former Chair, Alberta Electric System Operator Board of Directors; Former Director, Canadian Oil Sands Limited, Shoppers Drug Mart Corporation, Vermillion Energy Inc.

### Notes

<sup>1</sup> Audit Committee

<sup>2</sup> Governance, Employee Development, Nominating and Compensation Committee

<sup>3</sup> Pension Committee

<sup>4</sup> Risk and Compliance Committee

\* Chair of the Committee

# Leadership

## **GALEN G. WESTON**

Executive Chairman

## **SARAH R. DAVIS**

President, Loblaw Companies Limited

## **DARREN MYERS**

Chief Financial Officer

## **GORDON A.M. CURRIE**

Executive Vice President, Chief Legal Officer and Secretary

## **GARRY SENECAI**

Chief Customer Officer

## **ROB WIEBE**

Chief Administrative Officer

## **MARK WILSON**

Executive Vice President and Chief Human Resources Officer

## **JOCYANNE BOURDEAU**

President, Discount Division

## **BARRY K. COLUMB**

President, President's Choice Financial

## **IAN FREEDMAN**

President, Joe Fresh

## **JEFF LEGER**

President, Shoppers Drug Mart

## **GREG RAMIER**

President, Market Division

## **KEVIN GROH**

Senior Vice President, Corporate Affairs and Communication



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2019 Annual Report – Financial Review

## **2019 Annual Report - Financial Review**

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## Financial Highlights<sup>(1)</sup>

The Company's interest in Choice Properties Real Estate Investment Trust has been presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information reflects the Company's results from Continuing Operations and includes the impacts of spin-out related depreciation, the implementation of IFRS 16, "Leases" and the consolidation of franchises. See Section 5.1, "Consolidated Results of Operations - Other Business Matters" of the Company's 2019 Annual Report - Financial Review.

As at or for the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (52 weeks)	2018 (52 weeks)
<b>Consolidated Results of Operations</b>		
Revenue	\$ 48,037	\$ 46,693
Revenue growth	2.9%	0.2%
Operating income	\$ 2,270	\$ 1,923
Adjusted EBITDA <sup>(2)</sup>	4,912	3,528
Adjusted EBITDA margin <sup>(2)</sup>	10.2%	7.6%
Net interest expense and other financing charges	\$ 747	\$ 564
Adjusted net interest expense and other financing charges <sup>(2)</sup>	747	387
Income taxes	392	606
Adjusted income taxes <sup>(2)</sup>	571	580
Adjusted effective tax rate <sup>(2)</sup>	26.6%	26.8%
Net earnings	\$ 1,131	\$ 800
Continuing Operations	1,131	753
Discontinued Operations	—	47
Net earnings attributable to shareholders of the Company from Continuing Operations	1,081	719
Net earnings available to common shareholders of the Company <sup>(i)</sup>	1,069	754
Continuing Operations	1,069	707
Discontinued Operations	—	47
Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup>	1,516	1,746
Continuing Operations	1,516	1,539
Discontinued Operations	—	207
<b>Consolidated per Common Share (\$)</b>		
Diluted net earnings	\$ 2.90	\$ 1.99
Continuing Operations	\$ 2.90	\$ 1.87
Discontinued Operations	\$ —	\$ 0.12
Adjusted diluted net earnings <sup>(2)</sup>	\$ 4.12	\$ 4.60
Continuing Operations	\$ 4.12	\$ 4.06
Discontinued Operations	\$ —	\$ 0.54
<b>Dividends</b>		
Dividends declared per common share (\$)	\$ 1.240	\$ 1.155
<b>Consolidated Financial Position and Cash Flows<sup>(ii)</sup></b>		
Cash and cash equivalents and short term investments	\$ 1,190	\$ 1,159
Cash flows from operating activities	3,960	2,501
Capital investments	1,206	1,334
Free cash flow <sup>(2)</sup>	1,210	366
<b>Financial Measures</b>		
Retail debt to retail adjusted EBITDA <sup>(2)</sup>	3.0x	1.9x
Adjusted return on equity <sup>(2)</sup>	13.7%	12.6%
Adjusted return on capital <sup>(2)</sup>	7.8%	9.8%

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

(ii) Includes amounts from Continuing and Discontinued Operations.

## Financial Highlights<sup>(1)</sup>

As at or for the years ended December 28, 2019 and December 29, 2018  
(millions of Canadian dollars except where otherwise indicated)

	<b>2019</b> <b>(52 weeks)</b>	<b>2018<sup>(4)</sup></b> <b>(52 weeks)</b>
<b>Retail Results of Operations</b>		
Sales	\$ 47,099	\$ 45,836
Operating income	2,082	1,717
Adjusted gross profit <sup>(2)</sup>	13,999	13,497
Adjusted gross profit % <sup>(2)</sup>	29.7%	29.4%
Adjusted EBITDA <sup>(2)</sup>	\$ 4,700	\$ 3,332
Adjusted EBITDA margin <sup>(2)</sup>	10.0%	7.3%
Depreciation and amortization	\$ 2,502	\$ 1,487
<b>Retail Operating Statistics</b>		
Food retail same-store sales growth	1.1%	1.1%
Drug retail same-store sales growth	3.6%	2.4%
Drug retail same-store pharmacy sales growth	4.4%	1.2%
Drug retail same-store front store sales growth	2.9%	3.5%
Total retail square footage (in millions)	70.8	70.4
Number of corporate stores	548	550
Number of franchise stores	540	535
Number of Associate-owned drug stores	1,343	1,337
<b>Financial Services Results of Operations</b>		
Revenue	\$ 1,196	\$ 1,082
Earnings before income taxes	107	137
<b>Financial Services Operating Measures and Statistics</b>		
Average quarterly net credit card receivables	\$ 3,298	\$ 3,040
Credit card receivables	3,624	3,309
Allowance for credit card receivables	196	167
Annualized yield on average quarterly gross credit card receivables	13.5%	13.2%
Annualized credit loss rate on average quarterly gross credit card receivables	3.4%	3.2%

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## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes on page 63 to 133 of this Annual Report – Financial Review ("Annual Report").

The Company's annual audited consolidated financial statements and the accompanying notes for the year ended December 28, 2019 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except when otherwise noted.

Management uses non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing consolidated and segment underlying operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring. See Section 17 "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

The information in this MD&A is current to February 19, 2020, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 134.

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2019 (12 weeks ended December 28, 2019) are against results for the fourth quarter of 2018 (12 weeks ended December 29, 2018) and all comparisons of results for the full-year of 2019 (52 weeks ended December 28, 2019) are against the results for the full-year 2018 (52 weeks ended December 29, 2018).

On December 30, 2018, the Company implemented IFRS 16, "Leases" ("IFRS 16"), replacing International Accounting Standard ("IAS") 17, "Leases" ("IAS 17") and related interpretations. The standard introduced a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard using the modified retrospective approach. As a result, the Company's 2019 results incorporate lease accounting under IFRS 16. Under IFRS 16, the depreciation expense on right-of-use assets and interest expense on lease liabilities replaces rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease. Prior year results have not been restated.

On November 1, 2018, the Company and its parent George Weston Limited ("Weston") completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties") to Weston on a tax-free basis to the Company and its Canadian shareholders ("the reorganization" or "the spin-out"). The Company's interest in Choice Properties is presented separately as Discontinued Operations in the Company's comparative results. As a result of the spin-out, buildings owned by Choice Properties and leased by the Company are accounted for as leases and no longer accounted for as owned property. The building components associated with these leases post spin-out are classified as leasehold improvements resulting in incremental depreciation expense.

See Section 5.1, "Consolidated Results of Operations - Other Business Matters" of this MD&A for more information on the implementation of IFRS 16 and the spin-out related depreciation.

### 1. Forward-Looking Statements

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in Section 3 "Strategic Framework", Section 5.1 "Consolidated Results of Operations", "Section 6.1 "Retail Segment" Other Retail Business Matters, Section 6.2 "Financial Services Segment", Section 7 "Liquidity and Capital Resources", Section 16 "Outlook" and Section 17 "Non-GAAP Financial Measures". Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2020 is based on certain assumptions including assumptions about healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 "Enterprise Risks and Risk Management" of this MD&A, and the Company's 2019 Annual Information Form ("AIF") (for the year ended December 28, 2019). Such risks and uncertainties include:

- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- adverse outcomes of legal and regulatory proceedings and related matters;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets; and
- changes to any of the laws, rules, regulations or policies applicable to the Company's business.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2019 AIF (for the year ended December 28, 2019). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## 2. Overview

The Company has two operating segments: Retail and Financial Services. The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the PC Optimum® Program. The Company's Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

## 3. Strategic Framework

The Company's strategic framework is anchored by a powerful purpose: Live Life Well. This framework, known internally as The Strategic Compass, is built around an unrelenting passion for customers. Guided by these elements, the Company is committed to delivering industry leading financial performance by leveraging data-driven insights and by delivering process and efficiency excellence. This model ultimately fuels truly customer-centric investments in Everyday Digital Retail, Payments and Rewards, and Connected Healthcare.

The Company strives to be the "best in food, health and beauty." The approach to being "best in food" is driven by fresh food selection, a desire to offer sustainable and competitive pricing, customized assortments across banners, and several of the country's top control brands. The approach to being "best in health and beauty" is supported by high quality health and wellness products and services, and a diverse and differentiated beauty offering.

Internally, colleagues are committed to Social Responsibility and Compliance, through a shared set of CORE Values and a "Blue Culture" that encourages everyone to be authentic, build trust and make connections.

Together, each of these areas complement one another, and complete the strategic framework that guides our direction now and into the future.

#### 4. Key Financial Performance Indicators<sup>(1)</sup>

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information reflects the Company's results from Continuing Operations and includes the impacts of spin-out related depreciation, the implementation of IFRS 16 and the consolidation of franchises. See Section 5.1, "Consolidated Results of Operations - Other Business Matters" of this MD&A.

The Company has identified key financial performance indicators to measure the progress of short and long term objectives. Certain key financial performance indicators are set out below:

As at or for the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (52 weeks)	2018 <sup>(4)</sup> (52 weeks)
<b>Consolidated</b>		
Revenue growth	2.9%	0.2%
Operating income	\$ 2,270	\$ 1,923
Adjusted EBITDA <sup>(2)</sup>	4,912	3,528
Adjusted EBITDA margin <sup>(2)</sup>	10.2%	7.6%
Net earnings	\$ 1,131	\$ 800
Continuing Operations	1,131	753
Discontinued Operations	—	47
Net earnings attributable to shareholders of the Company	1,081	719
Net earnings available to common shareholders of the Company <sup>(i)</sup>	1,069	754
Continuing Operations	1,069	707
Discontinued Operations	—	47
Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup>	1,516	1,746
Continuing Operations	1,516	1,539
Discontinued Operations	—	207
Diluted net earnings per common share (\$)	\$ 2.90	\$ 1.99
Continuing Operations	\$ 2.90	\$ 1.87
Discontinued Operations	\$ —	\$ 0.12
Adjusted diluted net earnings per common share <sup>(2)</sup> (\$)	\$ 4.12	\$ 4.60
Continuing Operations	\$ 4.12	\$ 4.06
Discontinued Operations	\$ —	\$ 0.54
Cash and cash equivalents and short term investments	\$ 1,190	\$ 1,159
Cash flows from operating activities <sup>(ii)</sup>	3,960	2,501
Free cash flow <sup>(2)(ii)</sup>	1,210	366
<b>Financial Measures</b>		
Retail debt to retail adjusted EBITDA <sup>(2)</sup>	3.0x	1.9x
Adjusted return on equity <sup>(2)</sup>	13.7%	12.6%
Adjusted return on capital <sup>(2)</sup>	7.8%	9.8%
<b>Retail Segment</b>		
Food retail same-store sales growth	1.1%	1.1%
Drug retail same-store sales growth	3.6%	2.4%
Operating income	\$ 2,082	\$ 1,717
Adjusted gross profit <sup>(2)</sup>	13,999	13,497
Adjusted gross profit % <sup>(2)</sup>	29.7%	29.4%
Adjusted EBITDA <sup>(2)</sup>	\$ 4,700	\$ 3,332
Adjusted EBITDA margin <sup>(2)</sup>	10.0%	7.3%
<b>Financial Services Segment</b>		
Earnings before income taxes	\$ 107	\$ 137
Annualized yield on average quarterly gross credit card receivables	13.5%	13.2%
Annualized credit loss rate on average quarterly gross credit card receivables	3.4%	3.2%

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

(ii) Includes amounts from Continuing and Discontinued Operations.

## 5. Overall Financial Performance

### 5.1. Consolidated Results of Operations

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information reflects the Company's results from Continuing Operations and includes the impacts of spin-out related depreciation, the implementation of IFRS 16 and the consolidation of franchises.

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	<b>2019</b> <b>(52 weeks)</b>	2018 (52 weeks)	\$ Change	% Change
<b>Revenue</b>	<b>\$ 48,037</b>	\$ 46,693	\$ 1,344	2.9 %
<b>Operating income</b>	<b>2,270</b>	1,923	347	18.0 %
Adjusted EBITDA <sup>(2)</sup>	<b>4,912</b>	3,528	1,384	39.2 %
Adjusted EBITDA margin <sup>(2)</sup>	<b>10.2%</b>	7.6%		
<b>Depreciation and amortization</b>	<b>\$ 2,524</b>	\$ 1,497	\$ 1,027	68.6 %
<b>Net interest expense and other financing charges</b>	<b>747</b>	564	183	32.4 %
Adjusted net interest expense and other financing charges <sup>(2)</sup>	<b>747</b>	387	360	93.0 %
<b>Income taxes</b>	<b>392</b>	606	(214)	(35.3)%
Adjusted income taxes <sup>(2)</sup>	<b>571</b>	580	(9)	(1.6)%
Adjusted effective tax rate <sup>(2)</sup>	<b>26.6%</b>	26.8%		
<b>Net earnings attributable to shareholders of the Company from Continuing Operations</b>	<b>\$ 1,081</b>	\$ 719	\$ 362	50.3 %
<b>Net earnings available to common shareholders of the Company<sup>(i)</sup></b>	<b>1,069</b>	754	315	41.8 %
Continuing Operations	<b>1,069</b>	707	362	51.2 %
Discontinued Operations	<b>—</b>	47	(47)	(100.0)%
Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup>	<b>\$ 1,516</b>	\$ 1,746	\$ (230)	(13.2)%
Continuing Operations	<b>1,516</b>	1,539	(23)	(1.5)%
Discontinued Operations	<b>—</b>	207	(207)	(100.0)%
<b>Diluted net earnings per common share (\$)</b>	<b>\$ 2.90</b>	\$ 1.99	\$ 0.91	45.7 %
Continuing Operations	<b>\$ 2.90</b>	\$ 1.87	\$ 1.03	55.1 %
Discontinued Operations	<b>\$ —</b>	\$ 0.12	\$ (0.12)	(100.0)%
Adjusted diluted net earnings per common share <sup>(2)</sup> (\$)	<b>\$ 4.12</b>	\$ 4.60	\$ (0.48)	(10.4)%
Continuing Operations	<b>\$ 4.12</b>	\$ 4.06	\$ 0.06	1.5 %
Discontinued Operations	<b>\$ —</b>	\$ 0.54	\$ (0.54)	(100.0)%
Diluted weighted average common shares outstanding (in millions)	<b>368.4</b>	379.3		

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

## Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share from Continuing Operations

Net earnings available to common shareholders of the Company from Continuing Operations in 2019 were \$1,069 million (\$2.90 per common share). When compared to the same period in 2018, this represented an increase of \$362 million (\$1.03 per common share). The increase included the unfavourable impact of spin-out related depreciation of approximately \$64 million (\$0.17 per common share) and the unfavourable impact of the implementation of IFRS 16 of approximately \$11 million (\$0.03 per common share). When normalized for these impacts, net earnings available to common shareholders of the Company from Continuing Operations increased by \$437 million (\$1.23 per common share). This increase included the improvement in underlying operating performance of \$52 million and the favourable change in adjusting items totaling \$385 million, as described below:

- the improvement in underlying operating performance of \$52 million (\$0.14 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment (excluding the impact of the consolidation of franchises), driven by an increase in adjusted gross profit<sup>(2)</sup> which was partially offset by an increase in selling, general and administrative expenses (“SG&A”) and an increase in depreciation and amortization.
- the favourable change in adjusting items totaling \$385 million (\$0.97 per common share) was primarily due to the following:
  - the favourable impact of the prior year charge related to Glenhuron Bank Limited (“Glenhuron”) of \$367 million (\$0.97 per common share); and
  - the favourable change in fair value adjustment on investment properties of \$16 million (\$0.04 per common share).
- diluted net earnings per common share from Continuing Operations also included the favourable impact of the repurchase of common shares (\$0.12 per common share).

Adjusted net earnings available to common shareholders of the Company<sup>(2)</sup> from Continuing Operations were \$1,516 million. When compared to the same period in 2018, this represented a decrease of \$23 million. When normalized for the impact of spin-out related depreciation, adjusted net earnings available to common shareholders of the Company<sup>(2)</sup> from Continuing Operations were \$1,580 million. When compared to the same period in 2018, this represented an increase of approximately \$41 million, or 2.7%. When normalized for both of the impact of spin-out related depreciation and the implementation of IFRS 16, adjusted net earnings available to common shareholders of the Company<sup>(2)</sup> from Continuing Operations increased by approximately \$52 million, or 3.4%.

Adjusted net earnings per common share<sup>(2)</sup> from Continuing Operations were \$4.12. When compared to the same period in 2018, this represented an increase of \$0.06. When normalized for the impact of spin-out related depreciation, adjusted diluted net earnings per common share<sup>(2)</sup> from Continuing Operations increased by approximately 5.7%, or \$0.23 per common share. When normalized for both the impact of spin-out related depreciation and the implementation of IFRS 16, adjusted diluted net earnings per common share<sup>(2)</sup> from Continuing Operations increased by approximately 6.4% or \$0.26 per common share. The increase included the favourable impact of the repurchase of common shares.

**Discontinued Operations** Net earnings available to common shareholders of the Company from Discontinued Operations were nil in 2019. When compared to the same period in 2018, this represented a decrease of \$47 million (\$0.12 per common share).

## Revenue

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (52 weeks)	2018 (52 weeks)	\$ Change	% Change
Retail	\$ 47,099	\$ 45,836	\$ 1,263	2.8 %
Financial Services	1,196	1,082	114	10.5 %
Consolidation and Eliminations	(258)	(225)	(33)	(14.7)%
Revenue from Continuing Operations	\$ 48,037	\$ 46,693	\$ 1,344	2.9 %

Revenue was \$48,037 million in 2019. When compared to the same period in 2018, this represented an increase of \$1,344 million, or 2.9%. The increase was primarily due to an improvement in Retail segment sales of \$1,263 million. After excluding the consolidation of franchises, Retail segment sales increased by \$976 million, or 2.2%, due to positive same-store sales growth and a net increase in Retail square footage. The increase was also due to an improvement in Financial Services segment sales of \$114 million which was mainly driven by higher interest and interchange income and higher sales attributable to *The Mobile Shop*.

**Operating Income** Operating income was \$2,270 million in 2019. When compared to the same period in 2018, this represented an increase of \$347 million. The increase included the favourable impact of IFRS 16 of approximately \$334 million and the total unfavourable impact of spin-out related depreciation of approximately \$91 million. When normalized for these impacts, operating income increased by \$104 million, or 5.4%, due to improvements in underlying operating performance of \$101 million and the favourable change in adjusting items totaling \$3 million, as described below:

- the improvement in underlying operating performance of \$101 million was primarily due to the Retail segment, including the favourable contribution from the consolidation of franchises of \$23 million. The increase was also due to an improvement in the underlying operating performance of the Financial Services segment;
- the favourable change in adjusting items totaling \$3 million which was primarily due to the following:
  - the favourable impact associated with prior period items of \$22 million;
  - the favourable change in fair value adjustment on investment properties of \$21 million;
  - the favourable impact of the prior year inventory provision related to healthcare reform of \$19 million; and
  - the favourable impact of a net gain on sale of non-operating properties of \$12 million;
 partially offset by,
  - the year-over-year unfavourable impact of restructuring and other related costs of \$64 million; and
  - the unfavourable change in fair value adjustment on fuel and foreign currency contracts of \$3 million.

**Adjusted EBITDA<sup>(2)</sup>**

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	<b>2019 (52 weeks)</b>	2018 (52 weeks)	\$ Change	% Change
Retail	<b>\$ 4,700</b>	\$ 3,332	\$ 1,368	41.1%
Financial Services	<b>212</b>	196	16	8.2%
Adjusted EBITDA <sup>(2)</sup>	<b>\$ 4,912</b>	\$ 3,528	\$ 1,384	39.2%

Adjusted EBITDA<sup>(2)</sup> was \$4,912 million in 2019. When compared to the same period in 2018, this represented an increase of \$1,384 million. The increase included the year-over-year favourable impact of IFRS 16 of approximately \$1,239 million. When normalized for the impact of IFRS 16, adjusted EBITDA<sup>(2)</sup> increased by \$145 million, or 4.1%. The increase in adjusted EBITDA<sup>(2)</sup> was due to improvements in the Retail segment and in the Financial Services segment.

**Depreciation and Amortization** Depreciation and amortization was \$2,524 million in 2019. When compared to the same period of 2018, this represented an increase of \$1,027 million. The increase included the unfavourable impact of IFRS 16 of approximately \$905 million and the total unfavourable impact of spin-out related depreciation of approximately \$91 million. When normalized for these impacts, the increase in depreciation and amortization was \$31 million, or 2.1%, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of \$508 million (2018 – \$521 million).

**Net Interest Expense and Other Financing Charges** Net interest expense and other financing charges were \$747 million in 2019. When compared to the same period in 2018, this represented an increase of \$183 million. The increase included the unfavourable impact of IFRS 16 of approximately \$348 million. When normalized for this impact, the net interest expense and other financing charges decreased by \$165 million, or 29.3%. This was primarily driven by the favourable impact of the prior year interest charge related to Glenhuron of \$176 million which was partially offset by higher interest expense in the Financial Services segment.

## Income Taxes

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (52 weeks)	2018 (52 weeks)	\$ Change	% Change
Income taxes	\$ 392	\$ 606	\$ (214)	(35.3)%
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	167	165	2	1.2 %
Reserve release related to 2014 tax audit	8	—	8	100.0 %
Statutory corporate income tax rate change	4	—	4	100.0 %
Charge related to Glenhuron	—	(191)	191	100.0 %
Adjusted income taxes <sup>(2)</sup>	\$ 571	\$ 580	\$ (9)	(1.6)%
Effective tax rate	25.7%	44.6%		
Adjusted effective tax rate <sup>(2)</sup>	26.6%	26.8%		

Income tax expense in 2019 was \$392 million (2018 – \$606 million) and the effective income tax rate was 25.7% (2018 – 44.6%). The decreases were primarily attributable to a charge of \$191 million in 2018 related to Glenhuron, the reversal of certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart acquisition costs incurred in 2014, the remeasurement of deferred income tax balances due to a decrease in the Alberta corporate income tax rate, as well as the decrease in certain non-deductible items including the interest charge related to Glenhuron.

Adjusted income tax expense<sup>(2)</sup> in 2019 was \$571 million (2018 – \$580 million) and the adjusted effective tax rate<sup>(2)</sup> was 26.6% (2018 – 26.8%). The decreases were primarily attributable to the decrease in certain non-deductible items including the interest charge related to Glenhuron.

## Other Business Matters

**IFRS 16 Implementation** In 2016, the International Accounting Standards Board (“IASB”) issued IFRS 16, replacing IAS 17 and related interpretations. The standard introduced a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard on December 30, 2018 using the modified retrospective approach. As a result, the Company’s 2019 results incorporate lease accounting under IFRS 16. Prior year results have not been restated. See Section 15, “Accounting Standards”, of this MD&A for more information on the implementation of IFRS 16.

The implementation of IFRS 16 significantly increased the assets and liabilities on the Company’s Consolidated Balance Sheet and changed the timing and presentation of lease-related expenses in the Company’s Retail segment results. The Company recorded a right-of-use asset of \$7.6 billion and a lease liability of \$9.2 billion under the new standard. Under IFRS 16, the depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease.

The following table provides the year-over-year impacts of the implementation of IFRS 16 on the consolidated results of the Company in the fourth quarter of 2019:

(millions of Canadian dollars unless where otherwise indicated) Favourable/(unfavourable)	\$ Change	
	(12 weeks)	(52 weeks)
Operating income	\$ 73	\$ 334
Adjusted EBITDA <sup>(2)</sup>	285	1,239
Net interest expense and other financing charges	(78)	(348)
Depreciation and amortization	(212)	(905)
Net earnings available to common shareholders of the Company	(3)	(11)
Diluted net earnings per common share (\$)	\$ (0.01)	\$ (0.03)

**Spin-out of Choice Properties** On November 1, 2018, the Company, and its parent Weston, completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. The Company no longer retains its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements as at October 31, 2018. The transaction has no significant impact on the ongoing operating relationship between the Company and Choice Properties and the Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant. The reorganization has been reflected separately as Discontinued Operations in the comparative results. Unless otherwise noted, all comparisons of operating results exclude the results of Choice Properties.

*Impact on Consolidated Financial Results, including Discontinued Operations* The Company's 2018 consolidated financial results, including Discontinued Operations, reflect Choice Properties financial results up until October 31, 2018. Subsequent to the spin-out, from November 1, 2018 to December 29, 2018, the Company's consolidated financial results no longer include Choice Properties' rent received from third party tenants, depreciation and amortization on properties owned by Choice Properties, or net interest expense and other financial charges related to trust unit distributions to third parties and Choice Properties' debt.

In addition, post spin-out, the Company's consolidated financial results reflect the on-going operating relationship between the Company and Choice Properties, including but not limited to rent paid to Choice Properties from November 1, 2018 to December 29, 2018, which is no longer eliminated on consolidation. It also includes the incremental depreciation and amortization as a result of the change in estimated useful life of certain building components owned by the Company, as discussed below.

*Impact on Retail Segment Results* The Company has presented the financial results of the Retail segment on a Continuing Operations basis, to include amounts paid between the Company and Choice Properties in the current and comparative period. The Company's current and comparative period Retail segment results include rent and lease surrender payments paid to Choice Properties, gains related to the sale leaseback of properties to Choice Properties and site intensification payments received from Choice Properties. In addition, the Retail segment no longer includes depreciation and amortization on properties owned by Choice Properties previously treated as own use fixed assets. See Section 13, "Related Party Transactions", of this MD&A for more information on the transactions between the Company and Choice Properties.

As a result of the spin-out, buildings owned by Choice Properties and leased by the Company are accounted for as leases and no longer accounted for as owned property. The building components associated with these leases post spin-out are classified as leasehold improvements and depreciated over the lesser of the lease term and useful life up to 25 years. The remaining average lease term on the leases related to these leasehold improvements is approximately 10 years. The Company's 2019 financial results includes depreciation and amortization of \$21 million (\$0.03 per common share) in the fourth quarter and \$91 million (\$0.17 per common share) year-to-date.

**Process and Efficiency** The Company continues to execute on a multi-year plan, initiated in 2018, that focuses on improving processes and generating efficiencies across administrative, store, and distribution network infrastructure. Many initiatives are underway to reduce the complexity and cost of business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. Management anticipates investing capital as well as recording restructuring and other charges related to these initiatives in 2020, and beyond. In the fourth quarter of 2019, the Company recorded approximately \$24 million (\$74 million year-to-date) of restructuring and other related charges, primarily related to Process and Efficiency initiatives.

Subsequent to the end of 2019, the Company announced the future closure of two distribution centres in Laval and Ottawa. The Company is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Over the next two years, the distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall. The Company expects to incur additional restructuring costs in 2020 and 2021 related to these closures.

**Charge related to Glenhuron** On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to Glenhuron, a wholly-owned Barbadian subsidiary of the Company that was wound up in 2013. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, it recorded a charge during the third quarter of 2018 of \$367 million, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes. The Company believes that this provision will be sufficient to cover its ultimate liability if the appeal is unsuccessful. In the third quarter of 2018, the Company made a cash payment of \$235 million to fund the tax and interest owing in light of the decision of the Tax Court. On October 15, 2019, the appeal was heard by the Federal Court of Appeal, with the court reserving judgment until a later date.

## 5.2. Selected Financial Information

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated December 28, 2019, December 29, 2018, and December 30, 2017. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the financial condition and results of the Company's operations over the most recent three years. The reorganization has been presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

For the years ended December 28, 2019 and December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	<b>2019</b> <b>(52 weeks)</b>	2018 (52 weeks)	2017 (52 weeks)
<b>Revenue</b>	<b>\$ 48,037</b>	\$ 46,693	\$ 46,587
<b>Operating income</b>	<b>2,270</b>	1,923	2,049
Adjusted EBITDA <sup>(2)</sup>	<b>4,912</b>	3,528	3,521
Adjusted EBITDA margin <sup>(2)</sup>	<b>10.2%</b>	7.6%	7.6%
<b>Depreciation and amortization</b>	<b>\$ 2,524</b>	\$ 1,497	\$ 1,454
Adjusted net interest expense and other financing charges <sup>(2)</sup>	<b>747</b>	387	374
Adjusted effective tax rate <sup>(2)</sup>	<b>26.6%</b>	26.8%	26.9%
<b>Net earnings</b>	<b>\$ 1,131</b>	\$ 800	\$ 1,541
Continuing Operations	<b>1,131</b>	753	1,310
Discontinued Operations	<b>—</b>	47	231
<b>Net earnings attributable to the shareholders of the Company from Continuing Operations</b>	<b>1,081</b>	719	1,286
<b>Net earnings available to common shareholders of the Company<sup>(i)</sup></b>	<b>1,069</b>	754	1,505
Continuing Operations	<b>1,069</b>	707	1,274
Discontinued Operations	<b>—</b>	47	231
Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup>	<b>\$ 1,516</b>	\$ 1,746	\$ 1,797
Continuing Operations	<b>1,516</b>	1,539	1,585
Discontinued Operations	<b>—</b>	207	212
<b>Basic net earnings per common share (\$)</b>	<b>\$ 2.93</b>	\$ 2.00	\$ 3.82
Continuing Operations	<b>\$ 2.93</b>	\$ 1.88	\$ 3.24
Discontinued Operations	<b>\$ —</b>	\$ 0.12	\$ 0.58
<b>Diluted net earnings per common share (\$)</b>	<b>\$ 2.90</b>	\$ 1.99	\$ 3.79
Continuing Operations	<b>\$ 2.90</b>	\$ 1.87	\$ 3.21
Discontinued Operations	<b>\$ —</b>	\$ 0.12	\$ 0.58
Adjusted diluted net earnings per common share <sup>(2)</sup> (\$)	<b>\$ 4.12</b>	\$ 4.60	\$ 4.52
Continuing Operations	<b>\$ 4.12</b>	\$ 4.06	\$ 3.99
Discontinued Operations	<b>\$ —</b>	\$ 0.54	\$ 0.53
Diluted weighted average common shares (in millions)	<b>368.4</b>	379.3	397.3
Dividends declared per common share (\$)	<b>\$ 1.240</b>	\$ 1.155	\$ 1.070
Dividends declared per Second Preferred Share, Series B (\$)	<b>\$ 1.325</b>	\$ 1.325	\$ 1.325
Total assets	<b>\$ 36,309</b>	\$ 30,153	\$ 35,147
Total long term debt	<b>\$ 7,098</b>	\$ 8,026	\$ 11,177
Lease liabilities	<b>9,110</b>	—	—
Trust Unit Liability <sup>(ii)</sup>	<b>—</b>	—	972
Long term financial liabilities	<b>\$ 16,208</b>	\$ 8,026	\$ 12,149

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

(ii) Related to Discontinued Operations.

**Revenue** Revenue was \$48,037 million in 2019, an increase of \$1,344 million compared to 2018. Food retail same-store sales growth was 1.1% (2018 – 1.1%). Drug retail same-store sales growth was 3.6% (2018 – 2.4%).

Revenue was \$46,693 million in 2018, an increase of \$106 million compared to 2017. Food retail same-store sales growth was 1.1% (2017 – 0.6%) and excluding gas bar operations was 1.1 % (2017 – 0.3%). Drug retail same-store sales growth was 2.4% (2017 – 3.0%).

The Company's Retail segment sales have continued to grow despite the pressure of a competitive retail market and an uncertain economic and regulatory environment over the last three years. In 2017, the food price inflation trend was deflationary until the third quarter of 2017 when deflation in food prices returned to inflation. Through 2018, the Company experienced food price inflation while drug retail prices were negatively impacted by the effects of incremental healthcare reform. Sales from 2017 to 2018 were also impacted by the disposition of gas bar operations in the third quarter of 2017. In 2019, food retail prices were inflationary. Drug retail prices were deflationary until the second quarter of 2019 when they returned to being inflationary. Retail segment sales over the past three years were also impacted by the consolidation of franchisees.

The Company's Financial Services segment sales have continued to grow, mainly driven by growth in the credit card portfolio and *The Mobile Shop*.

**Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations** Net earnings available to common shareholders of the Company from Continuing Operations and diluted net earnings per common share from Continuing Operations fluctuated over the past three years and were impacted by certain adjusting items set out in Section 17 "Non-GAAP Financial Measures," and the changes in the underlying operating performance of the Company. The fluctuations in net earnings available to common shareholders of the Company from Continuing Operations and diluted net earnings per common share from Continuing Operations were primarily due to:

- changes in underlying operating performance of the Retail segment, including positive same-store sales growth in both Food retail and Drug retail in 2019, 2018 and 2017;
- cost savings and operating efficiencies from Process and Efficiency initiatives and investments in and benefits from strategic initiatives;
- improvements in the performance of the Financial Services segment including the continued investments in strategic initiatives;
- the favourable impact of the repurchase of common shares for cancellation;
- the impact of certain adjusting items, including:
  - the gain on disposition of gas bar operations;
  - the charge related to Glenhuron;
  - asset impairments, net of recoveries;
  - the wind-down of PC Financial® banking services;
  - the remeasurement of deferred tax balances;
  - the impact of healthcare reform on inventory balances;
  - the Loblaw Card Program;
  - restructuring and other related costs;
  - the *PC Optimum* Program;
  - the gain or loss on sale of non-operating properties; and
  - certain prior period items.
- negative year-over-year impact from the disposition of gas bar operations; and
- negative impact from minimum wage increases and incremental healthcare reform.

The consolidation of franchises does not significantly impact net earnings available to common shareholders of the Company as the related earnings are largely attributable to non-controlling interests.

## Total Assets and Long Term Financial Liabilities

The Company's consolidated balance sheet as at December 29, 2018 reflects the spin-out of Choice Properties as of November 1, 2018. The consolidated balance sheet amounts for the comparative periods include Choice Properties.

In 2019, total assets of \$36,309 million increased by 20% compared to 2018. The increase was primarily driven by the increase in right-of-use assets due to the implementation of IFRS 16. Long term financial liabilities of \$16,208 million increased by 101.9% compared to 2018. This was primarily driven the increase in lease liabilities due to the implementation of IFRS 16.

In 2018, total assets of \$30,153 million decreased by 14% compared to 2017. The decrease was primarily driven by the decrease in fixed assets due to the spin-out of Choice Properties. Long term financial liabilities of \$8,026 million decreased by 34% compared to 2017 primarily driven by the spin-out of Choice Properties. The spin-out represented a decrease in total assets and liabilities of \$4.8 billion and \$4.5 billion, respectively compared to December 30, 2017.

## 6. Reportable Operating Segments Results of Operations

The Company has two reportable operating segments, with all material operations carried out in Canada:

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services. As a result of the wind-down of *PC Financial* personal banking services, the Financial Services segment no longer offers personal banking services.

### 6.1 Retail Segment

Unless otherwise indicated, the following financial information represents the Retail segment's results from Continuing Operations and includes the impacts of spin-out related depreciation, the implementation of IFRS 16 and the consolidation of franchises.

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (52 weeks)	2018 <sup>(4)</sup> (52 weeks)	\$ Change	% Change
Sales	\$ 47,099	\$ 45,836	\$ 1,263	2.8%
Operating income	2,082	1,717	365	21.3%
Adjusted gross profit <sup>(2)</sup>	13,999	13,497	502	3.7%
Adjusted gross profit % <sup>(2)</sup>	29.7%	29.4%		
Adjusted EBITDA <sup>(2)</sup>	\$ 4,700	\$ 3,332	\$ 1,368	41.1%
Adjusted EBITDA margin <sup>(2)</sup>	10.0%	7.3%		
Depreciation and amortization	\$ 2,502	\$ 1,487	\$ 1,015	68.3%

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (52 weeks)		2018 (52 weeks)	
	Sales	Same-store sales	Sales	Same-store sales
Food retail	\$ 33,756	1.1%	\$ 32,969	1.1%
Drug retail	13,343	3.6%	12,867	2.4%
Pharmacy	6,307	4.4%	6,030	1.2%
Front store	7,036	2.9%	6,837	3.5%

## Management's Discussion and Analysis

**Sales** Retail segment sales were \$47,099 million in 2019. When compared to the same period in 2018, this represented an increase of \$1,263 million, or 2.8%. After excluding the consolidation of franchises, Retail segment sales increased by \$976 million, or 2.2%. This was primarily driven by the following factors:

- Food retail same-store sales growth was 1.1% (2018 – 1.1%) for 2019.
  - Sales growth in food was moderate;
  - Sales in pharmacy was flat;
  - The Company's Food retail average article price was 2.5% (2018 – 0.7%), which reflects the price inflation on the specific mix of goods sold in the Company's stores. The average annual national food price inflation was 3.7% (2018 – inflation of 0.8%), as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores; and
  - Food retail basket size increased and traffic decreased in 2019.
- Drug retail same-store sales growth was 3.6% (2018 – 2.4%).
  - Pharmacy same-store sales growth was 4.4% (2018 – 1.2%). The number of prescriptions dispensed increased by 3.2% (2018 – 3.4%). On a same-store basis, the number of prescriptions dispensed increased by 3.1% (2018 – 3.3%) and the average prescription value increased by 0.7% (2018 – decreased by 2.3%).
  - Front store same-store sales growth was 2.9% (2018 – 3.5%).

In 2019, 15 food and drug stores were opened, and 6 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.4 million square feet, or 0.6%.

The redemption of Loblaw Cards resulted in the delivery of approximately \$5 million of free products to customers in 2019, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or the Company's financial performance and Management does not believe it had a significant impact on Food retail same-store sales.

**Operating Income** Operating income was \$2,082 million in 2019. When compared to the same period in 2018, this represented an increase of \$365 million. The increase included the favourable impact of IFRS 16 of approximately \$334 million and the total unfavourable impact of spin-out related depreciation of approximately \$91 million. When normalized for these impacts, operating income increased by \$122 million, or 7.1%. This was driven by improvements in underlying operating performance of \$97 million and the favourable change in adjusting items totaling \$25 million as described below:

- the improvements in underlying operating performance of \$97 million were driven by an increase in adjusted gross profit<sup>(2)</sup>, partially offset by an increase in SG&A and an increase in depreciation and amortization. The improvements in underlying operating performance included the favourable year-over-year contribution from consolidation of franchises of \$23 million;
- the favourable change in adjusting items totaling \$25 million which was primarily due to the following:
  - the favourable impact associated with prior period items of \$22 million;
  - the favourable change in fair value adjustment on investment properties of \$21 million;
  - the favourable impact of the prior year inventory provision related to healthcare reform of \$19 million;
  - the favourable impact of a net gain on sale of non-operating properties of \$12 million; and
  - the favourable impact of the prior year transaction and other related costs in connection with the spin-out of Choice Properties of \$8 million;partially offset by,
  - the year-over-year unfavourable impact of restructuring and other related costs of \$62 million.

**Adjusted Gross Profit<sup>(2)</sup>** Adjusted gross profit<sup>(2)</sup> was \$13,999 million in 2019. When compared to the same period in 2018, this represented an increase of \$502 million. Adjusted gross profit percentage<sup>(2)</sup> of 29.7% increased by 30 basis points compared to 2018. Adjusted gross profit percentage<sup>(2)</sup>, excluding the consolidation of franchises, of 27.6% decreased by 10 basis points compared to 2018. Margins were negatively impacted by Drug retail, while Food retail margins were stable.

**Adjusted EBITDA<sup>(2)</sup>** Adjusted EBITDA<sup>(2)</sup> was \$4,700 million in 2019. When compared to the same period in 2018, this represented an increase of \$1,368 million. The increase included the year-over-year favourable impact of IFRS 16 of approximately \$1,239 million and the favourable impact of the consolidation of franchises of \$43 million. When normalized for the impact of IFRS 16, adjusted EBITDA<sup>(2)</sup> increased by \$129 million, or 3.9%. This was driven by an increase in adjusted gross profit<sup>(2)</sup> described above, partially offset by an increase in SG&A of \$373 million. When normalized for the impact of IFRS 16 and the consolidation of franchises, SG&A increased \$133 million, and SG&A as a percentage of sales, was 20.4%, an improvement of 10 basis points compared to 2018. The improvement was primarily driven by Process and Efficiency initiatives, partially offset by strategic growth investments.

Adjusted EBITDA<sup>(2)</sup> included a net gain of \$7 million (2018 – gain of \$6 million) related to the sale and leaseback of properties to Choice Properties in 2019.

**Depreciation and Amortization** Depreciation and amortization was \$2,502 million in 2019. When compared to the same period of 2018, this represented an increase of \$1,015 million. The increase included the unfavourable impact of IFRS 16 of approximately \$905 million and the total unfavourable impact of spin-out related depreciation of approximately \$91 million. When normalized for these impacts, the increase in depreciation and amortization was \$19 million, or 1.3%. This was primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart of \$508 million (2018 – \$521 million).

### Other Retail Business Matters

**Consolidation of Franchises** The Company has more than 500 franchise food retail stores in its network. As at the end of the fourth quarter of 2019, 470 of these stores were consolidated for accounting purposes under a simplified franchise agreement (“Franchise Agreement”) implemented in 2015.

The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars unless where otherwise indicated)	2019 (12 weeks)	2018 (12 weeks)	2019 (52 weeks)	2018 (52 weeks)
Number of consolidated franchise stores, beginning of period	444	379	400	310
Add: Net number of consolidated franchise stores in the period	26	21	70	90
Number of consolidated franchise stores, end of period	470	400	470	400
Sales	\$ 315	\$ 264	\$ 1,335	\$ 1,048
Adjusted gross profit <sup>(2)</sup>	331	285	1,353	1,071
Adjusted EBITDA <sup>(2)</sup>	28	35	135	92
Depreciation and amortization	21	15	79	59
Operating income	7	20	56	33
Net income attributable to non-controlling interests	9	19	50	34

Operating income that is included in the table above does not significantly impact net earnings available to common shareholders of the Company as the related income is largely attributable to non-controlling interests.

The Company will convert franchises to the Franchise Agreement as existing agreements expire. At the end of the first quarter of 2020, the Company plans to consolidate all of the remaining franchisees. The Company expects that the estimated annual impact in 2020 of total consolidated franchises will be revenue of approximately \$1,680 million, adjusted EBITDA<sup>(2)</sup> of approximately \$210 million, depreciation and amortization of approximately \$105 million and net earnings attributable to non-controlling interests of approximately \$65 million.

**6.2 Financial Services Segment**

For the years ended December 28, 2019 and December 29, 2018  
(millions of Canadian dollars except where otherwise indicated)

	2019 (52 weeks)	2018 (52 weeks)	\$ Change	% Change
Revenue	\$ 1,196	\$ 1,082	\$ 114	10.5 %
Earnings before income taxes	107	137	(30)	(21.9)%

(millions of Canadian dollars except where otherwise indicated)

	As at December 28, 2019	As at December 29, 2018 <sup>(4)</sup>	\$ Change	% Change
Average quarterly net credit card receivables	\$ 3,298	\$ 3,040	\$ 258	8.5%
Credit card receivables	3,624	3,309	315	9.5%
Allowance for credit card receivables	196	167	29	17.4%
Annualized yield on average quarterly gross credit card receivables	13.5%	13.2%		
Annualized credit loss rate on average quarterly gross credit card receivables	3.4%	3.2%		

**Revenue** Revenue was \$1,196 million in 2019. When compared to the same period in 2018, this represented an increase of \$114 million. The increase was primarily driven by:

- higher interest attributable to the growth in the credit card portfolio;
- higher sales attributable to *The Mobile Shop*; and
- higher interchange income, partially offset by the impact of a reclassification between revenue and expense of approximately \$19 million with no impact to earnings before income taxes;

partially offset by,

- lower core banking income attributable to President's Choice Bank's ("PC Bank") agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand. Normal operating income from the same personal banking services ended in April 2018.

**Earnings before income taxes** Earnings before income taxes were \$107 million in 2019. When compared to the same period in 2018, this represented a decrease of \$30 million, primarily driven by:

- an increase in loyalty program costs driven by the growth in the credit card portfolio;
- higher interest expense and credit losses driven by the growth in the credit card portfolio;
- prior year recognition of income of \$20 million, net of certain costs incurred, relating to PC Bank's agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand; and
- higher operating costs including investments in digital strategy;

partially offset by,

- revenue growth, as described above; and
- lower customer acquisition costs.

**Credit Card Receivables** As at December 28, 2019, credit card receivables were \$3,624 million. When compared to December 29, 2018, this represented an increase of \$315 million. This increase was primarily driven by growth in the average customer balance and active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. For the same reasons, the allowance for credit card receivables increased to \$196 million, an increase of \$29 million compared to December 29, 2018.

**Other Financial Services Business Matters**

**Wind-down of PC Financial personal banking services** In the third quarter of 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

## 7. Liquidity and Capital Resources

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

### 7.1 Cash Flows

The following Major Cash Flow Components are presented on a Total Company basis, inclusive of Continuing and Discontinued Operations.

#### Major Cash Flow Components

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars)	2019 (52 weeks)	2018 (52 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 1,065	\$ 1,798	\$ (733)	(40.8)%
Cash flows from (used in):				
Operating activities	\$ 3,960	\$ 2,501	\$ 1,459	58.3 %
Investing activities	(289)	(3,296)	3,007	91.2 %
Financing activities	(3,606)	68	(3,674)	(5,402.9)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	3	(6)	9	150.0 %
Change in cash and cash equivalents	\$ 68	\$ (733)	\$ 801	109.3 %
Cash and cash equivalents, end of period	\$ 1,133	\$ 1,065	\$ 68	6.4 %

**Cash Flows from Operating Activities** Cash flows from operating activities were \$3,960 million in 2019, an increase of \$1,459 million compared to 2018. The increase in cash flows from operating activities included a favourable impact attributable to the implementation of IFRS 16 with an offsetting impact in cash flows used in financing activities. Normalized for the impact of IFRS 16, the increase in cash flows from operating activities was primarily due to a favourable change in non-cash working capital and provisions, partially offset by lower cash earnings and an increase in income taxes paid.

**Cash Flows used in Investing Activities** Cash flows used in investing activities were \$289 million in 2019, a decrease of \$3,007 million compared to 2018. The decrease in cash flows used in investing activities was primarily due to prior years' cash used in the acquisition of Canadian Real Estate Investment Trust ("CREIT") and the repayment of the Company's debentures, which were classified as security deposits, partially offset by an unfavourable change in short term investments.

**Capital Investments and Store Activity**

As at or for the years ended December 28, 2019 and December 29, 2018	<b>2019</b> (52 weeks)	2018 (52 weeks)	% Change
Capital investments from Continuing Operations (millions of Canadian dollars)	<b>\$ 1,206</b>	\$ 1,070	12.7 %
Corporate square footage (in millions)	<b>35.6</b>	35.6	— %
Franchise square footage (in millions)	<b>16.5</b>	16.3	1.2 %
Associate-owned drug store square footage (in millions)	<b>18.7</b>	18.5	1.1 %
Total retail square footage (in millions)	<b>70.8</b>	70.4	0.6 %
Number of corporate stores	<b>548</b>	550	(0.4)%
Number of franchise stores	<b>540</b>	535	0.9 %
Number of Associate-owned drug stores	<b>1,343</b>	1,337	0.4 %
Total number of stores	<b>2,431</b>	2,422	0.4 %
Percentage of corporate real estate owned	<b>8%</b>	9%	
Percentage of franchise real estate owned	<b>4%</b>	5%	
Percentage of Associate-owned drug store real estate owned	<b>1%</b>	1%	
Average store size (square feet)			
Corporate	<b>65,000</b>	64,700	0.5 %
Franchise	<b>30,600</b>	30,500	0.3 %
Associate-owned drug store	<b>13,900</b>	13,800	0.7 %

**Cash Flows (used in) from Financing Activities** Cash flows used in financing activities were \$3,606 million in 2019, an increase of \$3,674 million compared to 2018. Normalized for the impact of IFRS 16, the increase in cash flows used in financing activities was due to prior year's higher net issuance of long term and short term debts, partially offset by current year's lower interest paid and lower repurchases of common shares.

The Company's significant long term debt transactions are set out in Section "7.3 Components of Total Debt".

**Free Cash Flow<sup>(2)</sup>** The definition of free cash flow<sup>(2)</sup> was changed in the first quarter of 2019 to normalize for the impact of the implementation of IFRS 16. Lease payments were deducted from the calculation, which resulted in no IFRS 16 impact on the metric.

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	<b>2019</b> (52 weeks)	2018 (52 weeks)	\$ Change	% Change
Cash flows from operating activities	<b>\$ 3,960</b>	\$ 2,501	\$ 1,459	58.3 %
Less: Cash flows from operating activities from Discontinued Operations <sup>(i)</sup>	<b>—</b>	252	(252)	(100.0)%
Cash flows from operating activities from Continuing Operations <sup>(i)</sup>	<b>\$ 3,960</b>	\$ 2,249	\$ 1,711	76.1 %
Less:				
Capital investments	<b>1,206</b>	1,070	136	12.7 %
Interest paid	<b>349</b>	509	(160)	(31.4)%
Lease payments, net <sup>(ii)</sup>	<b>1,195</b>	—	1,195	100.0 %
Free cash flow <sup>(2)</sup> from Continuing Operations	<b>\$ 1,210</b>	\$ 670	\$ 540	80.6 %

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

(ii) Includes cash rent paid on lease liabilities, net of lease payments received from finance leases. This adjustment normalizes for the impact of the implementation of IFRS 16.

Free cash flow<sup>(2)</sup> from Continuing Operations was \$1,210 million in 2019, an increase of \$540 million compared to 2018. The increase in free cash flow<sup>(2)</sup> was primarily due to a favourable change in non-cash working capital and provisions, higher cash earnings from Continuing Operations and lower interest paid driven primarily by prior year's payment made for Glenhuron, partially offset by higher capital investments and higher income taxes paid.

## 7.2 Liquidity and Capital Structure

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements and financial obligations.

PC Bank expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*<sup>®</sup> (“Eagle”) notes and Guaranteed Investment Certificates (“GICs”).

The Company manages its capital structure on a segmented basis to ensure that each of the reportable operating segments is employing a capital structure that is appropriate for the industry in which it operates. The following table presents total debt from Continuing Operations, as monitored by management, by reportable operating segment:

(millions of Canadian dollars)	As at December 28, 2019			As at December 29, 2018		
	Retail	Financial Services	Total	Retail	Financial Services	Total
Bank indebtedness	\$ 18	\$ —	\$ 18	\$ 56	\$ —	\$ 56
Short term debt	—	725	725	—	915	915
Long term debt due within one year	350	777	1,127	1,373	274	1,647
Long term debt <sup>(i)</sup>	4,437	1,534	5,971	4,762	1,617	6,379
Certain other liabilities	65	—	65	48	—	48
Total debt excluding lease liabilities	\$ 4,870	\$ 3,036	\$ 7,906	\$ 6,239	\$ 2,806	\$ 9,045
Lease liabilities due within one year	1,419	—	1,419	—	—	—
Lease liabilities	7,691	—	7,691	—	—	—
Total debt including total lease liabilities	\$ 13,980	\$ 3,036	\$ 17,016	\$ 6,239	\$ 2,806	\$ 9,045

(i) Finance lease obligation of \$535 million was included in long term debt as at December 29, 2018 prior to the implementation of IFRS 16.

**Retail** The Company manages its capital structure with the objective of maintaining Retail segment credit metrics consistent with those of investment grade retailers. The Company monitors the Retail segment’s debt to retail adjusted EBITDA<sup>(2)</sup> ratio as a measure of the leverage being employed.

	As at December 28, 2019 <sup>(i)</sup>	As at December 29, 2018
Retail debt to retail adjusted EBITDA <sup>(2)</sup>	3.0x	1.9x

(i) Includes the annualized impact of IFRS 16. Retail adjusted EBITDA<sup>(2)</sup> is expected to be approximately \$1.2 billion higher on an annualized basis due to the change in presentation of the Company’s rent expense.

The Retail debt to retail adjusted EBITDA<sup>(2)</sup> ratio as at December 28, 2019 increased compared to December 29, 2018 primarily due to an increase in Retail debt driven by the increase in lease liabilities as a result of the implementation of IFRS 16. This increase was partially offset by the improvement in adjusted EBITDA<sup>(2)</sup> also as a result of the implementation of IFRS 16.

**President’s Choice Bank** PC Bank’s capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory requirements as defined by the Office of the Superintendent of Financial Institutions (“OSFI”).

**Covenants and Regulatory Requirements** The Company is required to comply with certain financial covenants for various debt instruments. As at December 28, 2019 and throughout the year, the Company was in compliance with such covenants. As at December 28, 2019 and throughout the year, PC Bank has met all applicable regulatory requirements.

**Short Form Base Shelf Prospectus Filings** During 2019, the Company filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$2 billion of unsecured debentures and/or preferred shares over a 25-month period.

During 2019, Eagle filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$1.25 billion of notes over a 25-month period.

### 7.3 Components of Total Debt

**Debentures** The following table summarizes the debentures issued in 2018. There were no debentures issued in 2019.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Loblaw Companies Limited Notes	3.92%	June 10, 2024	\$ 400
Loblaw Companies Limited Notes	4.49%	December 11, 2028	400
<b>Total debentures issued</b>			<b>\$ 800</b>

The following table summarizes the debentures and term loans repaid in 2019 and 2018 in Continuing Operations:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2019	Principal Amount 2018
Shoppers Drug Mart Notes	2.36%	May 24, 2018	\$ —	\$ 275
Loblaw Companies Limited Notes <sup>(i)</sup>	3.75%	March 12, 2019	<b>800</b>	—
Loblaw Companies Limited Term Loan <sup>(ii)</sup>	Variable	March 28, 2019	—	48
Loblaw Companies Limited Term Loan <sup>(iii)</sup>	Variable	March 29, 2019	—	250
<b>Total debentures and term loans repaid</b>			<b>\$ 800</b>	<b>\$ 573</b>

- (i) The Company recorded an early repayment premium charge of \$3 million in net interest expense and other financing charges when the Company redeemed, at par, the \$800 million debenture with an original maturity date of March 12, 2019 on December 31, 2018.
- (ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.
- (iii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.

**Committed Credit Facility** The Company has a \$1.0 billion committed credit facility with a maturity date of June 10, 2021. This committed credit facility contains certain financial covenants. As at December 28, 2019 and December 29, 2018, there were no amounts drawn under this facility.

**Independent Securitization Trusts** The Company, through PC Bank, participates in various securitization programs that provide a source of funds for the operation of its credit card business. PC Bank maintains and monitors a co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The following table summarizes the amounts securitized to independent securitization trusts:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> <sup>®</sup>	\$ 1,000	\$ 750
Securitized to other independent securitization trusts	725	915
<b>Total securitized to independent securitization trusts</b>	<b>\$ 1,725</b>	<b>\$ 1,665</b>

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 28, 2019 and throughout 2019.

During 2019, *Eagle* issued \$250 million (2018 – \$250 million) of senior and subordinated term notes with a maturity date of July 17, 2024 (2018 – July 17, 2023) at a weighted average interest rate of 2.28% (2018 – 3.10%). In connection with this issuance, \$250 million (2018 – \$250 million) of bond forward agreements were settled, resulting in a realized fair value loss of \$8 million (2018 – loss of \$1 million) before income taxes recorded in other comprehensive income and a net effective interest rate of 2.94% (2018 – 3.15%) on the *Eagle* notes issued (see note 30).

During 2018, \$400 million of 2.91% senior and subordinated term notes issued by *Eagle* matured and were repaid.

**Independent Funding Trusts** As at December 28, 2019, the independent funding trust had drawn \$505 million (December 29, 2018 – \$536 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at December 28, 2019, the Company provided a credit enhancement of \$64 million (December 29, 2018 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (2018 – 10%) of the principal amount of loans outstanding.

During 2019, the Company renewed the revolving committed credit facility relating to the independent funding trusts until May 27, 2022.

**Guaranteed Investment Certificates** The following table summarizes PC Bank's GICs activity, before commissions, in 2019 and 2018:

(millions of Canadian dollars)	2019	2018
Balance, beginning of year	\$ 1,141	\$ 852
GICs issued	453	495
GICs matured	(283)	(206)
Balance, end of year	\$ 1,311	\$ 1,141

As at December 28, 2019, \$527 million in GICs were recorded as long term debt due within one year (December 29, 2018 – \$274 million).

**Associate Guarantees** The Company has arranged for its Shoppers Drug Mart Licensees ("Associates") to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at December 28, 2019, the Company's maximum obligation in respect of such guarantees was \$580 million (December 29, 2018 – \$580 million) with an aggregate amount of \$468 million (December 29, 2018 – \$466 million) in available lines of credit allocated to the Associates by the various banks. As at December 28, 2019, Associates had drawn an aggregate amount of \$18 million (December 29, 2018 – \$56 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

## 7.4 Financial Condition

### Adjusted Return on Equity<sup>(2)</sup> and Adjusted Return on Capital<sup>(2)</sup>

	As at December 28, 2019 <sup>(i)</sup>	As at December 29, 2018
Adjusted return on equity <sup>(2)</sup>	13.7%	12.6%
Adjusted return on capital <sup>(2)(ii)</sup>	7.8%	9.8%

(i) Opening equity and opening capital include the implementation impacts of IFRS 16 when calculating the average of equity and average of capital, respectively.

(ii) Includes the annual impact of IFRS 16. Tax-effected adjusted operating income<sup>(2)</sup> was approximately \$0.2 billion higher in 2019 due to the change in presentation of the Company's rent expense.

Adjusted return on equity<sup>(2)</sup> as at December 28, 2019 increased compared to December 29, 2018 primarily due to the decrease in retained earnings as a result of the implementation of IFRS 16 and common share repurchases.

Adjusted return on capital<sup>(2)</sup> as at December 28, 2019 decreased compared to December 29, 2018 primarily due to an increase in total debt driven by the increase in lease liabilities as a result of the implementation of IFRS 16. The increase in debt was partially offset by the improvement in tax-effected adjusted operating income<sup>(2)</sup> also as a result of IFRS 16.

## 7.5 Credit Ratings

The following table sets out the current credit ratings of the Company:

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service		Standard & Poor's	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Positive	BBB	Stable
Medium term notes	BBB	Positive	BBB	n/a
Other notes and debentures	BBB	Positive	BBB	n/a
Second Preferred Shares, Series B	Pfd-3	Positive	P-3 (high)	n/a

In 2019, Standard & Poor's reaffirmed the credit ratings and outlook of the Company and Dominion Bond Rating Service reaffirmed the credit ratings of the Company and changed the trend from Stable to Positive.

## 7.6 Share Capital

**First Preferred Shares (authorized – 1.0 million shares)** There were no First Preferred Shares outstanding as at December 28, 2019 and December 29, 2018.

**Second Preferred Share Capital (authorized – unlimited)** The Company has outstanding 9.0 million 5.30% non-voting Second Preferred Shares, Series B, with a face value of \$225 million, which were issued for net proceeds of \$221 million. These preferred shares are presented as a component of equity on the consolidated balance sheets.

**Common Shares (authorized – unlimited)** Common shares issued are fully paid and have no par value. The activity in the common shares issued and outstanding during the years was as follows:

	2019		2018	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
(millions of Canadian dollars except where otherwise indicated)				
Issued and outstanding, beginning of year	371,790,967	\$ 7,177	386,293,941	\$ 7,460
Issued for settlement of stock options	1,886,733	94	2,081,235	98
Purchased and cancelled <sup>(i)</sup>	(13,613,225)	(206)	(16,584,209)	(381)
Issued and outstanding, end of year	360,064,475	\$ 7,065	371,790,967	\$ 7,177
Shares held in trust, beginning of year	(734,727)	\$ (15)	(780,938)	\$ (15)
Purchased for future settlement of RSUs and PSUs	(900,000)	(16)	(582,500)	(12)
Released for settlement of RSUs and PSUs	521,425	10	628,711	12
Shares held in trust, end of year	(1,113,302)	\$ (21)	(734,727)	\$ (15)
Issued and outstanding, net of shares held in trust, end of year	358,951,173	\$ 7,044	371,056,240	\$ 7,162
Weighted average outstanding, net of shares held in trust	365,360,161		376,747,429	

(i) Common shares purchased and cancelled in 2018 do not include the repurchase obligation under the automatic share purchase plan, which were transacted and settled in the first quarter of 2019.

**Dividends** The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Company's Board of Directors ("Board"), which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarters of 2019 and 2018, the Board raised the quarterly dividend by \$0.02 to \$0.315 and by \$0.025 to \$0.295 per common share, respectively.

The following table summarizes the Company's cash dividends declared for the years as indicated:

	2019 <sup>(i)</sup>	2018
<b>Dividends declared per share (\$)</b>		
Common Share	\$ 1.240	\$ 1.155
Second Preferred Share, Series B	\$ 1.325	\$ 1.325

(i) The fourth quarter dividends for 2019 of \$0.315 per share declared on common shares were payable and paid on December 30, 2019. The fourth quarter dividends for 2019 of \$0.33125 per share declared on Second Preferred Shares, Series B were payable and paid on December 31, 2019.

(millions of Canadian dollars)	2019	2018
<b>Dividends declared</b>		
Common Share	\$ 453	\$ 433
Second Preferred Share, Series B	12	12
<b>Total dividends declared</b>	<b>\$ 465</b>	<b>\$ 445</b>

Subsequent to the end of the year, the Board declared a quarterly dividend of \$0.315 per common share payable on April 1, 2020 to shareholders of record on March 15, 2020, and a quarterly dividend of \$0.33125 per share on the Second Preferred Shares, Series B payable on March 31, 2020 to shareholders of record on March 15, 2020.

**Normal Course Issuer Bid** Activity under the Company's Normal Course Issuer Bid ("NCIB") during the years was as follows:

(millions of Canadian dollars except where otherwise indicated)	2019	2018
Common shares repurchased under the NCIB for cancellation (number of shares)	13,613,225	16,584,209
Cash consideration paid <sup>(i)</sup>	\$ 937	\$ 1,082
Premium charged to retained earnings	546	886
Reduction in common share capital	206	381
Common shares repurchased under the NCIB and held in trust (number of shares)	900,000	582,500
Cash consideration paid	\$ 62	\$ 36
Premium charged to retained earnings	46	24
Reduction in common share capital	16	12

(i) In 2019, cash consideration paid includes \$185 million paid for common shares related to the automatic share purchase plan as described below.

In addition, during 2019, the Company repurchased and distributed 5,857 (2018 – 18,405) common shares under its NCIB to certain directors for settlement of their Director Deferred Share Unit plans.

In the first quarter of 2019, the Company completed an automatic share purchase plan ("ASPP") that was initiated in the fourth quarter of 2018 to facilitate the repurchase of the Company's common shares under its NCIB. Under the ASPP, the Company's broker purchased 2,927,733 common shares for approximately \$185 million. The Company recognized the obligation to repurchase the shares in trade payable and other liabilities as at December 29, 2018.

In the second quarter of 2019, the Company renewed its NCIB to purchase on the Toronto Stock Exchange (the "TSX") or through alternative trading systems up to 18,455,884 of the Company's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of December 28, 2019, the Company had purchased 10,817,468 common shares under its current NCIB.

## 7.7 Off-Balance Sheet Arrangements

The following is a summary of the Company's off-balance sheet arrangements. Certain significant arrangements have also been discussed in Section 7.3 "Components of Total Debt".

**Letters of Credit** Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, securitization of PC Bank's credit card receivables and third party financing made available to the Company's franchisees. The gross potential liability related to the Company's letters of credit is approximately \$510 million as at December 28, 2019 (December 29, 2018 – \$527 million).

**Guarantees** In addition to the letters of credit mentioned above, the Company has entered into various guarantee arrangements including obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of business.

The Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at December 28, 2019, the guarantee on behalf of PC Bank to MasterCard® was USD \$190 million (December 29, 2018 – USD \$190 million).

**Glenhuron Bank Limited Surety Bond** In connection with the Canada Revenue Agency's reassessment of the Company on certain income earned by Glenhuron, the Company arranged for a surety bond to the Ministry of Finance in order to appeal the reassessments. As a result of the decision of the Tax Court and incremental payments, the amount of the surety bond is \$49 million (December 29, 2018 – \$46 million).

**Cash Collateralization** As at December 28, 2019, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of \$103 million (December 29, 2018 – \$103 million), of which \$1 million (December 29, 2018 – \$2 million) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

## 7.8 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 28, 2019:

### Summary of Contractual Obligations

(millions of Canadian dollars)	Payments due by year						Total
	2020	2021	2022	2023	2024	Thereafter	
Total debt (including interest payments <sup>(i)</sup> )	\$ 2,150	\$ 817	\$ 1,149	\$ 1,382	\$ 933	\$ 4,268	\$ 10,699
Foreign Exchange Forward Contracts	466	—	—	—	—	—	466
Lease Payments	1,437	1,272	1,108	1,118	975	4,234	10,144
Contracts for purchases of investment projects <sup>(ii)</sup>	120	8	—	—	—	—	128
Purchase obligations <sup>(iii)</sup>	283	270	86	21	—	7	667
<b>Total contractual obligations</b>	<b>\$ 4,456</b>	<b>\$ 2,367</b>	<b>\$ 2,343</b>	<b>\$ 2,521</b>	<b>\$ 1,908</b>	<b>\$ 8,509</b>	<b>\$ 22,104</b>

(i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities. Variable interest payments are based on the forward rates as of December 28, 2019.

(ii) These obligations include agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.

(iii) These obligations include contractual obligations to purchase goods or services of a material amount where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. These purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods which are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

At year end, the Company had additional long term liabilities which included post-employment and other long term employee benefit plan liabilities, deferred vendor allowances, deferred income tax liabilities and provisions, including insurance liabilities. These long term liabilities have not been included above as the timing and amount of future payments are uncertain.

## 8. Financial Derivative Instruments

The Company uses derivative instruments to offset certain of its financial risks. The Company uses bond forwards and interest rate swaps, to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations.

The following is a summary of the fair values recognized in the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's financial derivative instruments designated as cash flow hedges:

	December 28, 2019 (52 weeks)			December 29, 2018 (52 weeks)		
	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
(millions of Canadian dollars)						
<b>Derivatives designated as cash flow hedges</b>						
Foreign Exchange Forwards <sup>(i)</sup>	\$ —	\$ (1)	\$ 1	\$ 1	\$ 2	\$ —
Bond Forwards <sup>(ii)</sup>	—	(6)	—	(4)	(5)	1
Interest Rate Swaps <sup>(iii)</sup>	(1)	—	(1)	(1)	(1)	—
<b>Total derivatives designated as cash flow hedges</b>	<b>\$ (1)</b>	<b>\$ (7)</b>	<b>\$ —</b>	<b>\$ (4)</b>	<b>\$ (4)</b>	<b>\$ 1</b>

(i) PC Bank uses foreign exchange forwards, with a notional value of \$5 million USD, to manage its foreign exchange currency risk related to certain U.S. payables. The fair value of the derivatives is included in prepaid expenses and other assets.

(ii) PC Bank uses bond forwards, with a notional value of \$50 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

(iii) PC Bank uses interest rate swaps, with a notional value of \$300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

The following is a summary of the fair values recognized in the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's financial derivative instruments not designated in a formal hedging relationship:

	December 28, 2019 (52 weeks)			December 29, 2018 (52 weeks)		
	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
(millions of Canadian dollars)						
<b>Derivatives not designated in a formal hedging relationship</b>						
Foreign Exchange Forwards	\$ (5)	\$ —	\$ (16)	\$ 11	\$ —	\$ 21
Other Non-Financial Derivatives	5	—	12	(11)	—	(20)
<b>Total derivatives not designated in a formal hedging relationship</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (4)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>

## 9. Quarterly Results of Operations

### 9.1. Results by Quarter

The Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks due to an accounting convention common in the retail industry. Fiscal years 2019 and 2018 were 52 weeks. The next 53 week year will occur in 2020. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters:

The Company's interest in Choice Properties is presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information reflects the Company's results from Continuing Operations and includes the impacts of spin-out related depreciation, the implementation of IFRS 16 and the consolidation of franchises.

### Summary of Consolidated Quarterly Results

(millions of Canadian dollars except where otherwise indicated)	2019					2018 <sup>(4)</sup>				
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited) (52 weeks)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited) (52 weeks)
<b>Revenue</b>	\$ 10,659	\$ 11,133	\$ 14,655	\$ 11,590	\$ 48,037	\$ 10,335	\$ 10,821	\$ 14,319	\$ 11,218	\$ 46,693
<b>Adjusted EBITDA<sup>(2)</sup></b>	1,040	1,175	1,492	1,205	4,912	733	840	1,060	895	3,528
<b>Net earnings available to common shareholders of the Company</b>	198	286	331	254	1,069	377	50	106	221	754
Continuing Operations	198	286	331	254	1,069	212	293	(26)	228	707
Discontinued Operations	—	—	—	—	—	165	(243)	132	(7)	47
<b>Adjusted net earnings available to common shareholders of the Company<sup>(2)</sup></b>	\$ 290	\$ 373	\$ 458	\$ 395	\$ 1,516	\$ 361	\$ 421	\$ 562	\$ 402	\$ 1,746
Continuing Operations	290	373	458	395	1,516	312	373	466	388	1,539
Discontinued Operations	—	—	—	—	—	49	48	96	14	207
<b>Net earnings per common share:</b>										
<b>Basic (\$)</b>	\$ 0.54	\$ 0.78	\$ 0.91	\$ 0.70	\$ 2.93	\$ 0.99	\$ 0.13	\$ 0.28	\$ 0.59	\$ 2.00
Continuing Operations	\$ 0.54	\$ 0.78	\$ 0.91	\$ 0.70	\$ 2.93	\$ 0.55	\$ 0.77	\$ (0.07)	\$ 0.61	\$ 1.88
Discontinued Operations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.44	\$ (0.64)	\$ 0.35	\$ (0.02)	\$ 0.12
<b>Diluted (\$)</b>	\$ 0.53	\$ 0.77	\$ 0.90	\$ 0.70	\$ 2.90	\$ 0.98	\$ 0.13	\$ 0.28	\$ 0.59	\$ 1.99
Continuing Operations	\$ 0.53	\$ 0.77	\$ 0.90	\$ 0.70	\$ 2.90	\$ 0.55	\$ 0.77	\$ (0.07)	\$ 0.61	\$ 1.87
Discontinued Operations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.43	\$ (0.64)	\$ 0.35	\$ (0.02)	\$ 0.12
<b>Adjusted diluted net earnings per common share<sup>(2)</sup> (\$)</b>	\$ 0.78	\$ 1.01	\$ 1.25	\$ 1.09	\$ 4.12	\$ 0.94	\$ 1.11	\$ 1.49	\$ 1.07	\$ 4.60
Continuing Operations	\$ 0.78	\$ 1.01	\$ 1.25	\$ 1.09	\$ 4.12	\$ 0.81	\$ 0.98	\$ 1.24	\$ 1.03	\$ 4.06
Discontinued Operations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.13	\$ 0.13	\$ 0.25	\$ 0.04	\$ 0.54
Average national food price inflation (as measured by CPI)	3.3%	3.6%	4.1%	3.7%	3.7%	1.2%	0.1%	0.3%	1.7%	0.8%
Food retail same-store sales growth	2.0%	0.6%	0.1%	1.9%	1.1%	1.9%	0.8%	0.9%	0.8%	1.1%
Drug retail same-store sales growth	2.2%	4.0%	4.1%	3.9%	3.6%	3.7%	1.7%	2.5%	1.9%	2.4%

**Revenue** Revenue for the last eight quarters was impacted by various factors including the following:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices;
- consolidation of franchises; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.5 million square feet to 70.8 million square feet.

**Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations** Net earnings available to common shareholders of the Company from continuing operations and diluted net earnings per common share from continuing operations for the last eight quarters were impacted by the following items:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- minimum wage increases and incremental healthcare reform;
- cost savings and operating efficiencies from Process and Efficiency initiatives and benefits from strategic initiatives;
- changes in the underlying operating performance of the Company;
- the favourable impact of the repurchase of common shares for cancellation; and
- the impact of certain adjusting items, as set out in Section 17 “Non-GAAP Financial Measures”, including:
  - the charge related to Glenhuron;
  - the Loblaw Card Program;
  - restructuring and other related charges;
  - the wind-down of *PC Financial* personal banking services;
  - the impact of healthcare reform on inventory balances;
  - the remeasurement of deferred tax balances;
  - asset impairments, net of recoveries;
  - the gain or loss on sale of non-operating properties; and
  - certain prior period items.

The consolidation of franchises does not significantly impact net earnings available to common shareholders of the Company as the related earnings are largely attributable to non-controlling interests.

## 9.2 Fourth Quarter Results

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information reflects the Company's results from Continuing Operations and includes the impacts of spin-out related depreciation, the implementation of IFRS 16 and the consolidation of franchises.

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2019:

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	<b>2019</b> <b>(12 weeks)</b>	2018 (12 weeks)	\$ Change	% Change
<b>Revenue</b>	<b>\$ 11,590</b>	\$ 11,218	\$ 372	3.3 %
<b>Operating income</b>	<b>541</b>	445	96	21.6 %
Adjusted EBITDA <sup>(2)</sup>	<b>1,205</b>	895	310	34.6 %
Adjusted EBITDA margin <sup>(2)</sup>	<b>10.4%</b>	8.0%		
<b>Depreciation and amortization</b>	<b>\$ 589</b>	\$ 356	\$ 233	65.4 %
<b>Net interest expense and other financing charges</b>	<b>176</b>	95	81	85.3 %
Adjusted net interest expense and other financing charges <sup>(2)</sup>	<b>176</b>	94	82	87.2 %
<b>Income taxes</b>	<b>99</b>	100	(1)	(1.0)%
Adjusted income taxes <sup>(2)</sup>	<b>149</b>	155	(6)	(3.9)%
Adjusted effective tax rate <sup>(2)</sup>	<b>26.8%</b>	27.4%		
<b>Net earnings attributable to shareholders of the Company from Continuing Operations</b>	<b>\$ 257</b>	\$ 231	\$ 26	11.3 %
<b>Net earnings (loss) available to common shareholders of the Company</b>	<b>254</b>	221	33	14.9 %
Continuing Operations	<b>254</b>	228	26	11.4 %
Discontinued Operations	<b>—</b>	(7)	7	100.0 %
Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup>	<b>\$ 395</b>	\$ 402	\$ (7)	(1.7)%
Continuing Operations	<b>395</b>	388	7	1.8 %
Discontinued Operations	<b>—</b>	14	(14)	(100.0)%
<b>Diluted net earnings (loss) per common share (\$)</b>	<b>\$ 0.70</b>	\$ 0.59	\$ 0.11	18.6 %
Continuing Operations	<b>\$ 0.70</b>	\$ 0.61	\$ 0.09	14.8 %
Discontinued Operations	<b>\$ —</b>	\$ (0.02)	\$ 0.02	100.0 %
Adjusted diluted net earnings per common share <sup>(2)</sup> (\$)	<b>\$ 1.09</b>	\$ 1.07	\$ 0.02	1.9 %
Continuing Operations	<b>\$ 1.09</b>	\$ 1.03	\$ 0.06	5.8 %
Discontinued Operations	<b>\$ —</b>	\$ 0.04	\$ (0.04)	(100.0)%
Diluted weighted average common shares outstanding (in millions)	<b>363.7</b>	376.1		
Cash flows from (used in) <sup>(i)</sup> :				
Operating activities	<b>\$ 988</b>	\$ 314	\$ 674	214.6 %
Investing activities	<b>(338)</b>	(796)	458	(57.5)%
Financing activities	<b>(462)</b>	237	(699)	(294.9)%
Dividends declared per common share (\$)	<b>\$ 0.32</b>	\$ 0.30	\$ 0.02	6.7 %
Dividends declared per Second Preferred Share, Series B (\$)	<b>\$ 0.33125</b>	\$ 0.33125		

(i) Includes amounts from Continuing and Discontinued Operations.

**Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations**

Net earnings available to common shareholders of the Company from Continuing Operations in the fourth quarter of 2019 were \$254 million (\$0.70 per common share). When compared to the fourth quarter of 2018, this represented an increase of \$26 million (\$0.09 per common share). The increase included the unfavourable impact of spin-out related depreciation of approximately \$12 million (\$0.03 per common share) and the unfavourable impact of the implementation of IFRS 16 of approximately \$3 million (\$0.01 per common share). When normalized for these impacts, net earnings available to common shareholders of the Company from Continuing Operations increased by \$41 million (\$0.13 per common share). The increase included an improvement in underlying operating performance of \$22 million and the favourable change in adjusting items totaling \$19 million, as described below:

- the improvement in underlying operating performance of \$22 million (\$0.06 per common share) was primarily due to the following:
  - the Financial Services segment, driven by revenue growth, lower operating costs and lower customer acquisitions costs. This was partially offset by higher credit losses and an associated increase to the forward-looking allowance for credit card receivables.
- the favourable change in adjusting items totaling \$19 million (\$0.03 per common share) primarily due to the following:
  - the favourable change in fair value adjustment on investment properties of \$13 million (\$0.03 per common share);
  - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$10 million (\$0.03 per common share);
  - the favourable impact of a net gain on sale of non-operating properties of \$7 million (\$0.02 per common share); and
  - the favourable impact associated with a prior period item of \$5 million (\$0.01 per common share);
 partially offset by,
  - the year-over-year unfavourable impact of restructuring and other related costs of \$20 million (\$0.06 per common share).
- diluted net earnings from Continuing Operations per common share also included the favourable impact of the repurchase of common shares over the last 12 months (\$0.04 per common share).

Adjusted net earnings available to common shareholders of the Company<sup>(2)</sup> from Continuing Operations in the fourth quarter of 2019 were \$395 million. When compared to the fourth quarter of 2018, this represented an increase of \$7 million. When normalized for the impact of spin-out related depreciation and the implementation of IFRS 16, adjusted net earnings available to common shareholders of the Company<sup>(2)</sup> from Continuing Operations increased by approximately \$22 million.

Adjusted net earnings per common share<sup>(2)</sup> from Continuing Operations in the fourth quarter of 2019 were \$1.09. When compared to the fourth quarter of 2018, this represented an increase of \$0.06. When normalized for the impact of spin-out related depreciation and the implementation of IFRS 16, adjusted diluted net earnings per common share<sup>(2)</sup> from Continuing Operations increased by approximately 9.6% or \$0.10 per common share. The increase included the favourable impact of the repurchase of common shares.

**Discontinued Operations** Net earnings available to common shareholders of the Company from Discontinued Operations were nil in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$7 million (\$0.02 per common share).

**Revenue**

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	<b>2019</b> <b>(12 weeks)</b>	2018 (12 weeks)	\$ Change	% Change
Retail	\$ 11,321	\$ 10,976	\$ 345	3.1%
Financial Services	337	336	1	0.3%
Consolidation and Eliminations	(68)	(94)	26	27.7%
<b>Revenue</b>	<b>\$ 11,590</b>	<b>\$ 11,218</b>	<b>\$ 372</b>	<b>3.3%</b>

Revenue was \$11,590 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$372 million, or 3.3%. The increase was primarily driven by an increase in Retail segment sales of \$345 million. After excluding the consolidation of franchises, Retail segment sales increased by \$294 million, or 2.7% due to positive same-store sales growth and a net increase in Retail square footage. The increase was also due to an improvement in underlying operating performance of the Financial Services segment sales of \$20 million, which was driven by higher interest income attributable to the growth in the credit card portfolio and higher sales attributable to *The Mobile Shop*. This increase of \$20 million was partially offset by a reclassification between revenue and expense of approximately \$19 million with no impact on earnings before income taxes.

**Operating Income** Operating income was \$541 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$96 million. The increase included the favourable impact of IFRS 16 of approximately \$73 million and the total unfavourable impact of spin-out related depreciation of approximately \$21 million. When normalized for these impacts, operating income increased by \$44 million, or 9.9%, due to improvements in underlying operating performance of \$21 million and the favourable change in adjusting items totaling \$23 million, as described below:

- the improvement in underlying operating performance of \$21 million was primarily due to the improvement in underlying operating performance of the Financial Services segment. This was partially offset by the Retail segment, including the unfavourable contribution from the consolidation of franchises of \$13 million;
- the favourable change in adjusting items totaling \$23 million primarily due to the following:
  - the favourable change in fair value adjustment on investment properties of \$17 million;
  - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$13 million;
  - the favourable impact of a net gain on sale of non-operating properties of \$8 million;
  - the favourable impact associated with prior period items of \$7 million; and
  - the favourable impact of the prior year transaction and other related costs in connection with the spin-out of Choice Properties of \$2 million;
 partially offset by,
  - the year-over-year unfavourable impact of restructuring and other related costs of \$28 million.

**Adjusted EBITDA<sup>(2)</sup>**

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	<b>2019 (12 weeks)</b>	2018 (12 weeks)	\$ Change	% Change
Retail	\$ 1,135	\$ 855	\$ 280	32.7%
Financial Services	70	40	30	75.0%
Adjusted EBITDA <sup>(2)</sup>	\$ 1,205	\$ 895	\$ 310	34.6%

Adjusted EBITDA<sup>(2)</sup> was \$1,205 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$310 million. The increase included the year-over-year favourable impact of IFRS 16 of approximately \$285 million. When normalized for the impact of IFRS 16, adjusted EBITDA<sup>(2)</sup> increased by \$25 million, or 2.8%. The increase in adjusted EBITDA<sup>(2)</sup> was primarily due to improvements in the Financial Services segment, partially offset by the decline in the Retail segment.

**Depreciation and Amortization** Depreciation and amortization was \$589 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$233 million. The increase included the unfavourable impact of IFRS 16 of approximately \$212 million and the total unfavourable impact of spin-out related depreciation of approximately \$21 million. When normalized for these impacts, depreciation and amortization was flat compared to the fourth quarter of 2018. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of \$116 million (2018 – \$120 million).

**Net Interest Expense and Other Financing Charges** Net interest expense and other financing charges were \$176 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$81 million. The increase included the unfavourable impact of IFRS 16 of approximately \$78 million. When normalized for this impact, the increase in net interest expense and other financing charges was \$3 million, or 3.2%, primarily driven by higher interest expense in the Financial Services segment, due to both the increases in the interest rates and net issuances related to GICs.

## Income Taxes

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (12 weeks)	2018 (12 weeks)	\$ Change	% Change
Income taxes	\$ 99	\$ 100	\$ (1)	(1.0)%
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	50	55	(5)	(9.1)%
Adjusted income taxes <sup>(2)</sup>	\$ 149	\$ 155	\$ (6)	(3.9)%
Effective tax rate	27.1%	28.6%		
Adjusted effective tax rate <sup>(2)</sup>	26.8%	27.4%		

Income tax expense in the fourth quarter of 2019 was \$99 million (2018 – \$100 million) and the effective tax rate was 27.1% (2018 – 28.6%). The decrease in the effective tax rate was primarily attributable to a decrease in certain non-deductible items.

Adjusted income tax expense<sup>(2)</sup> in the fourth quarter of 2019 was \$149 million (2018 – \$155 million) and the adjusted effective tax rate<sup>(2)</sup> was 26.8% (2018 – 27.4%). The decrease in the adjusted effective tax rate<sup>(2)</sup> was primarily attributable to a decrease in certain non-deductible items.

## Cash Flow

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (12 weeks)	2018 <sup>(4)</sup> (12 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 944	\$ 1,314	\$ (370)	(28.2)%
Cash flows from (used in):				
Operating activities	\$ 988	\$ 314	\$ 674	214.6 %
Investing activities	(338)	(796)	458	57.5 %
Financing activities	(462)	237	(699)	(294.9)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	1	(4)	5	125.0 %
Change in cash and cash equivalents	\$ 189	\$ (249)	\$ 438	175.9 %
Cash and cash equivalents, end of period	\$ 1,133	\$ 1,065	\$ 68	6.4 %

**Cash Flows from Operating Activities** Cash flows from operating activities in the fourth quarter of 2019 were \$988 million, an increase of \$674 million compared to the fourth quarter of 2018. The increase in cash flows from operating activities included a favourable impact attributable to the implementation of IFRS 16 with an offsetting impact in cash flows used in financing activities. Normalized for the impact of IFRS 16, the increase in cash flows from operating activities was primarily due to a favourable change in non-cash working capital, partially offset by an unfavourable change in credit card receivables and an increase in income taxes paid.

**Cash Flows used in Investing Activities** Cash flows used in investing activities in the fourth quarter of 2019 were \$338 million, a decrease of \$458 million compared to the fourth quarter of 2018. The decrease in cash flows used in investing activities was primarily due to prior year's repayment of the Company's \$400 million *Eagle* notes, which were classified as security deposits, and the disposition of cash related to the Discontinued Operations.

**Cash Flows (used in) from Financing Activities** Cash flows used in financing activities in the fourth quarter of 2019 were \$462 million, an increase of \$699 million compared to the fourth quarter of 2018. Normalized for the impact of IFRS 16, the increase in cash flows used in financing activities was due to prior year's higher net issuance of long term debt, partially offset by current year's lower repurchases of common shares.

**Capital Investments** In the fourth quarter of 2019, the Company invested \$426 million (2018 – \$482 million) in fixed asset purchases and intangible asset additions.

**Free Cash Flow<sup>(2)</sup>** The definition of free cash flow<sup>(2)</sup> was changed in the first quarter of 2019 to normalize for the impact of the implementation of IFRS 16. Lease payments were deducted from the calculation, which resulted in no IFRS 16 impact on the metric.

The following Free Cash Flow is presented on a Continuing Operations basis.

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	<b>2019</b> <b>(12 weeks)</b>	2018 (12 weeks)	\$ Change	% Change
Cash flows from operating activities	<b>\$ 988</b>	\$ 314	\$ 674	214.6 %
Less: Cash flows from operating activities from Discontinued Operations <sup>(i)</sup>	—	4	(4)	(100.0)%
Cash flows from operating activities from Continuing Operations <sup>(i)</sup>	<b>\$ 988</b>	\$ 310	\$ 678	218.7 %
Less:				
Capital investments	<b>426</b>	414	12	2.9 %
Interest paid	<b>74</b>	58	16	27.6 %
Lease payments, net <sup>(ii)</sup>	<b>216</b>	—	216	100.0 %
<b>Free cash flow from Continuing Operations</b>	<b>\$ 272</b>	\$ (162)	\$ 434	267.9 %

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

(ii) Includes cash rent paid on lease liabilities, net of lease payments received from finance leases. This adjustment normalizes for the impact of the implementation of IFRS 16.

Free cash flow<sup>(2)</sup> from Continuing Operations was \$272 million in the fourth quarter of 2019, an increase of \$434 million compared to the fourth quarter of 2018. The increase in free cash flow<sup>(2)</sup> was primarily due to a favourable change in non-cash working capital and provisions, and higher cash earnings from Continuing Operations, partially offset by higher income taxes paid and an unfavourable change in credit card receivables.

### Segment Information

(millions of Canadian dollars)	December 28, 2019 (12 weeks)				December 29, 2018 (12 weeks)			
	Retail	Financial Services	Eliminations <sup>(i)</sup>	Total	Retail	Financial Services	Eliminations <sup>(i)</sup>	Total
<b>Revenue<sup>(ii)</sup></b>	<b>\$ 11,321</b>	<b>\$ 337</b>	<b>\$ (68)</b>	<b>\$ 11,590</b>	\$ 10,976	\$ 336	\$ (94)	\$ 11,218
Operating income	\$ 480	\$ 61	\$ —	\$ 541	\$ 408	\$ 37	\$ —	\$ 445
Net interest expense and other financing charges	155	21	—	176	76	19	—	95
<b>Earnings before income taxes</b>	<b>\$ 325</b>	<b>\$ 40</b>	<b>\$ —</b>	<b>\$ 365</b>	\$ 332	\$ 18	\$ —	\$ 350
<b>Operating income</b>	<b>\$ 480</b>	<b>\$ 61</b>	<b>\$ —</b>	<b>\$ 541</b>	\$ 408	\$ 37	\$ —	\$ 445
Depreciation and amortization	581	8	—	589	353	3	—	356
Adjusting items <sup>(iii)</sup>	190	1	—	191	214	—	—	214
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(116)	—	—	(116)	(120)	—	—	(120)
Adjusted EBITDA <sup>(iii)</sup>	<b>\$ 1,135</b>	<b>\$ 70</b>	<b>\$ —</b>	<b>\$ 1,205</b>	\$ 855	\$ 40	\$ —	\$ 895
Depreciation and amortization <sup>(iv)</sup>	465	8	—	473	233	3	—	236
<b>Adjusted operating income</b>	<b>\$ 670</b>	<b>\$ 62</b>	<b>\$ —</b>	<b>\$ 732</b>	\$ 622	\$ 37	\$ —	\$ 659

(i) Eliminations includes the reclassification of revenue related to President's Choice Financial Mastercard<sup>®</sup> loyalty awards in the Financial Services segment.

(ii) Included in Financial Services revenue is \$125 million (2018 – \$114 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA<sup>(2)</sup>. Adjusted EBITDA<sup>(2)</sup> is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA<sup>(2)</sup> excludes \$116 million (2018 – \$120 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

## Retail Segment Fourth Quarter Results of Operations

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (12 weeks)	2018 <sup>(4)</sup> (12 weeks)	\$ Change	% Change
Sales	\$ 11,321	\$ 10,976	\$ 345	3.1%
Operating income	480	408	72	17.6%
Adjusted gross profit <sup>(2)</sup>	3,377	3,266	111	3.4%
Adjusted gross profit % <sup>(2)</sup>	29.8%	29.8%		
Adjusted EBITDA <sup>(2)</sup>	\$ 1,135	\$ 855	\$ 280	32.7%
Adjusted EBITDA margin <sup>(2)</sup>	10.0%	7.8%		
Depreciation and amortization	\$ 581	\$ 353	\$ 228	64.6%

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (12 weeks)		2018 (12 weeks)	
	Sales	Same-store sales	Sales	Same-store sales
Food retail	\$ 7,960	1.9%	\$ 7,750	0.8%
Drug retail	3,361	3.9%	3,226	1.9%
Pharmacy	1,517	6.1%	1,426	0.6%
Front Store	1,844	2.2%	1,800	2.8%

Sales, operating income, adjusted gross profit<sup>(2)</sup>, adjusted gross profit percentage<sup>(2)</sup>, adjusted EBITDA<sup>(2)</sup> and adjusted EBITDA margin<sup>(2)</sup> include the impacts of the consolidation of franchises.

**Sales** Retail segment sales were \$11,321 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$345 million, or 3.1%. After excluding the consolidation of franchises, Retail segment sales increased by \$294 million, or 2.7%, primarily driven by the following factors:

- Food retail same-store sales growth was 1.9% (2018 – 0.8%) for the quarter. After excluding the favourable impact of the timing of Thanksgiving, Food retail same-store sales growth was approximately 0.8%. The timing of Thanksgiving had a nominal impact on Food retail same-store sales growth in the fourth quarter of 2018.
  - Sales growth in food was moderate;
  - Sales growth in pharmacy was moderate;
  - The Company's Food retail average article price was 0.8% (2018 – 2.3%), which reflects the price inflation on the specific mix of goods sold in the Company's stores in the quarter. The average quarterly national food price inflation was 3.7% (2018 – inflation of 1.7%), as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores; and
  - Food retail basket size increased and traffic increased in the quarter.
- Drug retail same-store sales growth was 3.9% (2018 – 1.9%). The timing of Thanksgiving had a nominal impact on the Drug retail same-store sales growth in the fourth quarter of 2019 and 2018.
  - Pharmacy same-store sales growth was 6.1% (2018 – 0.6%). The number of prescriptions dispensed increased by 3.2% (2018 – 3.3%). On a same-store basis, the number of prescriptions dispensed increased by 3.1% (2018 – 3.1%) and year-over-year, the average prescription value increased by 2.4% (2018 – decreased by 3.2%); and
  - Front store same-store sales growth of 2.2% (2018 – 2.8%).

In the last 12 months, 15 food and drug stores were opened, and 6 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.4 million square feet, or 0.6%.

The redemption of Loblaw Cards resulted in the delivery of approximately \$1 million of free products to customers in the fourth quarter of 2019, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or the Company's financial performance and Management does not believe it had a significant impact on Food retail same-store sales.

**Operating Income** Operating income was \$480 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$72 million. The increase in operating income included the favourable impact of IFRS 16 of approximately \$73 million and the total unfavourable impact of spin-out related depreciation of approximately \$21 million. When normalized for these impacts, operating income increased by \$20 million, or 4.9%. This was driven by the decline in underlying operating performance of \$4 million, which was more than offset by the favourable change in adjusting items totaling \$24 million, as described below:

- the decline in underlying operating performance of \$4 million was driven by an increase in SG&A, partially offset by an increase in adjusted gross profit<sup>(2)</sup> and an increase in depreciation and amortization. The decline in underlying operating performance included the unfavourable year-over-year contribution from consolidation of franchises of \$13 million;

more than offset by,

- the favourable change in adjusting items totaling \$24 million which was primarily due to the following:
  - the favourable change in fair value adjustment on investment properties of \$17 million;
  - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$13 million;
  - the favourable impact of a net gain on sale of non-operating properties of \$8 million;
  - the favourable impact associated with a prior period item of \$7 million; and
  - the favourable impact of the prior year transaction and other related costs in connection with the spin-out of Choice Properties of \$2 million;

partially offset by,

- the year-over-year unfavourable impact of restructuring and other related costs of \$27 million.

**Adjusted Gross Profit<sup>(2)</sup>** Adjusted gross profit<sup>(2)</sup> was \$3,377 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$111 million. Adjusted gross profit percentage<sup>(2)</sup> of 29.8% was flat compared to the fourth quarter of 2018. Excluding the consolidation of franchises, adjusted gross profit<sup>(2)</sup> increased by \$64 million. Adjusted gross profit percentage<sup>(2)</sup>, excluding the consolidation of franchises, was 27.7%. This represented a decrease of 10 basis points compared to the fourth quarter of 2018. Margins were negatively impacted by the mix within Drug retail and the pricing strategy in Food retail.

**Adjusted EBITDA<sup>(2)</sup>** Adjusted EBITDA<sup>(2)</sup> was \$1,135 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$280 million. The increase included the year-over-year favourable impact of IFRS 16 of approximately \$285 million and the unfavourable impact of the consolidation of franchises of \$7 million. When normalized for the impact of IFRS 16, adjusted EBITDA<sup>(2)</sup> decreased by \$5 million, or 0.6%. The decrease was driven by an increase in SG&A of \$116 million, partially offset by an increase in adjusted gross profit<sup>(2)</sup> as described above. When normalized for the impact of IFRS 16 and the consolidation of franchises, SG&A increased \$62 million, and SG&A as a percentage of sales was 20.2%. SG&A as a percentage of sales was flat compared to the fourth quarter of 2018, primarily driven by Process and Efficiency initiatives, offset by strategic growth investments.

Adjusted EBITDA<sup>(2)</sup> was not impacted by any sale and leaseback of properties to Choice Properties in 2019 (2018 – gain of \$8 million).

**Depreciation and Amortization** Depreciation and amortization in the fourth quarter of 2019 was \$581 million. When compared to the fourth quarter of 2018, this represented an increase of \$228 million. The increase included the unfavourable impact of IFRS 16 of approximately \$212 million and the total unfavourable impact of spin-out related depreciation of approximately \$21 million. When normalized for these impacts, the decrease in depreciation and amortization was \$5 million, or 1.4%, primarily driven by a decrease in IT assets, partially offset by the consolidation of franchises. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of \$116 million (2018 – \$120 million).

### Other Retail Business Matters

For details see Section 6.1 "Retail Segment", of this MD&A.

## Financial Services Segment Fourth Quarter Results of Operations

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (12 weeks)	2018 (12 weeks)	\$ Change	% Change
Revenue	\$ 337	\$ 336	\$ 1	0.3%
Earnings before income taxes	40	18	22	122.2%

(millions of Canadian dollars except where otherwise indicated)	As at December 28, 2019	As at December 29, 2018	\$ Change	% Change
Average quarterly net credit card receivables	\$ 3,298	\$ 3,040	\$ 258	8.5%
Credit card receivables	3,624	3,309	315	9.5%
Allowance for credit card receivables	196	167	29	17.4%
Annualized yield on average quarterly gross credit card receivables	13.5%	13.2%		
Annualized credit loss rate on average quarterly gross credit card receivables	3.4%	3.2%		

**Revenue** Revenue was \$337 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$1 million. The increase was primarily driven by:

- higher interest income attributable to the growth in the credit card portfolio; and
- higher sales attributable to *The Mobile Shop*;

partially offset by,

- lower net interchange income due to a reclassification between revenue and expense of approximately \$19 million with no impact to earnings before income taxes.

**Earnings before income taxes** Earnings before income taxes were \$40 million in the fourth quarter of 2019. When compared to the fourth quarter of 2018, this represented an increase of \$22 million, primarily driven by:

- revenue growth, as described above;
- lower operating costs including investments in digital strategy; and
- lower customer acquisition costs;

partially offset by,

- higher credit losses and an associated increase to the forward-looking allowance for credit card receivables; and
- higher interest expense driven by the growth in the credit card portfolio.

**Credit Card Receivables** As at December 28, 2019, credit card receivables were \$3,624 million. When compared to December 29, 2018, this represented an increase of \$315 million. This increase was primarily driven by growth in the average customer balance and active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. For the same reasons, the allowance for credit card receivables increased to \$196 million, an increase of \$29 million compared to December 29, 2018.

### Other Financial Services Business Matters

For details see Section 6.2 “Financial Services Segment”, of this MD&A.

## 10. Disclosure Controls and Procedures

Management is responsible for establishing and maintaining a system of disclosure controls and procedures to provide reasonable assurance that all material information relating to the Company and its subsidiaries is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

As required by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Executive Chairman and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 28, 2019.

## 11. Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

As required by NI 52-109, the Chairman, as CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 28, 2019.

In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Additionally, management is required to use judgment in evaluating controls and procedures.

**Changes in Internal Control over Financial Reporting** There were no changes in the Company's internal control over financial reporting in 2019 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## 12. Enterprise Risks and Risk Management

The Enterprise Risk Management ("ERM") program assists all areas of the business in managing risks within appropriate levels of tolerance by bringing a systematic approach and methodology for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk mitigation activities and develop a risk-based internal audit plan.

Risks are not eliminated through the ERM program, but rather, are identified and managed in line with the Company's risk appetite and within understood risk tolerances. The ERM program is designed to:

- facilitate effective corporate governance by providing a consolidated view of risks across the Company;
- enable the Company to focus on key risks that could impact its strategic objectives in order to reduce harm to financial performance through responsible risk management;
- ensure that the Company's risk appetite and tolerances are defined and understood;
- promote a culture of awareness of risk management and compliance within the Company;
- assist in developing consistent risk management methodologies and tools across the Company including methodologies for the identification, assessment, measurement and monitoring of risks; and
- anticipate and provide early warnings of risks through key risk indicators.

**Risk appetite and governance** The Loblaw Board oversees the ERM program, including a review of the Company's risks and risk prioritization and annual approval of the ERM policy and risk appetite framework. The risk appetite framework articulates key aspects of the Company's businesses, values, and brands and provides directional guidance on risk taking. Key risk indicators are used to monitor and report on risk performance and whether the Company is operating within its risk appetite. Risk owners are assigned relevant risks by the Board and are responsible for managing risk and implementing risk mitigation strategies.

**ERM framework** Risk identification and assessments are important elements of the Company's ERM process and framework. An annual ERM assessment is completed to assist in the update and identification of internal and external risks. This assessment is carried out in parallel with strategic planning through interviews, surveys and facilitated workshops with management and the Board to align stakeholder views. This assessment is completed for each business unit and aggregated where appropriate. Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risks would have on the Company's ability to execute on its strategies and achieve its objectives and on the Company's financial performance.

**Risk monitoring and reporting** On a quarterly basis, management provides an update to the Board (or a Committee of the Board) on the status of key risks based on significant changes from the prior update, anticipated impacts in future periods and significant changes in key risk indicators. In addition, the long term (three year) risk level is assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities.

Any of the key risks has the potential to negatively affect the Company and its financial performance. The Company has risk management strategies in place for key risks. However, there can be no assurance that the risks will be mitigated or will not materialize or that events or circumstances will not occur that could adversely affect the reputation, operations or financial condition or performance of the Company.

## 12.1 Operating Risks and Risk Management

The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Company's business, as included in the Company's AIF for the year ended December 28, 2019, which is hereby incorporated by reference:

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Cybersecurity, Privacy and Data Breaches	Legal Proceedings
Healthcare Reform	Inventory Management
Competitive Environment and Strategy	Labour Relations
Electronic Commerce and Disruptive Technologies	Economic Conditions
IT Systems Implementations and Data Management	Service Providers
Governance, Change Management, Process and Efficiency	Franchisee Relationships
Employee Attraction, Development and Succession Planning	Associate-owned Drug Store Network and Relationships with Associates
Food, Drug, Product and Services Safety	Regulatory Compliance
Distribution and Supply Chain	

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**Cybersecurity, Privacy and Data Breaches** The Company depends on the uninterrupted operation of its IT systems, networks and services including internal and public internet sites, data hosting and processing facilities, and cloud-based services and hardware, such as point-of-sale processing at stores, to operate its business.

In the ordinary course of business, the Company collects, processes, transmits and retains confidential, sensitive and personal information, including personal health and financial information ("Confidential Information") regarding the Company and its employees, franchisees, Associates, vendors, customers, patients, credit card holders and loyalty program members. Some of this Confidential Information is held and managed by third party service providers. As with other large companies, the Company is regularly subject to cyberattacks and such attempts are occurring more frequently, are constantly evolving in nature and are becoming more sophisticated.

The Company has implemented security measures, including employee training, monitoring and testing, maintenance of protective systems and contingency plans, to protect and to prevent unauthorized access of Confidential Information and to reduce the likelihood of disruptions to its IT systems. The Company continues to make strategic investments in this area, including employee training, in order to mitigate cyber threats. The Company also has security processes, protocols and standards that are applicable to its third party service providers.

Despite these measures, all of the Company's information systems, including its back-up systems and any third party service provider systems that it employs, are vulnerable to damage, interruption, disability or failures due to a variety of reasons, including physical theft, electronic theft, fire, power loss, computer and telecommunication failures or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other known or unknown disruptive events.

The Company or its third party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Company's security measures or those of our third party service providers' information systems.

## Management's Discussion and Analysis

As cyber threats evolve and become more difficult to detect and successfully defend against, one or more cyber threats might defeat the Company's security measures or those of its third party service providers. Moreover, employee error or malfeasance, faulty password management or other irregularities may result in a breach of the Company's or its third party service providers' security measures, which could result in a breach of employee, franchisee, Associate, customer, credit card holder or loyalty program member privacy or Confidential Information.

If the Company does not allocate and effectively manage the resources necessary to build and sustain reliable IT infrastructure, fails to timely identify or appropriately respond to cybersecurity incidents, or the Company's or its third party service providers' information systems are damaged, destroyed, shut down, interrupted or cease to function properly, the Company's business could be disrupted and the Company could, among other things, be subject to: transaction errors; processing inefficiencies; the loss of or failure to attract new customers; the loss of revenue; the loss or unauthorized access to Confidential Information or other assets; the loss of or damage to intellectual property or trade secrets; damage to its reputation; litigation; regulatory enforcement actions; violation of privacy, security or other laws and regulations; and remediation costs. Any such occurrences could adversely affect the reputation, operations or financial performance of the Company.

**Healthcare Reform** The Company is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, including the potential implementation of a national pharmacare system, changes in the models used to fund prescription drugs such as the introduction of a pharmacare system, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

Federal and provincial laws and regulations that establish public drug plans typically regulate prescription drug coverage, patient eligibility, pharmacy reimbursement, drug product eligibility and drug pricing and may also regulate manufacturer allowance funding that is provided to or received by pharmacies or pharmacy suppliers. With respect to pharmacy reimbursement, such laws and regulations typically regulate the allowable drug cost of a prescription drug product, the permitted mark-up on a prescription drug product and the professional or dispensing fees that may be charged on prescription drug sales to patients eligible under the public drug plan. With respect to drug product eligibility, such laws and regulations typically regulate the requirements for listing the manufacturer's products as a benefit or partial benefit under the applicable governmental drug plan, drug pricing and, in the case of generic prescription drug products, the requirements for designating the product as interchangeable with a branded prescription drug product. In addition, other federal, provincial, territorial and local laws and regulations govern the approval, packaging, labeling, sale, marketing, advertising, handling, storage, distribution, dispensing and disposal of prescription drugs.

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by payers or the provision or receipt of manufacturer allowances by pharmacies and pharmacy suppliers.

The majority of prescription drug sales are reimbursed or paid by three types of payers: (i) government or public, (ii) private insurers or employers, and (iii) out-of-pocket by the patient or cash. These payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers, which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products. Other measures that have been implemented by certain government payers include restricting the number of interchangeable prescription drug products which are eligible for reimbursement under provincial drug plans. Additionally, the Council of the Federation, an institution created by the provincial Premiers in 2003 to collaborate on intergovernmental relations, continues its work regarding cost reduction initiatives for pharmaceutical products and services.

Legislation in certain provincial jurisdictions establishes listing requirements that ensure that the selling price for a prescription drug product will not be higher than any selling price established by the manufacturer for the same prescription drug product under other provincial drug insurance programs. In some provinces, elements of the laws and regulations that impact pharmacy reimbursement and manufacturer allowances for sales to the public drug plans are extended by legislation to sales to private payers. Also, private payers (such as corporate employers and their insurers) are looking or may look to benefit from any measures implemented by government payers to reduce prescription drug costs for public plans by attempting to extend these measures to prescription drug plans they own or manage. Accordingly, changes to pharmacy reimbursement and manufacturer allowances for a public drug plan could also impact pharmacy reimbursement and manufacturer allowances for private payers. In addition, private payers could reduce pharmacy reimbursement for prescription drugs provided to their members or could elect to reimburse members only for products included on closed formularies or available from preferred providers.

Changes impacting pharmacy reimbursement programs, prescription drug pricing, manufacturer allowance funding and private label prescription drug products, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales. These changes may have a material adverse effect on the Company's business, sales and profitability. In addition, the Company could incur significant costs in the course of complying with any changes in the regulatory regime affecting prescription drugs. Non-compliance with any such existing or proposed laws or regulations, particularly those that provide for the licensing and conduct of wholesalers, the licensing and conduct of pharmacists, the regulation and ownership of pharmacies, the advertising of pharmacies and prescription services, the provision of information concerning prescription drug products, the pricing of prescription drugs and restrictions on manufacturer allowance funding, could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which could adversely affect the reputation, operations or financial performance of the Company.

**Competitive Environment and Strategy** The retail industry in Canada is highly competitive. The Company competes against a wide variety of retailers including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, online retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drug and general merchandise. Others remain focused on supermarket-type merchandise. In addition, the Company is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery and retail drug markets and those offering e-commerce retail platforms. The Company's loyalty program is a valuable offering to customers and provides a key differentiating marketing tool for the business. The marketing, promotional and other business activities related to the Company's loyalty program must be well managed and coordinated to preserve positive customer perception. The Company has made significant investments in support of certain strategic priorities. Failure to achieve these strategic priorities could adversely affect the Company's financial position and its ability to compete with competitors.

The Company's inability to effectively predict market activity, leverage customer preferences and spending patterns and respond in a timely manner to trends, or compete effectively with its current or future competitors could result in, among other things, reduced market share and reduced profitability. If the Company is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be adversely affected. The failure to effectively respond to customer trends may adversely impact the Company's relationship with its customers. The Company closely monitors its competitors and their strategies, market developments and market share trends. Failure by the Company to sustain its competitive position could adversely affect the Company's financial performance.

**Electronic Commerce and Disruptive Technologies** The Company's e-commerce strategy is a growing business initiative. Customers expect innovative concepts and a positive customer experience, including a user-friendly website, certain websites and customer offerings that are integrated with the Company's loyalty program, reliable data, safe and reliable processing of payments and a well-executed merchandise pick up or delivery process. If systems are damaged or cease to function properly, capital investment may be required. The Company is also vulnerable to various additional uncertainties associated with e-commerce including website downtime and other technical failures, changes in applicable federal and provincial regulations, security breaches, and consumer privacy concerns. If these technology-based systems do not function effectively, the Company's ability to grow its e-commerce business could be adversely affected. The Company has increased its investment in improving the digital customer experience, but there can be no assurances that the Company will be able to recover the costs incurred to date.

The retail landscape is quickly changing due to the rise of the digitally influenced shopping experience and the emergence of disruptive technologies, such as digital payments, drones, driverless cars and robotics. In addition, the effect of increasing digital advances could have an impact on the physical space requirements of retail businesses. Although the importance of a retailer's physical presence has been demonstrated, the size requirements and locations may be subject to further disruption. Any failure to adapt the Company's business model to recognize and manage this shift in a timely manner could adversely affect the Company's operations or financial performance.

**IT Systems Implementations and Data Management** The Company continues to undertake investments in new IT systems to improve the operating effectiveness of the organization. Failure to successfully migrate from legacy systems to the new IT systems or a significant disruption in the Company's current IT systems during the implementation of new systems could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

Failure to successfully adopt or implement appropriate processes to support the new IT systems, or failure to effectively leverage or convert data from one system to another, may preclude the Company from optimizing its overall performance and could result in inefficiencies and duplication in processes, which in turn could adversely affect the reputation, operations or financial performance of the Company. Failure to realize the anticipated strategic benefits including revenue growth, anticipated cost savings or operating efficiencies associated with the new IT systems could adversely affect the reputation, operations or financial performance of the Company.

The Company also depends on relevant and reliable information to operate its business. As the volume of data being generated and reported continues to increase across the Company, data accuracy, quality and governance are required for effective decision making. Failure by the Company to leverage data, including customer data, in a timely manner may adversely affect the Company's ability to execute its strategy and therefore its financial performance.

**Governance, Change Management, Process and Efficiency** Many initiatives are underway to reduce the complexity and cost of the Company's business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. These efforts include initiatives focused on improving processes and generating efficiencies across its administrative, store and distribution network infrastructures. The success of these initiatives is dependent on effective leadership and realizing intended benefits. Ineffective change management could result in a lack of integrated processes and procedures, unclear accountabilities and decision-making rights, decreased colleague engagement, ineffective communication and training or a lack of requisite knowledge. Any of the foregoing could disrupt operations, increase the risk of customer dissatisfaction, adversely affect the Company's reputation or financial performance or adversely affect the ability of the Company to implement and achieve its long term strategic objectives.

**Employee Attraction, Development and Succession Planning** The Company's operations and continued growth are dependent on its ability to hire, retain and develop its leaders and other key personnel. Any failure to effectively attract talented and experienced colleagues and to establish adequate succession planning and retention strategies could result in a lack of requisite knowledge, skill and experience. This could erode the Company's competitive position or result in increased costs, competition for or high turn-over of colleagues. Any of the foregoing could negatively affect the Company's ability to operate its business, which in turn could adversely affect the Company's reputation, operations or financial performance.

**Food, Drug, Product and Services Safety** The Company's products may expose it to risks associated with product safety and defects and product handling in relation to the manufacturing, design, packaging and labeling, storage, distribution, and display of products. The Company cannot assure that active management of these risks, including maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems, will eliminate all the risks related to food and product safety. The Company could be adversely affected in the event of a significant outbreak of food-borne illness or food safety issues including food tampering or contamination. In addition, failure to trace or locate any contaminated or defective products could affect the Company's ability to be effective in a recall situation. The Company is also subject to risk associated with errors made through medication dispensing or errors related to patient services or consultation. The occurrence of such events or incidents, as well as the failure to maintain the cleanliness and health standards at store level, could result in harm to customers, negative publicity or could adversely affect the Company's brands, reputation, operations or financial performance.

**Distribution and Supply Chain** The Company's ability to satisfy its customers' demands and achieve its cost objectives depends on its ability to maintain key logistic and transport arrangements. The Company's distribution and supply chain could be negatively affected by unforeseen disruptions due to fire, severe weather conditions, natural disasters, or other catastrophic events, labour disagreements, or other shipping problems. The loss of or disruption to these types of arrangements could interrupt product supply, which in turn could adversely affect the assortment and product availability at store level. If not effectively managed or remedied, these events could negatively impact customer experience and the Company's ability to attract and retain customers, and could adversely affect the Company's operations or financial performance.

**Legal Proceedings** In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings. The proceedings may involve suppliers, customers, Associates, franchisees, regulators, tax authorities or other persons. The potential outcome of legal proceedings and claims is uncertain.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice ("Superior Court") by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of \$500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. The Superior Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. The Company believes this claim is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2019 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. The allegations in the Ontario and Quebec class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 claims seek recovery of damages on behalf of opioid users directly. The Company believes these proceedings are without merit and is vigorously defending them. The Company does not currently have any significant accruals or provisions for these matters recorded in the consolidated financial statements.

The Company has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. On October 15, 2019, the appeal was heard by the Federal Court of Appeal, with the court reserving judgment until a later date.

**Inventory Management** The Company is subject to risks associated with managing its inventory. Failure to successfully manage such risks could result in shortages of inventory, or excess or obsolete inventory which cannot be sold profitably or increases in levels of inventory shrink. Any of these outcomes could adversely affect the financial performance of the Company. Although the Company has implemented new IT systems, which are intended to provide increased visibility to integrated costing and sales information at store level, the Company's failure to effectively implement such new IT systems and applicable processes may increase the risks associated with managing inventory, including the risk that inaccurate inventory could result in inaccurate financial statements.

The Company's Retail segment is also examining its fundamental processes related to article lifecycle management, with the goal of making existing processes more efficient. This will impact existing workflow and system processes across procurement, supply chain and merchandising. Such simplification and efficiency processes are critical to the organization's ability to integrate towards longer term system solutions and achieve efficiencies across the Retail divisions. Any failure to effectively deliver this enterprise core solution could negatively impact the Company's operations or financial performance.

**Labour Relations** The Company's workforce is comprised of both unionized and non-unionized colleagues. With respect to those colleagues that are covered by collective agreements, there can be no assurance as to the outcome of any labour negotiations or the timing of their completion. Renegotiating collective agreements or the failure to successfully renegotiate collective agreements could result in strikes, work stoppages or business interruptions, and if any of these events were to occur, they could adversely affect the reputation, operations and financial performance of the Company. If non-unionized colleagues become unionized, the terms of the resulting collective agreements would have implications for the affected operations, such as higher labour costs.

**Economic Conditions** The Company's revenues and profitability are impacted by consumer discretionary spending which is influenced by general economic conditions. These economic conditions could include high levels of unemployment and household debt, political uncertainty, fuel and energy costs, the impact of natural disasters or acts of terrorism, global viruses, changes in interest rates, inflation, tax, exchange rates and access to consumer credit. A number of these conditions impact consumer spending and, as a result, payment patterns could deteriorate or remain unpredictable due to global, national, regional or local economic volatility. Uncertain economic conditions may adversely impact demand for the Company's products and services which could adversely affect the Company's operations or financial performance.

**Service Providers** The Company has a wide range of key business relationships with third parties including vendors, suppliers, distributors and contractors. The Company relies on vendors, including offshore vendors in both mature and developing markets, to provide the Company with goods and services. Offshore sourcing increases certain risks to the Company, including risks associated with food safety and general merchandise product defects, non-compliance with ethical and safe business practices and inadequate supply of products. The Company has no direct influence over how vendors are managed. Negative events affecting vendors or inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures could adversely impact the Company's reputation and impair the Company's ability to meet customer needs or control costs and quality, which could adversely affect the reputation, operations or financial performance of the Company.

The Company relies on service providers including transport carriers, logistic service providers and operators of warehouses and distribution facilities. Ineffective selection, contractual terms or relationship management could impact the Company's ability to source products (both national brand and control brand products), to have products available for customers, to market to customers or to operate efficiently and effectively. Disruption in services from suppliers could interrupt the delivery of merchandise to stores, which in turn could adversely affect the operations or financial performance of the Company.

PC Bank uses third party service providers to process credit card transactions, operate call centres and operationalize certain risk management strategies for the *President's Choice Financial Mastercard*. A significant disruption in the services provided by third party service providers could adversely affect the financial performance of PC Bank and the Company.

The Company has outsourced certain administrative functions of its business to service providers including account payments, payroll services, IT support, investment management and custodial relationships, and benefit plan administration. Any disruption in the services provided by these suppliers could adversely affect the return on these assets or liquidity of the Company.

**Franchisee Relationships** The Company has entered into agreements with third party franchisees that permit the franchisees to own and operate retail stores in accordance with prescribed procedures and standards. A substantial portion of the Company's revenues and earnings comes from amounts paid by franchisees in connection with their store operations and leased property. Franchisees are independent operators and their operations may be negatively affected by factors beyond the Company's control. If franchisees do not operate their stores in accordance with the Company's standards or otherwise in accordance with good business practices, franchisee fees and rent paid to the Company could be negatively affected, which in turn could adversely affect the Company's reputation, operations or financial performance. In addition, the Company's reputation could be harmed if a significant number of franchisees were to experience operational failures, health and safety exposures or were unable to pay the Company for products, fees or rent.

The Company's franchise system is also subject to franchise legislation enacted by a number of provinces. Any new legislation or failure to comply with existing legislation could adversely affect operations and could add administrative costs and burdens, any of which could affect the Company's relationship with its franchisees.

Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchised store operations and could result in negative effects on the financial performance of franchisees. Relationships with franchisees could pose significant risks if they are disrupted, which could adversely affect the reputation, operations or financial performance of the Company.

**Associate-owned Drug Store Network and Relationships with Associates** The success of the Company and the reputation of its brands are closely tied to the performance of the Shoppers Drug Mart Associate-owned drug stores. Accordingly, the Company relies on Associates to successfully operate, manage and execute retail programs and strategies at their respective drug store locations. Associates are independent business operators that have entered into agreements with the Company to own and operate retail stores in accordance with prescribed procedures and standards. The success of the operations and financial performance of their respective drug stores may be beyond the Company's control. In addition, Associates are subject to franchise legislation. Disruptions to the Company's relationships with Shoppers Drug Mart Associate-owned drug stores or changes in legislation could negatively affect revenue from Associates, which in turn could adversely affect the reputation, operations or financial performance of the Company.

**Regulatory Compliance** The Company is subject to a wide variety of laws, regulations and orders across all countries in which it does business, including those laws involving product liability, labour and employment, anti-trust and competition, pharmacy, food safety, intellectual property, privacy, environmental and other matters. The Company is subject to taxation by various taxation authorities in Canada and a number of foreign jurisdictions. Changes to any of the laws, rules, regulations or policies applicable to the Company's business, including tax laws, minimum wage laws, and laws affecting the production, processing, preparation, distribution, packaging and labelling of food, pharmaceuticals and general merchandise products, could adversely affect the operations, financial condition or performance of the Company.

Failure by the Company to comply with applicable laws, regulations and orders could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect reputation, operations or financial condition or performance of the Company. In the course of complying with changes to laws, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business.

On December 19, 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Please refer to the "Legal Proceedings" risk on page 42 of this MD&A.

The Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments.

The Company is subject to externally imposed capital requirements from the OSFI, the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio and OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework. PC Bank would be assessed fines and other penalties for non-compliance with these and other regulations. In addition, failure by PC Bank to comply, understand, acknowledge and effectively respond to applicable regulations could result in regulatory intervention and reputational damage.

## 12.2 Financial Risks and Risk Management

The Company is exposed to a number of financial risks, including those associated with financial instruments, which have the potential to affect its operating and financial performance. The Company uses over-the-counter derivative instruments to offset certain of these risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. The fair value of derivative instruments is subject to changing market conditions which could adversely affect the financial performance of the Company.

The following is a list of the Company's financial risks which are discussed in detail below:

Liquidity	Credit
Commodity Prices	Interest Rates
Currency Exchange Rates	

**Liquidity** Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost effective manner to fund its obligations as they come due. The Company is exposed to liquidity risk through, among other areas, PC Bank and its credit card business, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs and the acceptance of GIC deposits to fund the receivables of its credit cards. The Company would experience liquidity risks if it fails to maintain appropriate levels of cash and short term investments, it is unable to access sources of funding or it fails to appropriately diversify sources of funding. If any of these events were to occur, they could adversely affect the financial performance of the Company.

Liquidity risk is mitigated by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions, and by diversifying sources of funding, including the Company's committed credit facilities, and maintaining a well-diversified maturity profile of debt and capital obligations.

**Commodity Prices** The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities.

**Currency Exchange Rates** The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated purchases in trade payables and other liabilities. A depreciating Canadian dollar relative to the USD will have a negative impact on year-over-year changes in reported operating income and net earnings, while an appreciating Canadian dollar relative to the USD will have the opposite impact. The Company is also exposed to fluctuations in the prices of USD denominated purchases as a result of changes in USD exchange rates. To manage a portion of this exposure, the Company uses derivative instruments in the form of futures contracts and forward contracts to minimize cost volatility related to foreign exchange.

**Credit** The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, pension assets held in the Company's defined benefit plans and accounts receivable. Failure to manage credit risk could adversely affect the financial performance of the Company.

The risk related to derivative instruments, cash and cash equivalents, short term investments and security deposits is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments.

PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

Finance lease receivable, franchise loans receivable and accounts receivable, including amounts due from franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

**Interest Rates** The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. An increase in interest rates could adversely affect the operations or financial performance of the Company. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates.

### 13. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 52.2% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies that he controls, including Wittington Investments Limited ("Wittington"), which owns a total of 81,706,054 of Weston's common shares, representing approximately 53.2% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,280,208 of the Company's common shares, representing approximately 1.5% of the Company's outstanding common shares.

In 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties.

Following the reorganization, the Company no longer retains its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements. The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and all current agreements and arrangements, including The Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant, representing approximately 58% of Choice Properties' annual base rent revenue and 56% of its gross leasable area as at December 28, 2019 (December 29, 2018 – 68% and 59% respectively).

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions for those in the normal course of business. The Company has reflected all transactions with Choice Properties below from the earliest period presented. Prior to November 1, 2018, these transactions were eliminated on consolidation.

## Transactions with Related Parties

(millions of Canadian dollars)	Transaction Value	
	2019	2018
<b>Included in cost of merchandise inventories sold</b>		
Inventory purchases from a subsidiary of Weston	\$ 631	\$ 649
Inventory sold to a subsidiary of Weston	4	2
Inventory purchases from a related party <sup>(i)</sup>	27	30
<b>Operating income</b>		
<b>Transactions with Weston</b>		
Cost sharing agreements with Parent <sup>(ii)</sup>	\$ 32	\$ 42
Net administrative services provided by Parent <sup>(iii)</sup>	16	19
Lease of office space from a subsidiary of Wittington	4	4
<b>Transactions with Choice Properties</b>		
Rental expenses paid to Choice Properties <sup>(iv)</sup>	\$ 736	\$ 742
Property management and other administration fees paid to Choice Properties	1	1
Lease surrender payments	3	10
Service agreement fees received from Choice Properties <sup>(v)</sup>	—	(2)
Other income received from Choice Properties <sup>(vi)</sup>	(5)	(6)
Gain on sale of properties to Choice Properties <sup>(vii)</sup>	(7)	(6)

- (i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at December 28, 2019 was \$2 million (December 29, 2018 – \$3 million).
- (ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.
- (iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.
- (iv) Lease payments paid to Choice Properties include base rent of \$526 million (2018 – \$543 million) and operating expenses of \$210 million (2018 – \$199 million).
- (v) The Company provided Choice Properties with administrative and other support services. This agreement was terminated on December 31, 2018.
- (vi) During 2019, the Company received site intensification payments from Choice Properties of \$5 million (2018 – \$6 million). Included in certain investment properties sold to Choice Properties is excess land with development potential. Choice Properties will compensate the Company, over time, with site intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess lands. The payments the Company receives are calculated in accordance with a payment grid, set out in the Strategic Alliance Agreement, that takes into account the region, market ranking and type of use for the property.
- (vii) During 2019, the Company disposed of three investment properties to Choice Properties for an aggregate purchase price of \$59 million (2018 – \$55 million) and recognized a gain of \$7 million (2018 – \$6 million). These properties were leased back by the Company.

The net balances due to (from) related parties are comprised as follows:

(millions of Canadian dollars)	As at	
	December 28, 2019	December 29, 2018
Weston <sup>(i)</sup>	\$ 33	\$ 36
Choice Properties <sup>(ii)</sup>	(12)	2

- (i) Balances relate to trade payables and other liabilities due to Weston, net of receivables from Weston.
- (ii) Balances relate to other receivables, net of other payables to Choice Properties.

**Post-Employment Benefit Plans** The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in the notes to the consolidated financial statements. During 2019, the Company also became a participant in a group plan, which is sponsored by the parent Company, Weston. As a participant of the group plan, the Company will make contributions for its share of defined benefit costs, including interest, service and administrative costs. In 2019, there were no payments made from the Company to the group plan.

**Income Tax Matters** From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

**Key Management Personnel** The Company's key management personnel are comprised of the Board and certain members of the executive team of the Company, as well as both the Board and certain members of the executive team of Weston and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

**Compensation of Key Management Personnel** Annual compensation of key management personnel that is directly attributable to the Company was as follows:

(millions of Canadian dollars)	2019	2018
Salaries, director fees and other short term employee benefits	\$ 6	\$ 6
Equity-based compensation	9	10
Total compensation	\$ 15	\$ 16

### Other Transactions and Agreements with Choice Properties

**Strategic Alliance Agreement** The Strategic Alliance Agreement established on the initial public offering ("IPO") of Choice Properties creates a series of rights and obligations between Choice Properties and the Company, intended to establish a preferential and mutually beneficial business and operating relationship. The Agreement expires on July 5, 2023, ten years from the IPO.

**Services Agreement** The Company provided Choice Properties with administrative and other support services. This agreement was terminated on December 31, 2018.

**Property Management Agreement** Choice Properties provides the Company with property management services for properties with third-party tenancies on a fee for service basis for an initial two-year term with automatic one-year renewals.

**Sublease Administration Agreement** Choice Properties provides the Company with certain administrative services related to the subleases of gas bar operations to Brookfield Business Partners L.P. on a fee for service basis for an initial five-year term with automatic one-year renewals.

**Letters of Credit** As at December 28, 2019, letters of credit totaling \$2 million were posted by the Company with the Province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from the Company (December 29, 2018 – \$3 million).

**Distributions on Choice Properties LP Units** Prior to the spin-out and the acquisition of CREIT by Choice Properties, the Company held all the Exchangeable Units and Class C LP Units issued by Choice Properties. For the year ended December 29, 2018, the Company received distributions totaling \$238 million on these units held.

**Trust Unit Distributions** Prior to the spin-out, the Company held Trust Units issued by Choice Properties. For the year ended December 29, 2018, the Company received distributions of \$13 million on the Units held.

**Commitments** The following is a summary of the Company's future undiscounted contractual lease payments to Choice Properties:

(millions of Canadian dollars)	Payments due by year						As at December 28, 2019	As at December 29, 2018
	2020	2021	2022	2023	2024	Thereafter	Total	Total
Lease payments	\$ 555	\$ 519	\$ 482	\$ 508	\$ 464	\$ 1,980	\$ 4,508	\$ 5,230

**Extension of Certain Lease Terms** During 2019, Choice Properties disposed of 30 properties, leased by the Company, to a third party purchaser. As part of the transaction, the Company extended certain lease terms with Choice Properties immediately prior to the sale where the Company believed it was reasonably certain to use the premises, which resulted in a lease modification impact of approximately \$52 million to right-of-use assets and lease liabilities. Furthermore, the Company was waived of certain future capital recovery charges by Choice Properties.

**Reimbursed Contract Revenue** Certain properties with solar rooftop leases were sold to Choice Properties in prior periods. The revenue associated with the solar rooftop leases was incorrectly allocated to Choice Properties. During the year ended December 28, 2019, Choice Properties reimbursed the Company \$7 million for revenue received in prior periods, and Choice Properties and the Company acknowledged that all future revenue and liabilities relating to the solar rooftop leases and related rooftop repair costs belong to the Company.

#### 14. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments in applying the Company's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Within the context of this Annual Report, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements.

##### 14.1 Consolidation

**Judgments Made in Relation to Accounting Policies Applied** The Company uses judgment in determining the entities that it controls and therefore consolidates. The Company controls an entity when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The Company consolidates all of its wholly owned subsidiaries. Judgment is applied in determining whether the Company controls the entities in which it does not have ownership rights or does not have full ownership rights. Most often, judgment involves reviewing contractual rights to determine if rights are participating (giving power over the entity) or protective rights (protecting the Company's interest without giving it power).

##### 14.2 Inventories

**Key Sources of Estimation** Inventories are carried at the lower of cost and net realizable value which requires the Company to utilize estimates related to fluctuations in shrink, future retail prices, the impact of vendor rebates on cost, seasonality and costs necessary to sell the inventory.

##### 14.3 Impairment of Non-Financial Assets (Goodwill, Intangible Assets, Fixed Assets and Right-of-Use Assets)

**Judgments Made in Relation to Accounting Policies Applied** Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing fixed assets and right-of-use assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each retail location is a separate CGU for the purposes of fixed asset and right-of-use asset impairment testing. For the purpose of goodwill and indefinite life intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and indefinite life intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

**Key Sources of Estimation** In determining the recoverable amount of a CGU or a group of CGUs, various estimates are employed. The Company determines fair value less costs to sell using such estimates as market rental rates for comparable properties, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates. The Company determines value in use by using estimates including projected future sales, earnings and capital investment consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

#### 14.4 Customer Loyalty Awards Programs

**Key Sources of Estimation** The Company defers revenue at the time the award is earned by members based on the relative fair value of the award. The relative fair value is determined by allocating consideration between the fair value of the loyalty awards earned by loyalty program members, net of breakage, and the goods and services on which the awards were earned, based on their relative stand-alone selling price. The estimated fair value per point for the *PC Optimum* program is determined based on the program reward schedule and is \$1 for every 1,000 points earned. The breakage rate of the program is an estimate of the amount of points that will never be redeemed. The rate is reviewed on an ongoing basis and is estimated utilizing historical redemption activity and anticipated earn and redeem behaviour of members.

#### 14.5 Impairment of Credit Card Receivables

**Judgments Made in Relation to Accounting Policies Applied** In each stage of the impairment model, impairment is determined based on the probability of default, loss given default, and expected exposures at default on drawn and undrawn exposures on credit card receivables, discounted using an average portfolio yield rate. The application of the expected credit loss ("ECL") model requires management to apply the following significant judgments, assumptions and estimations:

- Movement of impairment measurement between the three stages of the ECL model, based on the assessment of the increase in credit risks on credit card receivables. The assessment of changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss experience and external credit scores;
- Thresholds for significant increase in credit risks based on changes in probability of default over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic conditions.

#### 14.6 Income and Other Taxes

**Judgments Made in Relation to Accounting Policies Applied** The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments is required regarding the classification of transactions and in assessing probable outcomes of claimed deductions including expectations about future operating results and the timing and reversal of temporary differences.

#### 14.7 Segment Information

**Judgments Made in Relation to Determining the Aggregation of Operating Segments** The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. The Retail reportable operating segment consists of several operating segments comprised primarily of food retail and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise. The Company has aggregated its retail operating segments on the basis of their similar economic characteristics, customers and nature of products. This similarity in economic characteristics reflects the fact that the Company's retail operating segments operate primarily in Canada and are therefore subject to the same economic market pressures and regulatory environment. The Company's retail operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The similar economic characteristics also include the provision of centralized, common functions such as marketing and IT across all retail operating segments.

The retail operating segments' customer profile is primarily individuals who are purchasing goods for their own or their family's personal needs and consumption. The nature of products and the product assortment sold by each of the retail operating segments is also similar and includes grocery, pharmaceuticals, cosmetics, electronics and housewares. The aggregation of the retail operating segments reflects the nature and financial effects of the business activities in which the Company engages and the economic environment in which it operates.

#### 14.8 Provisions

**Judgments made in Relation to Accounting Policies Applied and Key Sources of Estimation** The recording of provisions requires management to make certain judgments regarding whether there is a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and if a reliable estimate of the amount of the obligation can be made. The Company has recorded provisions primarily in respect of restructuring, environmental and decommissioning liabilities, certain onerous costs on leased properties and legal claims. The Company reviews the merits, risks and uncertainties of each provision, based on current information, and the amount expected to be required to settle the obligation. Provisions are reviewed on an ongoing basis and are adjusted accordingly when new facts and events become known to the Company.

## 14.9 Leases

**Judgments Made in Relation to Accounting Policies Applied** Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option including investments in major leaseholds, store performances, past business practice and the length of time remaining before the option is exercisable. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew. Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the retail industry may impact management's assessment of lease term, and any changes in management's estimate of lease terms may have a material impact on the Company's balance sheet and statement of earnings.

**Key Sources of Estimation** In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate using a base risk-free interest rate estimated by reference to the Government of Canada bond yield with an adjustment that reflects the Company's credit rating, the security, lease term and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change due to changes in the business and macroeconomic environment.

## 15. Accounting Standards

### 15.1 Accounting Standard Implemented in 2019

**IFRS 16** In 2016, the IASB issued IFRS 16, replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it had the option of adopting a fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company adopted the standard on December 30, 2018 using the modified retrospective approach. The Company applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively, as if the standard had been applied since lease commencement dates, using the Company's incremental borrowing rates at the date of initial application.

Substantially all of the Company's operating leases are real estate leases for retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and IT equipment. The Company recognized right-of-use assets and lease liabilities for its operating leases except for certain classes of underlying assets in which the lease terms are 12 months or less. The depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease. There are no significant impacts to the Company's existing finance leases under IAS 17 as a lessee.

The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are primarily related to non-consolidated franchise stores, medical centers and ancillary tenants within stores. As an intermediate lessor, the Company reassessed the classification of its subleases by reference to the right-of-use assets arising from the head lease and recognized a corresponding finance lease receivable when the reassessment concluded that the subleases were finance leases.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

- grandfathered the definition of leases for existing contracts at the date of initial application;
- applied the recognition exemption for certain short-term trailer rentals and properties. The practical expedient for excluding leases for which the lease term ends within 12 months of the date of initial application was not elected by the Company;
- used portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- excluded initial direct costs from the measurement of right-of-use assets at the date of initial application; and
- used hindsight in determining lease term at the date of initial application.

## Management's Discussion and Analysis

The Company did not exercise the practical expedient wherein a lessee may rely on its assessment of whether leases are onerous applying IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review. On the date of initial application, the Company applied the requirements of IAS 36, "Impairment of Assets" and recorded an impairment of \$94 million on right-of-use assets in opening retained earnings, which represents an incremental \$46 million to the previous onerous lease provision.

The impact of adopting IFRS 16 on the Company's balance sheet as at December 30, 2018 was as follows:

Consolidated Balance Sheets (millions of Canadian Dollars) / Increase (Decrease)	As reported as at December 29, 2018	IFRS 16 Adjustments	As at December 30, 2018
<b>Current assets</b>			
Prepaid expenses and other assets <sup>(i)</sup>	\$ 304	\$ (104)	\$ 200
<b>Total current assets impacted</b>	<b>\$ 304</b>	<b>\$ (104)</b>	<b>\$ 200</b>
Fixed assets <sup>(ii)</sup>	5,931	(435)	5,496
Right-of-use assets <sup>(ii)</sup>	—	7,602	7,602
Intangible assets <sup>(iii)</sup>	7,798	(82)	7,716
Deferred income tax assets <sup>(iv)</sup>	144	34	178
Other assets <sup>(v)</sup>	389	128	517
<b>Total assets impacted</b>	<b>\$ 14,566</b>	<b>\$ 7,143</b>	<b>\$ 21,709</b>
<b>Current liabilities</b>			
Trade payables and other liabilities <sup>(vi)</sup>	\$ 5,302	\$ (11)	\$ 5,291
Provisions <sup>(vii)</sup>	165	(4)	161
Long term debt due within one year <sup>(ii)</sup>	1,647	(37)	1,610
Lease liabilities due within one year <sup>(ii)</sup>	—	1,192	1,192
<b>Total current liabilities impacted</b>	<b>\$ 7,114</b>	<b>\$ 1,140</b>	<b>\$ 8,254</b>
Provisions <sup>(vii)</sup>	152	(51)	101
Long term debt <sup>(ii)</sup>	6,379	(498)	5,881
Lease liabilities <sup>(ii)</sup>	—	7,985	7,985
Deferred income tax liabilities <sup>(iv)</sup>	1,947	(256)	1,691
Other liabilities <sup>(vi)</sup>	793	(379)	414
Retained earnings <sup>(viii)</sup>	4,580	(798)	3,782
<b>Total liabilities and equity impacted</b>	<b>\$ 20,965</b>	<b>\$ 7,143</b>	<b>\$ 28,108</b>

(i) Relates to prepaid rent as at December 29, 2018, which is captured under lease liabilities due within one year after the implementation of IFRS 16.

(ii) Leases previously classified as finance lease arrangements under IAS 17 were presented within fixed assets, long term debt due within one year and long term debt. Effective December 30, 2018, these balances are included in right-of-use assets, lease liabilities due within one year and lease liabilities.

(iii) Derecognize fair value of acquired leased assets on business combination as at December 29, 2018.

(iv) Deferred income tax impacts resulting from the implementation entries at the date of initial application.

(v) Recognize finance lease receivable as determined under IFRS 16.

(vi) Derecognize deferred rent obligation, tenant inducements and fair value of acquired leased liabilities on business combination as at December 29, 2018.

(vii) Derecognize the base rent portion of the onerous lease provision.

(viii) The cumulative effects of initial application are recorded in retained earnings with no restatement of the comparative period.

The Company used its incremental borrowing rates as at December 30, 2018 to measure lease liabilities. The weighted average incremental borrowing rate was 4.36%. The weighted average lease term remaining as at December 30, 2018 was approximately 10 years.

The following reconciliation is between lease liabilities recognized on December 30, 2018 and operating lease commitments disclosed under IAS 17 as at December 29, 2018 discounted using the incremental borrowing rates as at the date of initial application:

(millions of Canadian Dollars)	As at December 30, 2018
Operating lease commitments as at December 29, 2018 as disclosed in the Company's notes to the consolidated financial statements	\$ 9,987
Discounted using the incremental borrowing rates as at December 30, 2018 <sup>(i)</sup>	\$ 8,048
Finance lease obligations recognized as at December 29, 2018 <sup>(ii)</sup>	535
Extension and termination options reasonably certain to be exercised <sup>(iii)</sup>	594
<b>Lease liabilities recognized as at December 30, 2018</b>	<b>\$ 9,177</b>
Lease liabilities due within one year	\$ 1,192
Lease liabilities	7,985
<b>Total lease liabilities</b>	<b>\$ 9,177</b>

- (i) Operating lease commitments as at December 29, 2018 were disclosed based on undiscounted cash flows. Under IFRS 16, lease payment obligations are discounted using the Company's incremental borrowing rates.
- (ii) Finance lease obligations, as determined under IAS 17, were recognized in lease liabilities on December 30, 2018 at the carrying amount immediately before the date of initial application.
- (iii) Operating lease commitments as at December 29, 2018 reflected only the contractual lease payments. Under IFRS 16, lease liabilities include lease payments for renewal periods where management is reasonably certain to renew.

## 15.2 Future Accounting Standard

**IFRS 17** In 2017, the IASB issued IFRS 17, "Insurance Contracts" ("IFRS 17") replacing IFRS 4, "Insurance Contracts". IFRS 17 introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to these contracts. Additionally, IFRS 17 requires an entity to recognize profits as it delivers insurance services, rather than when it receives premiums. The standard is effective for annual periods beginning on or after January 1, 2021 and is to be applied retrospectively. However, the IASB has proposed deferring the effective date to January 1, 2022. While early adoption is permitted, the Company does not intend to early adopt IFRS 17. The Company is currently assessing the impact of the standard on its consolidated financial statements.

## 16. Outlook<sup>(3)</sup>

Loblaw is focused on its strategic framework, delivering best in food and health and beauty, using data driven insights underpinned by process and efficiency excellence. This framework is supported by the Company's financial plan of maintaining market share, with positive same-store sales and stable gross margin, creating efficiencies to deliver operating leverage, investing for the future and returning capital to shareholders.

The Company will remain focused on delivering Process and Efficiency improvements to offset increasing costs and to fund continued incremental investments in infrastructure and to support its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments & Rewards.

In 2020, the Company's results will include the impact of a 53<sup>rd</sup> week, which is expected to benefit adjusted net earnings per common share by approximately \$0.08. On a full-year comparative basis, excluding the impact of the 53<sup>rd</sup> week, we expect to:

- deliver positive same-store sales and stable gross margin in the Retail segment in a highly competitive market;
- deliver positive adjusted net earnings growth;
- invest approximately \$1.1 billion in capital expenditures, net of proceeds from property disposals; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

## 17. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted effective tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share, free cash flow; retail debt to retail adjusted EBITDA; adjusted return on equity; and adjusted return on capital. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying consolidated and segment operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

**Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage** The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to revenue and cost of merchandise inventories sold measures as reported in the consolidated statements of earnings for the years ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as Retail segment adjusted gross profit divided by Retail segment revenue.

	2019 (12 weeks)				2018 <sup>(4)</sup> (12 weeks)			
For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars)	Retail	Financial Services	Eliminations	Total	Retail	Financial Services	Eliminations	Total
Revenue	\$ 11,321	\$ 337	\$ (68)	\$ 11,590	\$ 10,976	\$ 336	\$ (94)	\$ 11,218
Cost of merchandise inventories sold	7,944	64	—	8,008	7,710	58	—	7,768
Gross profit	\$ 3,377	\$ 273	\$ (68)	\$ 3,582	\$ 3,266	\$ 278	\$ (94)	\$ 3,450
Adjusted gross profit	\$ 3,377	\$ 273	\$ (68)	\$ 3,582	\$ 3,266	\$ 278	\$ (94)	\$ 3,450

	2019 (52 weeks)				2018 <sup>(4)</sup> (52 weeks)			
For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars)	Retail	Financial Services	Eliminations	Total	Retail	Financial Services	Eliminations	Total
Revenue	\$ 47,099	\$ 1,196	\$ (258)	\$ 48,037	\$ 45,836	\$ 1,082	\$ (225)	\$ 46,693
Cost of merchandise inventories sold	33,100	181	—	33,281	32,358	141	—	32,499
Gross profit	\$ 13,999	\$ 1,015	\$ (258)	\$ 14,756	\$ 13,478	\$ 941	\$ (225)	\$ 14,194
Add impact of the following:								
Impact of healthcare reform on inventory balances	—	—	—	—	19	—	—	19
Adjusted gross profit	\$ 13,999	\$ 1,015	\$ (258)	\$ 14,756	\$ 13,497	\$ 941	\$ (225)	\$ 14,213

**Impact of healthcare reform on inventory balances** In the first quarter of 2018, the Company recorded an inventory provision for the write-down of inventories below cost to net realizable value, related to its generic drug inventory, as a result of healthcare reform announced in the first quarter of 2018, effective April 1, 2018.

**Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin** The following tables reconcile adjusted operating income and adjusted EBITDA to operating income, which is reconciled to net earnings attributable to shareholders of the Company as reported in the consolidated statements of earnings for the years ended as indicated. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenue.

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars)	2019 (12 weeks)			2018 (12 weeks)		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			\$ 257			\$ 231
Add impact of the following:						
Non-controlling interests			9			19
Net interest expense and other financing charges			176			95
Income taxes			99			100
Operating income	\$ 480	\$ 61	\$ 541	\$ 408	\$ 37	\$ 445
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 116	\$ —	\$ 116	\$ 120	\$ —	\$ 120
Fixed asset and other related impairments, net of recoveries	83	—	83	83	—	83
Restructuring and other related costs	23	1	24	(4)	—	(4)
Spin-out of Choice Properties	—	—	—	2	—	2
Fair value adjustment on fuel and foreign currency contracts	(5)	—	(5)	8	—	8
Certain prior period items	(7)	—	(7)	—	—	—
Gain on sale of non-operating properties	(8)	—	(8)	—	—	—
Fair value adjustment on investment properties	(12)	—	(12)	5	—	5
Adjusting Items	\$ 190	\$ 1	\$ 191	\$ 214	\$ —	\$ 214
Adjusted operating income	\$ 670	\$ 62	\$ 732	\$ 622	\$ 37	\$ 659
Depreciation and amortization	581	8	589	353	3	356
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(116)	—	(116)	(120)	—	(120)
Adjusted EBITDA	\$ 1,135	\$ 70	\$ 1,205	\$ 855	\$ 40	\$ 895

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For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars)	2019 (52 weeks)			2018 (52 weeks)		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			\$ 1,081			\$ 719
Add impact of the following:						
Non-controlling interests			50			34
Net interest expense and other financing charges			747			564
Income taxes			392			606
Operating income	\$ 2,082	\$ 188	\$ 2,270	\$ 1,717	\$ 206	\$ 1,923
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 508	\$ —	\$ 508	\$ 521	\$ —	\$ 521
Fixed asset and other related impairments, net of recoveries	83	—	83	83	—	83
Restructuring and other related costs	72	2	74	10	—	10
Pension annuities and buy-outs	10	—	10	1	—	1
Impact of healthcare reform on inventory balances	—	—	—	19	—	19
Loblaw Card Program	—	—	—	4	—	4
Wind-down of <i>PC Financial</i> personal banking services	—	—	—	—	(20)	(20)
Spin-out of Choice Properties	—	—	—	8	—	8
Fair value adjustment on fuel and foreign currency contracts	—	—	—	(3)	—	(3)
Gain on sale of non-operating properties	(12)	—	(12)	—	—	—
Fair value adjustment on investment properties	(15)	—	(15)	6	—	6
Certain prior period items	(22)	—	(22)	—	—	—
Adjusting Items	\$ 624	\$ 2	\$ 626	\$ 649	\$ (20)	\$ 629
Adjusted operating income	\$ 2,706	\$ 190	\$ 2,896	\$ 2,366	\$ 186	\$ 2,552
Depreciation and amortization	2,502	22	2,524	1,487	10	1,497
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(508)	—	(508)	(521)	—	(521)
Adjusted EBITDA	\$ 4,700	\$ 212	\$ 4,912	\$ 3,332	\$ 196	\$ 3,528

In addition to the items described in the Retail segment adjusted gross profit section above, adjusted EBITDA was impacted by the following:

**Amortization of intangible assets acquired with Shoppers Drug Mart** The acquisition of Shoppers Drug Mart in 2014 included approximately \$6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately \$500 million until 2024 and will decrease thereafter.

**Fixed asset and other related impairments, net of recoveries** At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, right-of-use assets and intangible assets.

**Restructuring and other related costs** The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing.

**Pension annuities and buy-outs** The Company has and continues to undertake annuity purchases and pension buy-outs in respect of former employees to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks.

**Loblaw Card Program** In the fourth quarter of 2017, the Company and Weston acknowledged their involvement in an industry wide price-fixing arrangement involving certain packaged bread products. In connection with the arrangement, the Company offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017. In 2018, the Company recorded an incremental charge of \$4 million year-to-date.

**Wind-down of PC Financial personal banking services** In the third quarter of 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the PC Financial brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

**Spin-out of Choice Properties** In 2018, the Company recorded transaction and other related costs in connection with the spin-out of its interest in Choice Properties.

**Fair value adjustment on fuel and foreign currency contracts** The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

**Gain on sale of non-operating properties** In 2019, the Company disposed of non-operating properties to a third party and recorded a gain of \$12 million related to the sale.

**Fair value adjustment on investment properties** The Company measures investment properties at fair value. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

**Certain prior period items** In the second quarter of 2019, the Company revised its estimate of the amount owed associated with a prior period regulatory matter. In addition, the Company sold certain properties to Choice Properties and the revenue received with respect to solar rooftop leases was incorrectly allocated to Choice Properties. In 2019, the Company was reimbursed \$7 million for revenue Choice Properties had received in prior periods on behalf of the Company. The Company and Choice Properties acknowledged that all future revenue and liabilities relating to the solar rooftop leases and related rooftop repair costs belong to the Company.

**Adjusted Net Interest Expense and Other Financing Charges** The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges as reported in the consolidated statements of earnings for the years ended as indicated. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars)	2019 (12 weeks)	2018 (12 weeks)	2019 (52 weeks)	2018 (52 weeks)
Net interest expense and other financing charges	\$ 176	\$ 95	\$ 747	\$ 564
Deduct impact of the following:				
Charge related to Glenhuron	—	—	—	(176)
Spin-out of Choice Properties	—	(1)	—	(1)
Adjusted net interest expense and other financing charges	\$ 176	\$ 94	\$ 747	\$ 387

**Charge related to Glenhuron** In the third quarter of 2018, the Company recorded a charge of \$367 million related to the Tax Court's decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest and other financing charges and \$191 million was recorded in income taxes.

**Adjusted Income Taxes and Adjusted Effective Tax Rate** The following table reconciles adjusted income taxes to income taxes as reported in the consolidated statements of earnings for the years ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

Adjusted effective tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest expense and other financing charges.

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (12 weeks)	2018 (12 weeks)	2019 (52 weeks)	2018 (52 weeks)
Adjusted operating income <sup>(i)</sup>	\$ 732	\$ 659	\$ 2,896	\$ 2,552
Adjusted net interest expense and other financing charges <sup>(i)</sup>	176	94	747	387
Adjusted earnings before taxes	\$ 556	\$ 565	\$ 2,149	\$ 2,165
Income taxes	\$ 99	\$ 100	\$ 392	\$ 606
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes <sup>(ii)</sup>	50	55	167	165
Reserve release related to 2014 tax audit	—	—	8	—
Statutory corporate income tax rate change	—	—	4	—
Charge related to Glenhuron	—	—	—	(191)
Adjusted income taxes	\$ 149	\$ 155	\$ 571	\$ 580
Effective tax rate	27.1%	28.6%	25.7%	44.6%
Adjusted effective tax rate	26.8%	27.4%	26.6%	26.8%

(i) See reconciliations of adjusted operating income and adjusted net interest expense and other financing charges in the tables above.

(ii) See the adjusted operating income, adjusted EBITDA and adjusted EBITDA margin table and the adjusted net interest expense and other financing charges table above for a complete list of items included in adjusted earnings before taxes.

**Reserve release related to 2014 tax audit** In the third quarter of 2019, the Company reversed certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart acquisition costs incurred in 2014.

**Statutory corporate income tax rate change** The Company's deferred income tax assets and liabilities are impacted by changes to provincial statutory corporate income tax rates resulting in a charge or benefit to earnings. The Company implements changes in the statutory corporate income tax rate in the same period the change is substantively enacted by the legislative body.

In the second quarter of 2019, the Government of Alberta substantively enacted a gradual decrease in the provincial statutory corporate income tax rate from 12% to 8% by 2022. The Company recorded income of \$4 million in the second quarter of 2019 related to the remeasurement of its deferred income tax balances.

**Charge related to Glenhuron** In the third quarter of 2018, the Company recorded a charge of \$367 million related to the Tax Court's decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest and other financing charges and \$191 million was recorded in income taxes.

**Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share** The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company for the periods ended as indicated. The Company believes that adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019 (12 weeks)	2018 (12 weeks)	2019 (52 weeks)	2018 (52 weeks)
Net earnings attributable to shareholders of the Company	\$ 257	\$ 224	\$ 1,081	\$ 766
Net loss (earnings) from Discontinued Operations	—	7	—	(47)
Net earnings attributable to shareholders of the Company from Continuing Operations	\$ 257	\$ 231	\$ 1,081	\$ 719
Prescribed dividends on preferred shares in share capital	(3)	(3)	(12)	(12)
Net earnings available to common shareholders of the Company from Continuing Operations	\$ 254	\$ 228	\$ 1,069	\$ 707
Net earnings attributable to shareholders of the Company from Continuing Operations	\$ 257	\$ 231	\$ 1,081	\$ 719
Adjusting items (refer to the following table)	141	160	447	832
Adjusted net earnings attributable to shareholders of the Company from Continuing Operations	\$ 398	\$ 391	\$ 1,528	\$ 1,551
Prescribed dividends on preferred shares in share capital	(3)	(3)	(12)	(12)
Adjusted net earnings available to common shareholders of the Company from Continuing Operations	\$ 395	\$ 388	\$ 1,516	\$ 1,539
Diluted weighted average common shares outstanding (millions)	363.7	376.1	368.4	379.3

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The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to net earnings available to common shareholders of the Company and diluted net earnings per common share for the periods ended as indicated.

	2019 (12 weeks)		2018 (12 weeks)		2019 (52 weeks)		2018 (52 weeks)	
	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings (Loss) Available to Common Shareholders of the Company	Diluted Net Earnings (Loss) Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars/Canadian dollars)								
<b>Continuing Operations</b>	\$ 254	\$ 0.70	\$ 228	\$ 0.61	\$ 1,069	\$ 2.90	\$ 707	\$ 1.87
<b>Discontinued Operations</b>	—	—	(7)	(0.02)	—	—	47	0.12
<b>As reported</b>	\$ 254	\$ 0.70	\$ 221	\$ 0.59	\$ 1,069	\$ 2.90	\$ 754	\$ 1.99
<b>Continuing Operations</b>	\$ 254	\$ 0.70	\$ 228	\$ 0.61	\$ 1,069	\$ 2.90	\$ 707	\$ 1.87
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 86	\$ 0.23	\$ 89	\$ 0.23	\$ 373	\$ 1.01	\$ 383	\$ 1.01
Fixed asset and other related impairments, net of recoveries	62	0.17	60	0.16	62	0.17	60	0.16
Restructuring and other related costs	18	0.05	(2)	(0.01)	54	0.15	7	0.02
Pension annuities and buy-outs	—	—	—	—	7	0.02	1	—
Loblaw Card Program	—	—	—	—	—	—	3	0.01
Wind-down of PC Financial personal banking services	—	—	—	—	—	—	(15)	(0.04)
Impact of healthcare reform on inventory balances	—	—	—	—	—	—	14	0.04
Statutory corporate income tax rate change	—	—	—	—	(4)	(0.01)	—	—
Spin-out of Choice Properties	—	—	3	0.01	—	—	9	0.02
Charge related to Glenhuron	—	—	—	—	—	—	367	0.97
Reserve release related to 2014 tax audit	—	—	—	—	(8)	(0.02)	—	—
Fair value adjustment on fuel and foreign currency contracts	(4)	(0.01)	6	0.02	—	—	(2)	(0.01)
Certain prior period items	(5)	(0.01)	—	—	(16)	(0.04)	—	—
Gain on sale of non-operating properties	(7)	(0.02)	—	—	(10)	(0.03)	—	—
Fair value adjustment on investment properties	(9)	(0.02)	4	0.01	(11)	(0.03)	5	0.01
Adjusting items from Continuing Operations	\$ 141	\$ 0.39	\$ 160	\$ 0.42	\$ 447	\$ 1.22	\$ 832	\$ 2.19
<b>Adjusted Continuing Operations</b>	\$ 395	\$ 1.09	\$ 388	\$ 1.03	\$ 1,516	\$ 4.12	\$ 1,539	\$ 4.06
<b>Discontinued Operations</b>	\$ —	\$ —	\$ (7)	\$ (0.02)	\$ —	\$ —	\$ 47	\$ 0.12
Add (deduct) impact of the following:								
Fair value adjustment on Trust Unit liability <sup>(i)</sup>	\$ —	\$ —	\$ 27	\$ 0.08	\$ —	\$ —	\$ 33	\$ 0.09
CREIT acquisition and other related costs	—	—	1	—	—	—	119	0.31
Gain on sale of air rights	—	—	—	—	—	—	(11)	(0.03)
Restructuring and other related costs	—	—	(1)	—	—	—	(11)	(0.03)
Fair value adjustment on investment properties	—	—	(6)	(0.02)	—	—	30	0.08
Adjusting items from Discontinued Operations	\$ —	\$ —	\$ 21	\$ 0.06	\$ —	\$ —	\$ 160	\$ 0.42
<b>Adjusted Discontinued Operations</b>	\$ —	\$ —	\$ 14	\$ 0.04	\$ —	\$ —	\$ 207	\$ 0.54
<b>Adjusted Total Company</b>	\$ 395	\$ 1.09	\$ 402	\$ 1.07	\$ 1,516	\$ 4.12	\$ 1,746	\$ 4.60

(i) Gains or losses related to the fair value adjustment to the Trust Unit Liability are not subject to tax.

In addition to the items described in the adjusted gross profit<sup>(2)</sup>, and adjusted EBITDA<sup>(2)</sup> and adjusted net interest expense and other financing charges<sup>(2)</sup> section above, discontinued operations adjusted net earnings available to common shareholders of the Company was impacted by the following:

**Fair value adjustment to the Trust Unit Liability** Prior to the spin-out of Choice Properties, the Company was exposed to market price fluctuations as a result of the Units held by unitholders other than the Company and on the basis the Company consolidated Choice Properties. These Units were presented as a liability on the Company's consolidated balance sheets as they were redeemable for cash at the option of the holder, subject to certain restrictions. The liability was recorded at fair value at each reporting date based on the market price of Units at the end of each period. An increase (decrease) in the market price of Units resulted in a charge (reduction) to net interest expense and other financing charges.

**CREIT acquisition and other related costs** The Company recorded acquisition and other related costs in connection with Choice Properties' acquisition of CREIT in discontinued operations in the first half of 2018.

**Gain on sale of air rights** In the third quarter of 2018, a joint venture owned by Choice Properties completed the sale of air rights on one of its properties. The Company recorded a gain in discontinued operations of \$11 million in the third quarter related to the sale.

**Free Cash Flow** The following table reconciles free cash flow to cash flows from operating activities as reported in the consolidated statements of cash flows for the years ended as indicated. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

The definition of free cash flow<sup>(2)</sup> was changed in the first quarter of 2019 to normalize for the impact of the implementation of IFRS 16. Lease payments were deducted from the calculation, which resulted in no IFRS 16 impact on the metric.

For the periods ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars)	2019 (12 weeks)	2018 (12 weeks)	2019 (52 weeks)	2018 (52 weeks)
Cash flows from operating activities from Continuing Operations <sup>(i)</sup>	\$ 988	\$ 310	\$ 3,960	\$ 2,249
Cash flows from operating activities from Discontinued Operations <sup>(i)</sup>	—	4	—	252
<b>Cash flows from operating activities Total Company</b>	<b>\$ 988</b>	<b>\$ 314</b>	<b>\$ 3,960</b>	<b>\$ 2,501</b>
Cash flows from operating activities from Continuing Operations <sup>(i)</sup>	\$ 988	\$ 310	\$ 3,960	\$ 2,249
Less:				
Capital investments	426	414	1,206	1,070
Interest paid	74	58	349	509
Lease payments, net <sup>(ii)</sup>	216	—	1,195	—
<b>Free cash flow from Continuing Operations</b>	<b>\$ 272</b>	<b>\$ (162)</b>	<b>\$ 1,210</b>	<b>\$ 670</b>
Cash flows from operating activities from Discontinued Operations <sup>(i)</sup>	\$ —	\$ 4	\$ —	\$ 252
Less:				
Capital investments	—	68	—	264
Interest paid	—	31	—	292
<b>Free cash flow from Discontinued Operations</b>	<b>\$ —</b>	<b>\$ (95)</b>	<b>\$ —</b>	<b>\$ (304)</b>
<b>Free cash flow from Total Company</b>	<b>\$ 272</b>	<b>\$ (257)</b>	<b>\$ 1,210</b>	<b>\$ 366</b>

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

(ii) Includes cash rent paid on lease liabilities, net of lease payments received from finance leases. This adjustment normalizes for the impact of the implementation of IFRS 16.

**Retail Debt to Retail Adjusted EBITDA, Adjusted Return on Equity and Adjusted Return on Capital** The Company uses the following metrics to measure its leverage and profitability. The definitions of these ratios are presented below.

- **Retail Debt to Retail Adjusted EBITDA** Retail segment total debt divided by Retail segment adjusted EBITDA for the last four quarters.
- **Adjusted Return on Equity** Adjusted net earnings available to common shareholders of the Company for the last four quarters divided by average total equity attributable to common shareholders of the Company.
- **Adjusted Return on Capital** Tax-effected adjusted operating income for the last four quarters divided by average capital where capital is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments.

## 18. Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at [sedar.com](http://sedar.com) and with OSFI as the primary regulator for the Company's subsidiary, PC Bank.

February 19, 2020  
Toronto, Canada

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### MD&A Endnotes

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- (1) For financial definitions and ratios refer to the Glossary of Terms on page 134 of the Company's 2019 Annual Report.
  - (2) See Section 17 "Non-GAAP Financial Measures", which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
  - (3) To be read in conjunction with Section 1 "Forward-Looking Statements".
  - (4) Certain figures have been restated to conform with current year presentation.
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## Financial Results

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## Management's Statement of Responsibility for Financial Reporting

Management of Loblaw Companies Limited is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements, Management's Discussion and Analysis and all other information in the Annual Report – Financial Review. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. It also includes ensuring that the financial information presented elsewhere in the Annual Report – Financial Review is consistent with that in the consolidated financial statements.

Management is also responsible for providing reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal control over financial reporting. A dedicated control compliance team reviews and evaluates internal controls, the results of which are shared with management on a quarterly basis.

KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

The Board of Directors, acting through an Audit Committee comprised solely of directors who are independent, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the shareholders. The Audit Committee meets regularly with senior and financial management, internal auditors and the independent auditors to discuss internal controls, auditing activities and financial reporting matters. The independent auditors and internal auditors have unrestricted access to the Audit Committee. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors for inclusion in the Annual Report – Financial Review based on the review and recommendation of the Audit Committee.

Toronto, Canada  
February 19, 2020

*[signed]*

**Galen G. Weston**  
Executive Chairman

*[signed]*

**Darren Myers**  
Chief Financial Officer

## Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited

### Opinion

We have audited the consolidated financial statements of Loblaw Companies Limited (the "Entity"), which comprise:

- the consolidated balance sheets as at December 28, 2019 and December 29, 2018
- the consolidated statements of earnings for the 52 week years then ended
- the consolidated statements of comprehensive income for the 52 week years then ended
- the consolidated statements of changes in equity for the 52 week years then ended
- the consolidated statements of cash flows for the 52 week years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 28, 2019 and December 29, 2018, and its consolidated financial performance and its consolidated cash flows for the 52 week years then ended in accordance with International Financial Reporting Standards (IFRS).

### 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 Financial Statements"** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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.

### Emphasis of Matter - Change in Accounting Policy

We draw attention to Note 2 to the financial statements which indicates that the Entity has changed its accounting policy for leases as of December 30, 2018 due to the adoption of IFRS 16 Leases and has applied that change using a modified retrospective approach.

Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2019 Annual Report - Financial Review".
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report".

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and a document entitled "2019 Annual Report - Financial Review" filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

## Independent Auditors' Report

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

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

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 the 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 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 Entity'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 Entity'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 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



Toronto, Canada  
February 19, 2020

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Sebastian Distefano.

## Consolidated Statements of Earnings

For the years ended December 28, 2019 and December 29, 2018

(millions of Canadian dollars except where otherwise indicated)

	2019	2018 <sup>(i)</sup>
<b>Revenue</b>	<b>\$ 48,037</b>	\$ 46,693
<b>Cost of merchandise inventories sold</b>	<b>33,281</b>	32,499
<b>Selling, general and administrative expenses</b>	<b>12,486</b>	12,271
<b>Operating income</b>	<b>\$ 2,270</b>	\$ 1,923
Net interest expense and other financing charges (note 7)	747	564
<b>Earnings before income taxes</b>	<b>\$ 1,523</b>	\$ 1,359
Income taxes (note 8)	392	606
<b>Net earnings from Continuing Operations</b>	<b>\$ 1,131</b>	\$ 753
<b>Net earnings from Discontinued Operations (note 6)</b>	<b>—</b>	47
<b>Net earnings</b>	<b>\$ 1,131</b>	\$ 800
Attributable to:		
Shareholders of the Company (note 9)	\$ 1,081	\$ 766
Non-controlling interests	50	34
<b>Net earnings</b>	<b>\$ 1,131</b>	\$ 800
<b>Net earnings per common share - Basic (\$) (note 9)</b>		
Continuing Operations	\$ 2.93	\$ 1.88
Discontinued Operations	\$ —	\$ 0.12
<b>Net earnings per common share - Diluted (\$) (note 9)</b>		
Continuing Operations	\$ 2.90	\$ 1.87
Discontinued Operations	\$ —	\$ 0.12
<b>Weighted average common shares outstanding (millions) (note 9)</b>		
Basic	365.4	376.7
Diluted	368.4	379.3

(i) Certain comparative figures have been restated to conform with current year presentation. See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Comprehensive Income

For the years ended December 28, 2019 and December 29, 2018

(millions of Canadian dollars)

	2019	2018
Net earnings from Continuing Operations	\$ 1,131	\$ 753
Other comprehensive income (loss), net of taxes		
Items that are or may be subsequently reclassified to profit or loss:		
Foreign currency translation adjustment gain (loss)	\$ 3	\$ (2)
Unrealized gain (loss) on cash flow hedges (note 30)	(5)	(3)
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial (loss) gain (note 26)	(3)	91
Adjustment to fair value on transfer of investment properties	—	16
Other comprehensive (loss) income from Continuing Operations	\$ (5)	\$ 102
Comprehensive income from Continuing Operations	\$ 1,126	\$ 855
Net earnings from Discontinued Operations (note 6)	—	47
Other comprehensive income from Discontinued Operations	—	5
Comprehensive income from Discontinued Operations	\$ 1,126	\$ 52
<b>Total comprehensive income</b>	<b>\$ 1,126</b>	<b>\$ 907</b>
Attributable to:		
Shareholders of the Company	\$ 1,076	\$ 873
Non-controlling interests	50	34
<b>Total comprehensive income</b>	<b>\$ 1,126</b>	<b>\$ 907</b>

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
<b>Balance as at December 29, 2018</b>	\$ 7,162	\$ 221	\$ 7,383	\$ 4,580	\$ 107	\$ 34	\$ (1)	\$ 16	\$ 49	\$ 59	\$ 12,178
Impact of adopting IFRS 16 (note 2)	—	—	—	(798)	—	—	—	—	—	—	(798)
<b>Restated balance as at December 30, 2018</b>	\$ 7,162	\$ 221	\$ 7,383	\$ 3,782	\$ 107	\$ 34	\$ (1)	\$ 16	\$ 49	\$ 59	\$ 11,380
Net earnings	\$ —	\$ —	\$ —	\$ 1,081	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 50	\$ 1,131
Other comprehensive income (loss)	—	—	—	(3)	—	3	(5)	—	(2)	—	(5)
<b>Total comprehensive income (loss)</b>	\$ —	\$ —	\$ —	\$ 1,078	\$ —	\$ 3	\$ (5)	\$ —	\$ (2)	\$ 50	\$ 1,126
Common shares purchased and cancelled (note 24)	(206)	—	(206)	(546)	—	—	—	—	—	—	(752)
Net effect of equity-based compensation (notes 24 and 27)	94	—	94	—	(7)	—	—	—	—	—	87
Shares purchased and held in trust (note 24)	(16)	—	(16)	(46)	—	—	—	—	—	—	(62)
Shares released from trust (note 27)	10	—	10	19	—	—	—	—	—	—	29
Dividends declared per common share – \$1.240 (note 24)	—	—	—	(453)	—	—	—	—	—	—	(453)
Dividends declared per preferred share – \$1.325 (note 24)	—	—	—	(12)	—	—	—	—	—	—	(12)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(22)	(22)
	\$ (118)	\$ —	\$ (118)	\$ 40	\$ (7)	\$ 3	\$ (5)	\$ —	\$ (2)	\$ 28	\$ (59)
<b>Balance as at December 28, 2019</b>	\$ 7,044	\$ 221	\$ 7,265	\$ 3,822	\$ 100	\$ 37	\$ (6)	\$ 16	\$ 47	\$ 87	\$ 11,321

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
<b>Balance as at December 30, 2017</b>	\$ 7,445	\$ 221	\$ 7,666	\$ 5,280	\$ 110	\$ 36	\$ 2	\$ —	\$ 38	\$ 40	\$ 13,134
Impact of adopting IFRS 9	—	—	—	(72)	—	—	—	—	—	—	(72)
<b>Restated balance as at December 31, 2017</b>	\$ 7,445	\$ 221	\$ 7,666	\$ 5,208	\$ 110	\$ 36	\$ 2	\$ —	\$ 38	\$ 40	\$ 13,062
Net earnings	\$ —	\$ —	\$ —	\$ 766	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 34	\$ 800
Other comprehensive income (loss)	—	—	—	91	—	(2)	2	16	16	—	107
<b>Total comprehensive income (loss)</b>	\$ —	\$ —	\$ —	\$ 857	\$ —	\$ (2)	\$ 2	\$ 16	\$ 16	\$ 34	\$ 907
Common shares purchased and cancelled (note 24)	(381)	—	(381)	(886)	—	—	—	—	—	—	(1,267)
Net effect of equity-based compensation (notes 24 and 27)	98	—	98	(11)	(3)	—	—	—	—	—	84
Shares purchased and held in trust (note 24)	(12)	—	(12)	(24)	—	—	—	—	—	—	(36)
Shares released from trust (note 27)	12	—	12	25	—	—	—	—	—	—	37
Discontinued operations (note 6)	—	—	—	(144)	8	—	(5)	—	(5)	(9)	(150)
Dividends declared per common share – \$1.155 (note 24)	—	—	—	(433)	—	—	—	—	—	—	(433)
Dividends declared per preferred share – \$1.325 (note 24)	—	—	—	(12)	—	—	—	—	—	—	(12)
Tax impact on conversion of Class C LP Units	—	—	—	—	(8)	—	—	—	—	—	(8)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(6)	(6)
	\$ (283)	\$ —	\$ (283)	\$ (628)	\$ (3)	\$ (2)	\$ (3)	\$ 16	\$ 11	\$ 19	\$ (884)
<b>Balance at December 29, 2018</b>	\$ 7,162	\$ 221	\$ 7,383	\$ 4,580	\$ 107	\$ 34	\$ (1)	\$ 16	\$ 49	\$ 59	\$ 12,178

See accompanying notes to the consolidated financial statements.

## Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018 <sup>(i)</sup>
<b>Assets</b>		
Current assets		
Cash and cash equivalents (note 10)	\$ 1,133	\$ 1,065
Short term investments (note 10)	57	94
Security deposits (note 10)	—	800
Accounts receivable (note 11)	1,184	1,218
Credit card receivables (note 12)	3,624	3,309
Inventories (note 13)	5,076	4,803
Prepaid expenses and other assets	131	304
Assets held for sale (note 14)	105	44
<b>Total current assets</b>	<b>\$ 11,310</b>	<b>\$ 11,637</b>
Fixed assets (note 15)	5,490	5,931
Right-of-use assets (note 29)	7,362	—
Investment properties (note 16)	172	234
Intangible assets (note 17)	7,322	7,798
Goodwill (note 18)	3,946	3,942
Deferred income tax assets (note 8)	169	144
Franchise loans receivable (note 30)	19	78
Other assets (note 19)	519	389
<b>Total assets</b>	<b>\$ 36,309</b>	<b>\$ 30,153</b>
<b>Liabilities</b>		
Current liabilities		
Bank indebtedness (note 33)	\$ 18	\$ 56
Trade payables and other liabilities	5,321	5,302
Loyalty liability (note 20)	191	228
Provisions (note 21)	119	165
Income taxes payable	27	131
Short term debt (note 12)	725	915
Long term debt due within one year (note 22)	1,127	1,647
Lease liabilities due within one year (note 29)	1,419	—
Associate interest	280	260
<b>Total current liabilities</b>	<b>\$ 9,227</b>	<b>\$ 8,704</b>
Provisions (note 21)	102	152
Long term debt (note 22)	5,971	6,379
Lease liabilities (note 29)	7,691	—
Deferred income tax liabilities (note 8)	1,539	1,947
Other liabilities (note 23)	458	793
<b>Total liabilities</b>	<b>\$ 24,988</b>	<b>\$ 17,975</b>
<b>Equity</b>		
Share capital (note 24)	\$ 7,265	\$ 7,383
Retained earnings	3,822	4,580
Contributed surplus (note 27)	100	107
Accumulated other comprehensive income	47	49
<b>Total equity attributable to shareholders of the Company</b>	<b>\$ 11,234</b>	<b>\$ 12,119</b>
Non-controlling interests	87	59
<b>Total equity</b>	<b>\$ 11,321</b>	<b>\$ 12,178</b>
<b>Total liabilities and equity</b>	<b>\$ 36,309</b>	<b>\$ 30,153</b>

(i) Certain comparative figures have been restated to conform with current year presentation.

Contingent Liabilities (note 32).

See accompanying notes to the consolidated financial statements.

## Consolidated Statements of Cash Flows

For the years ended December 28, 2019 and December 29, 2018

(millions of Canadian dollars)

	2019	2018 <sup>(i)</sup>
<b>Operating activities</b>		
Net earnings	\$ 1,131	\$ 800
Add (Deduct):		
Income taxes (notes 6 and 8)	392	664
Net interest expense and other financing charges (notes 6 and 7)	747	880
Adjustment to fair value of investment properties (note 16)	(15)	43
Depreciation and amortization	2,524	1,592
Asset impairments, net of recoveries	92	103
Change in provisions (note 21)	(41)	(176)
	\$ 4,830	\$ 3,906
Change in non-cash working capital	21	(639)
Change in credit card receivables (note 12)	(315)	(307)
Income taxes paid	(630)	(511)
Interest received	16	31
Interest received from finance leases (note 29)	5	—
Other	33	21
<b>Cash flows from operating activities</b>	\$ 3,960	\$ 2,501
<b>Investing activities</b>		
Fixed asset purchases (note 15)	\$ (817)	\$ (1,010)
Intangible asset additions (note 17)	(376)	(324)
Acquisition of CREIT, net of cash acquired (note 6)	—	(1,619)
Cash assumed on initial consolidation of franchises (note 5)	20	18
Cash disposed of related to Discontinued Operations	—	(52)
Change in short term investments (note 10)	37	452
Change in security deposits (note 10)	800	(800)
Proceeds from disposal of assets	113	122
Lease payments received from finance leases	9	—
Other	(75)	(83)
<b>Cash flows used in investing activities</b>	\$ (289)	\$ (3,296)
<b>Financing activities</b>		
Change in bank indebtedness	\$ (38)	\$ (54)
Change in short term debt (note 12)	(190)	275
Long term debt (note 22)		
Issued	672	4,880
Repayments	(1,083)	(2,715)
Interest paid	(349)	(801)
Cash rent paid on lease liabilities - Interest (notes 7 and 29)	(387)	—
Cash rent paid on lease liabilities - Principal (note 29)	(822)	—
Dividends paid on common and preferred shares	(460)	(440)
Common share capital		
Issued (note 27)	82	78
Purchased and held in trust (note 24)	(62)	(36)
Purchased and cancelled (note 24)	(937)	(1,082)
Other	(32)	(37)
<b>Cash flows (used in) from financing activities</b>	\$ (3,606)	\$ 68
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ 3	\$ (6)
Change in cash and cash equivalents	\$ 68	\$ (733)
Cash and cash equivalents, beginning of period	1,065	1,798
<b>Cash and cash equivalents, end of period</b>	\$ 1,133	\$ 1,065

(i) Certain comparative figures have been restated to conform with current year presentation. See accompanying notes to the consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)

### Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, the nation's largest retailer. Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services, and wireless mobile products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to, in these consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston"), which owns approximately 52.2% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments Limited ("Wittington"). The remaining common shares are widely held.

On November 1, 2018, the Company and Weston completed a reorganization ("the reorganization" or "the spin-out") under which Weston received the Company's approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties"), as described in note 6, "Discontinued Operations". The Company no longer retained its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties in the consolidated financial statements. Prior to November 1, 2018, the Company was the majority unitholder of Choice Properties.

The Company has two reportable operating segments: Retail and Financial Services (see note 35).

### Note 2. Significant Accounting Policies

**Statement of Compliance** The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

These consolidated financial statements were approved for issuance by the Company's Board of Directors ("Board") on February 19, 2020.

**Basis of Preparation** The consolidated financial statements were prepared on a historical cost basis except for the following items that were measured at fair value:

- investment properties as described in note 16;
- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 26;
- liabilities for cash-settled equity-based compensation arrangements as described in note 27; and
- certain financial instruments as described in note 30.

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all periods presented, with the exception of IFRS 16, "Leases" ("IFRS 16").

The consolidated financial statements are presented in Canadian dollars.

**Fiscal Year** The fiscal year of the Company ends on the Saturday closest to December 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended December 28, 2019 and December 29, 2018 both contained 52 weeks. The next 53-week year will occur in fiscal 2020.

**Basis of Consolidation** The consolidated financial statements include the accounts of the Company and other entities that the Company controls. Control exists when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entities' returns. The Company assesses control on an ongoing basis.

Structured entities are entities controlled by the Company which were designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are consolidated if, based on an evaluation of the substance of its relationship with the Company, the Company concludes that it controls the structured entity. Structured entities controlled by the Company were established under terms that impose strict limitations on the decision-making powers of the structured entities' management and that results in the Company receiving the majority of the benefits related to the structured entities' operations and net assets, being exposed to the majority of risks incident to the structured entities' activities, and retaining the majority of the residual or ownership risks related to the structured entities or their assets.

Transactions and balances between the Company and its consolidated entities have been eliminated on consolidation.

Non-controlling interests are recorded in the consolidated financial statements and represent the non-controlling shareholders' equity in an entity consolidated by the Company for which the Company's ownership is less than 100%. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Changes in the Company's ownership interest in its subsidiaries are accounted for as equity transactions.

Loblaw consolidates the Shoppers Drug Mart Corporation ("Shoppers Drug Mart") licensees ("Associates") as well as the franchisees of its food retail stores that are subject to a simplified franchise agreement ("Franchise Agreement") implemented in 2015. An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using Shoppers Drug Mart trademarks. The consolidation of Associates and the new franchisees is based on the concept of control, for accounting purposes, which was determined to exist through the agreements that govern the relationships between the Company and the Associates and franchisees. Loblaw does not have any direct or indirect shareholdings in the corporations that operate the Associates. Associate interest reflects the investment the Associates have in the net assets of their businesses. Under the terms of the Associate Agreements, Shoppers Drug Mart agrees to purchase the assets that the Associates use in store operations, primarily at the carrying value to the Associate, when Associate Agreements are terminated by either party. The Associates' corporations and the franchisees remain separate legal entities.

**Business Combinations** Business combinations are accounted for using the acquisition method as of the date when control is transferred to the Company. The Company measures goodwill as the excess of the sum of the fair value of the consideration transferred over the net identifiable assets acquired and liabilities assumed, all measured as at the acquisition date. Transaction costs that the Company incurs in connection with a business combination, other than those associated with the issue of debt or equity securities, are expensed as incurred.

**Discontinued Operations** A discontinued operation is a component of the Company's business, the operations and cash flows of which can be clearly distinguished from the rest of the Company and which: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographic areas of operations; or is a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operations occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale or distribution.

When an operation is classified as a discontinued operation, the comparative statements of earnings and comprehensive income are re-presented as if the operation has been discontinued from the start of the comparative year. The Company's discontinued operations are excluded from the results of continuing operations and are presented as a single amount net of tax as net earnings from discontinued operations in the consolidated statements of earnings. The Company has made the accounting policy choice to present details of cash flows from discontinued operations in the notes to the consolidated financial statements.

**Net Earnings per Common Share** Basic net earnings per common share ("EPS") is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the net earnings available to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive instruments.

**Revenue Recognition** The Company recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, including variable consideration to the extent that it is highly probable that a significant reversal will not occur.

**Retail** Retail segment revenue includes the sale of goods and services to customers through corporate stores and consolidated franchise stores and Associates, and sales to non-consolidated franchise stores and independent wholesale account customers. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, net of estimated returns, sales incentives and franchise fee reductions. The Company recognizes revenue made through corporate stores, consolidated franchise stores and Associates at the time the point of sale is made or when service is delivered to the customers. The Company recognizes revenue made through non-consolidated franchise stores and independent wholesale customers at the time of delivery of inventory and when administrative and management services are rendered.

On the initial sale of franchising arrangements, the Company offered products and services as part of an arrangement with multiple performance obligations. Prior to the implementation of the Franchise Agreement implemented in 2015, the initial sale to non-consolidated franchise stores were recorded using a relative fair value approach.

Customer loyalty awards are accounted for as a separate performance obligation of the sales transaction in which they are granted. The Company defers revenue at the time the award is earned by members based on the relative fair value of the award. The relative fair value is determined by allocating consideration between the fair value of the loyalty awards earned by loyalty program members, net of breakage, and the goods and services on which the awards were earned, based on their relative stand-alone selling price.

For certain sale of goods in which the Company earns commissions, including but not limited to lottery and third party gift cards, the Company records net revenue as an agent on the basis that the Company does not control pricing or bear inventory risk.

**Financial Services** Financial Services revenue includes interest income on credit card loans, credit card service fees, commissions, and other revenue related to financial services. Interest income is recognized using the effective interest method. Credit card service fees are recognized when services are rendered. Commission revenue is recorded on a net basis. Other revenue is recognized periodically or according to contractual provisions.

**Choice Properties** Choice Properties revenue, included as part of Discontinued Operations, includes rental revenue on base rents earned from tenants under lease agreements, realty tax and operating cost recoveries and other incidental income, including intersegment revenue earned from the Retail segment prior to the reorganization. The rental revenue is recognized on a straight-line basis over the terms of the respective leases. Property tax and operating cost recoveries are recognized in the period that recoverable costs are chargeable to tenants. Percentage participation rents are recognized when tenants' specified sales targets have been met as set out in the lease agreements.

**Income Taxes** Current and deferred taxes are recognized in the consolidated statement of earnings, except for current and deferred taxes related to a business combination, or amounts charged directly to equity or other comprehensive income, which are recognized in the consolidated balance sheet.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the asset and liability method of accounting on temporary differences arising between the financial statement carrying values of existing assets and liabilities and their respective income tax bases. Deferred tax is measured using enacted or substantively enacted income tax rates expected to apply in the years in which those temporary differences are expected to be recovered or settled. A deferred tax asset is recognized for temporary differences as well as unused tax losses and credits to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same taxation authority on the same taxable entity, or on different taxable entities where the Company intends to settle its current tax assets and liabilities on a net basis.

Deferred tax is recorded on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

**Cash Equivalents** Cash equivalents consist of highly liquid marketable investments with an original maturity date of 90 days or less from the date of acquisition.

**Short Term Investments** Short term investments consist of marketable investments with an original maturity date greater than 90 days and less than 365 days from the date of acquisition.

**Security Deposits** Security deposits consist of cash and cash equivalents and short term investments. Security deposits also include amounts which are required to be placed with counterparties as collateral to enter into and maintain certain outstanding letters of credit and certain financial derivative contracts, and repayment of debt.

**Accounts Receivable** Accounts receivable consists primarily of receivables from non-consolidated franchisees, government and third-party drug plans arising from prescription drug sales, independent accounts and amounts owed from vendors, and are recorded net of allowances.

**Credit Card Receivables** The Company, through President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company, has credit card receivables that are stated net of an allowance. Interest income is recorded in revenue and interest expense is recorded in net interest expense and other financing charges using the effective interest method. The effective interest rate is the rate that discounts the estimated future cash receipts through the expected life of the credit card receivable (or, where appropriate, a shorter period) to the carrying amount. When calculating the effective interest rate, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired credit card receivables, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The Company applies the expected credit loss ("ECL") model to assess for impairment on its credit card receivables at each balance sheet date. Credit card receivables are assessed collectively for impairment by applying the three-stage approach. Refer to the Impairment of Financial Assets policy for details of each stage. The application of the ECL model requires PC Bank to apply significant judgments, assumptions and estimations (see note 3 "Impairment of Credit Card Receivables").

Impairment losses are recorded in selling, general and administrative expenses ("SG&A") in the consolidated statements of earnings with the carrying amount of the credit card receivables reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statements of earnings. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the credit card receivables at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The Company, through PC Bank, participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank maintains and monitors co-ownership interest in credit card receivables with independent securitization trusts, in accordance with its financing requirements. PC Bank is required to absorb a portion of the related credit losses. As a result, Loblaw has not transferred all of the risks and rewards related to these assets and continues to recognize these assets in credit card receivables. The transferred receivables are accounted for as financing transactions. The associated liabilities secured by these assets are included in either short term debt or long term debt based on their characteristics and are carried at amortized cost. Loblaw provides a standby letter of credit for the benefit of the independent securitization trusts.

**Eagle Credit Card Trust**<sup>®</sup> PC Bank participates in a single seller revolving co-ownership securitization program with *Eagle Credit Card Trust*<sup>®</sup> ("*Eagle*") and continues to service the credit card receivables on behalf of *Eagle*, but does not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. The Company consolidates *Eagle* as a structured entity.

**Other Independent Securitization Trusts** The Other Independent Securitization Trusts administer multi-seller, multi-asset securitization programs that acquire assets from various participants, including credit card receivables from PC Bank. These trusts are managed by major Canadian chartered banks. PC Bank does not control the trusts through voting interests and does not exercise any control over the trusts' management, administration or assets. The activities of these trusts are conducted on behalf of the participants and each trust is a conduit through which funds are raised to purchase assets through the issuance of senior and subordinated short term and medium term asset backed notes. These trusts are unconsolidated structured entities.

**Franchise Loans Receivable** Franchise loans receivable are comprised of amounts due from non-consolidated franchises for loans issued through a structure involving consolidated independent funding trusts. These trusts, which are considered structured entities, were created to provide loans to franchises to facilitate their purchase of inventory and fixed assets. Each franchise provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that a franchise defaults on its loan and the Company has not, within a specified time period, assumed the loan or the default is not otherwise remedied, the independent funding trust would assign the loan to the Company and draw upon a standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying amount of franchise loan receivables approximates fair value.

**Inventories** The Company values inventories at the lower of cost and net realizable value.

Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. The cost of inventories at retail stores and distribution centres are measured at weighted average cost. Shoppers Drug Mart inventories are measured at weighted average cost or on a first-in first-out basis.

The Company estimates net realizable value as the amount that inventories are expected to be sold taking into consideration fluctuations in retail prices due to seasonality less estimated costs necessary to make the sale. Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage or declining selling prices. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write-down previously recorded is reversed. Storage costs, indirect administrative overhead and certain selling costs related to inventories are expensed in the period that these costs are incurred.

**Vendor Allowances** The Company receives allowances from certain of its vendors whose products it purchases. These allowances are received for a variety of buying and/or merchandising activities, including vendor programs such as volume purchase allowances, purchase discounts, listing fees and exclusivity allowances. Allowances received from a vendor are a reduction in the cost of the vendor's products and services, and are recognized as a reduction in the cost of merchandise inventories sold and the related inventory in the consolidated statement of earnings and the consolidated balance sheet, respectively, when it is probable that they will be received and the amount of the allowance can be reliably estimated. Amounts received but not yet earned are presented in other liabilities as deferred vendor allowances.

Certain exceptions apply if the consideration is a payment for goods or services delivered to the vendor or for direct reimbursement of selling costs incurred to promote goods. The consideration is then recognized as a reduction of the cost incurred in the consolidated statement of earnings.

**Assets Held for Sale** Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To qualify as assets held for sale, the sale must be highly probable, assets must be available for immediate sale in their present condition and management must be committed to a plan to sell assets that should be expected to close within one year from the date of classification. Assets held for sale are recognized at the lower of their carrying amount and fair value less costs to sell and are not depreciated.

**Fixed Assets** Fixed assets are recognized and subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, including costs incurred to prepare the asset for its intended use and capitalized borrowing costs. The commencement date for capitalization of costs occurs when the Company first incurs expenditures for the qualifying assets and undertakes the required activities to prepare the assets for their intended use.

Borrowing costs directly attributable to the acquisition, construction or production of fixed assets that necessarily take a substantial period of time to prepare for their intended use and a proportionate share of general borrowings, are capitalized to the cost of those fixed assets, based on a quarterly weighted average cost of borrowing. All other borrowing costs are expensed as incurred and recognized in net interest expense and other financing charges.

The cost of replacing a fixed asset component is recognized in the carrying amount if it is probable that the future economic benefits embodied within the component will flow to the Company and the cost can be measured reliably. The carrying amount of the replaced component is derecognized. The cost of repairs and maintenance of fixed assets is expensed as incurred and recognized in operating income.

Gains and losses on disposal of fixed assets are determined by comparing the fair value of proceeds from disposal with the net book value of the assets and are recognized net, in operating income. For transactions in which the sale of a fixed asset satisfies the requirements of IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), and the asset is leased back by the Company, the Company recognizes, in operating income, only the amount of gains or losses that relates to the rights transferred to the purchaser.

Fixed assets are depreciated on a straight-line basis over their estimated useful lives to their estimated residual value when the assets are available for use. When significant parts of a fixed asset have different useful lives, they are accounted for as separate components and depreciated separately. Depreciation methods, useful lives and residual values are reviewed annually and are adjusted for prospectively, if appropriate. Estimated useful lives are as follows:

Buildings	10 to 40 years
Equipment and fixtures	2 to 10 years
Building improvements	up to 10 years
Leasehold improvements	Lesser of term of the lease and useful life up to 25 years <sup>(i)</sup>
Assets held under financing leases <sup>(i)</sup>	Lesser of term of the lease and useful life <sup>(ii)</sup>

(i) As determined under IAS 17, "Leases", which is only applicable for the 2018 comparative year.

(ii) If it is reasonably certain that the Company will obtain ownership by the end of the lease term, assets held under financing leases and associated leasehold improvements are depreciated over the useful life of the asset on the same basis as owned assets.

Fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy.

**Leases** The Company did not restate prior year comparative information under the modified retrospective approach upon the implementation of IFRS 16. Therefore, the comparative information continues to be reported under applicable accounting policies under International Accounting Standard (“IAS”) 17, “Leases” (“IAS 17”) and related interpretations.

***Policy applicable prior to December 30, 2018***

**As a Lessee** At inception of a contract, the Company determines whether a contract is or contains a lease. A contract is or contains a lease if the fulfillment of the arrangement depends upon a specific asset and if the arrangement conveys a right to control the use of the underlying asset. The right to control the use of the underlying asset is met when the Company has the right to operate the asset, controls the physical access to the asset or obtains substantially all output from the asset.

The Company classifies leases that substantially transferred all the risk and rewards as finance leases. Assets held under finance leases are recognized at the lower of the fair value of the leased asset or the present value of the minimum lease payments, discounted at the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Assets held under finance leases are depreciated under the applicable Fixed Assets policy. Finance lease payments are apportioned between interest expense and the reduction of finance lease obligations.

Operating leases are not recognized on the balance sheets. Operating lease payments are recognized in cost of merchandise inventories sold and SG&A on a straight-line basis over the lease term.

**As a Lessor** The Company recognizes rental income from operating leases on a straight-line basis over the lease term.

***Policy applicable from December 30, 2018***

**As a Lessee** At inception of a contract, the Company determines whether a contract is or contains a lease. A contract is or contains a lease if the contract gives the Company the right to control the use of an identified asset for the duration of the lease term in exchange for consideration. When a contract contains both lease and non-lease components, the Company will allocate the consideration in the contract to each of the components on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Relative stand-alone prices are determined by maximizing the most observable supplier prices for a similar asset and/or service.

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate are recognized in cost of merchandise inventories sold and SG&A on the most systematic basis.

The measurement of lease liabilities includes the fixed and in-substance fixed payments and variable lease payments that depend on an index or a rate, less any lease incentives receivable. If applicable, lease liabilities will also include a purchase option exercise price if the Company is reasonably certain to exercise that option, termination penalties if the lease term also reflects the termination option and amounts expected to be payable under a residual value guarantee. Subsequent to initial measurement, the Company measures lease liabilities at amortized cost using the effective interest method. Lease liabilities are remeasured when there is a change in management's assessment of whether it will exercise a renewal or termination option or a change in future lease payments due to a change in index or rate. Right-of-use assets are adjusted by the same remeasurement amount.

Right-of-use assets are measured at the initial amount of the lease liabilities plus any initial direct costs, lease payments made at or before the commencement date net of lease incentives received, and decommissioning costs. Subsequent to initial measurement, the Company applies the cost model with the exception of the fair value model application to right-of-use assets that meet the definition of investment properties. Right-of-use assets are measured at cost less accumulated depreciation, accumulated impairment losses, and any remeasurements of lease liabilities. The assets are depreciated on a straight-line basis over the earlier of the assets' useful lives or the end of the lease terms. Right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy.

Discount rates used in the present value calculation are the interest rates implicit in the leases, or if the rates cannot be readily determined, the Company's incremental borrowing rates. Lease terms applied are the contractual non-cancellable periods of the leases plus periods covered by an option to renew the leases if the Company is reasonably certain to exercise that option and the periods covered by an option to terminate the leases if the Company is reasonably certain not to exercise that option.

For sale and leaseback transactions, the Company applies the requirements of IFRS 15 to determine whether the transfer of the asset should be accounted for as a sale. If the transfer of the asset is a sale, the Company will measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company.

**As a Lessor** At the date the Company makes the underlying leased asset available for use to the lessee, the Company classifies each lease as either an operating lease or a finance lease. A lease is a finance lease if it transfers substantially all the risks and rewards of the underlying asset to the lessee; otherwise, the lease is an operating lease. Rental income from operating leases is recognized on a straight-line basis over the lease term. Rental income from finance leases is recognized on a systematic basis that reflects the Company's rate of return on the net investment in the leased asset.

When the Company is an intermediate lessor, it will assess the sublease classification by reference to the right-of-use asset. The Company considers factors such as whether the sublease term covers a major portion of the head lease term.

**Investment Properties** Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company's investment properties include single tenant properties held to earn rental income and certain multiple tenant properties. Land and buildings leased to franchisees are not accounted for as investment properties as these properties are related to the Company's operating activities.

Investment property assets are measured using the fair value model. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Under the discounted cash flow methodology, discount rates are applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the investment properties based on a capitalization rate applied to the estimated net operating income, a non-GAAP measure, in the terminal year. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

When a property changes from own use to investment property, the property is remeasured to fair value. Any gain arising from the remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on that property, with any remaining gain recognized in the Company's other comprehensive income. Any loss on remeasurement is recognized in profit or loss. However, to the extent a previous gain on remeasurement is included in the revaluation surplus for that property, the loss is first recognized in the Company's other comprehensive income to reduce the revaluation surplus within equity. Upon sale of an investment property that was previously classified as fixed assets, amounts included in the revaluation reserve is transferred to retained earnings.

**Goodwill** Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired as described in the Impairment of Non-Financial Assets policy.

**Intangible Assets** Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from three to 18 years, and are tested for impairment as described in the Impairment of Non-Financial Assets policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually. Amortization expense for intangible assets is recognized in SG&A.

Indefinite life intangible assets are measured at cost less any accumulated impairment losses. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired as described in the Impairment of Non-Financial Assets policy.

**Impairment of Non-Financial Assets** At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets, other than inventories, deferred tax assets and investment properties, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

For the purpose of impairment testing, assets, including right-of-use assets, are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit ("CGU"). The Company has determined that each retail location is a separate CGU for purposes of impairment testing.

Corporate assets, which include head office facilities and distribution centers, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of a CGU or CGU grouping is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU or CGU grouping discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or CGU grouping. If the CGU or CGU grouping includes right-of-use assets in its carrying amount, the pre-tax discount rate reflects the risks associated with the exclusion of lease payments from the estimated future cash flows. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU or CGU grouping in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying amount of a CGU or CGU grouping exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU or CGU grouping on a pro-rata basis. Impairment losses and reversals are recognized in SG&A.

For assets other than goodwill, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

**Bank Indebtedness** Bank indebtedness is comprised of balances outstanding on bank lines of credit drawn by the Company's Associates.

**Provisions** Provisions are recognized when there is a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The amount recognized as a provision is the present value of the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. The unwinding of the discount rate for the passage of time is recognized in net interest expense and other financing charges.

**Financial Instruments and Derivative Financial Instruments** Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Upon initial recognition, financial instruments, including derivatives and embedded derivatives in certain contracts, are measured at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of financial instruments that are not classified as fair value through profit or loss.

**Classification and Measurement** The classification and measurement approach for financial assets reflect the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit and loss ("FVTPL"). Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVOCI.

Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets.

Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

The following table summarizes the classification and measurement of the Company's financial assets and liabilities:

<b>Asset / Liability</b>	<b>Classification / Measurement</b>
Cash and cash equivalents	Amortized cost
Short term investments	Amortized cost
Accounts receivable	Amortized cost
Credit card receivables	Amortized cost
Security deposits	Fair value through profit and loss
Franchise loans receivable	Amortized cost
Certain other assets	Amortized cost / fair value through profit and loss
Certain long term investments	Fair value through other comprehensive income
Bank indebtedness	Amortized cost
Trade payables and other liabilities	Amortized cost
Short term debt	Amortized cost
Long term debt	Amortized cost
Certain other liabilities	Amortized cost
Derivatives	Fair value through profit and loss / fair value through other comprehensive income

Financial derivative instruments in the form of forwards and futures, as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts, are recorded at fair value on the consolidated balance sheet. The Company does not use derivative instruments for speculative purposes. Embedded derivatives are separated from the host contract and accounted for separately on the consolidated balance sheet at fair value if the host contract is not a financial asset. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair values of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging item in a designated hedging relationship.

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and interest rates. The effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. If the change in fair value of the hedging item is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. The Company ensures that the hedge accounting relationships are aligned with the Company's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in note 30 "Financial Instruments" and note 31 "Financial Risk Management".

**Fair Value** The Company measures financial assets and financial liabilities under the following fair value hierarchy. The different levels have been defined as follows:

- Fair Value Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Fair Value Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Fair Value Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

Transaction costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method.

Gains and losses on FVTPL financial assets and financial liabilities are recognized in net earnings in the period in which they are incurred. Settlement date accounting is used to account for the purchase and sale of financial assets. Gains or losses between the trade date and settlement date on FVTPL financial assets are recorded in net earnings.

**Valuation Process** The determination of the fair value of financial instruments is performed by the Company's treasury and financial reporting departments on a quarterly basis. There was no change in the valuation techniques applied to financial instruments during the current year. The following table describes the valuation techniques used in the determination of the fair values of financial instruments:

Type	Valuation Approach
Cash and cash equivalents, short term investments, security deposits, accounts receivable, credit card receivables, bank indebtedness, trade payables and other liabilities and short term debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise loans receivable	The carrying amount approximates fair value as fluctuations in the forward interest rates would not have significant impacts on the valuation and the provisions recorded for all impaired receivables.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: <ul style="list-style-type: none"> <li>• Quoted market prices or dealer quotes for similar instruments; and</li> <li>• The fair values of other derivative instruments are determined based on observable market information as well as valuations determined by external valutors with experience in financial markets.</li> </ul>
Long term debt and certain other financial instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

**Derecognition** Financial assets are derecognized when the contractual rights to receive cash flows and benefits from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. The difference between the carrying amount of the financial asset and the sum of the consideration received and receivable is recognized in earnings before income taxes.

Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in earnings before income taxes.

**Impairment of Financial Assets** The Company applies a forward-looking ECL model at each balance sheet date to financial assets measured at amortized cost or those measured at FVOCI, except for investments in equity instruments.

The ECL model outlines a three-stage approach to reflect the increase in credit risks of a financial instrument:

- Stage 1 is comprised of all financial instruments that have not had a significant increase in credit risks since initial recognition or that have low credit risk at the reporting date. The Company is required to recognize impairment for Stage 1 financial instruments based on the expected losses over the expected life of the instrument arising from loss events that could occur during the 12 months following the reporting date.
- Stage 2 is comprised of all financial instruments that have had a significant increase in credit risks since initial recognition but that do not have objective evidence of a credit loss event. For Stage 2 financial instruments the impairment is recognized based on the expected losses over the expected life of the instrument arising from loss events that could occur over the expected life. The Company is required to recognize a lifetime ECL for Stage 2 financial instruments.
- Stage 3 is comprised of all financial instruments that have objective evidence of impairment at the reporting date. The Company is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

The ECL model applied to financial assets require judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. Consideration of how changes in economic factors affect ECLs are determined on a probability-weighted basis.

Impairment losses are recorded in SG&A with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**Foreign Currency Translation** The functional currency of the Company is the Canadian dollar.

The assets and liabilities of foreign operations that have a functional currency different from that of the Company, including goodwill and fair value adjustments arising on acquisition, are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in the foreign currency translation adjustment as part of other comprehensive income. When such foreign operation is disposed of, the related foreign currency translation reserve is recognized in net earnings as part of the gain or loss on disposal. On the partial disposal of such foreign operation, the relevant proportion is reclassified to net earnings.

Assets and liabilities denominated in a foreign currency held in foreign operations that have the same functional currency as the Company are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. The resulting foreign currency exchange gains or losses are recognized in operating income.

Revenues and expenses of foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are transacted.

**Short Term Employee Benefits** Short term employee benefits include wages, salaries, compensated absences, profit-sharing and bonuses. Short term employee benefit obligations are measured on an undiscounted basis and are recognized in operating income as the related service is provided or capitalized if the service rendered is in connection with the creation of a tangible or intangible asset. A liability is recognized for the amount expected to be paid under short term cash bonus or profit sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**Defined Benefit Post-Employment Plans** The Company has a number of contributory and non-contributory defined benefit post-employment plans providing pension and other benefits to eligible employees. The defined benefit pension plans provide a pension based on length of service and eligible pay. The other defined benefits include health care, life insurance and dental benefits provided to eligible employees who retire at certain ages having met certain service requirements. The Company's net defined benefit plan obligations (assets) for each plan are actuarially calculated by a qualified actuary at the end of each annual reporting period using the projected unit credit method pro-rated based on service and management's best estimate of the discount rate, the rate of compensation increase, retirement rates, termination rates, mortality rates and expected growth rate of health care costs. The discount rate used to value the defined benefit plan obligation for accounting purposes is based on high quality corporate bonds denominated in the same currency with cash flows that match the terms of the defined benefit plan obligations. Past service costs (credits) arising from plan amendments are recognized in operating income in the year that they arise. The actuarially determined net interest costs on the net defined benefit plan obligation are recognized in net interest expense and other financing charges.

The fair values of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations (assets). For plans that result in a net defined benefit asset, the recognized asset is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan ("asset ceiling"). If it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements for future service, the net defined benefit asset is reduced to the amount of the asset ceiling. When the payment in the future of minimum funding requirements related to past service would result in a net defined benefit surplus or an increase in a surplus, the minimum funding requirements are recognized as a liability to the extent that the surplus would not be fully available as a refund or a reduction in future contributions.

Remeasurements including actuarial gains and losses, the effect of the asset ceiling (if applicable) and the impact of any minimum funding requirements are recognized through other comprehensive income and subsequently reclassified from accumulated other comprehensive income to retained earnings.

The Company also participates in pension plans with Weston. The Company has established a stated policy to allocate the net defined benefit cost to the Company and Weston based on the obligation attributable to plan participants, provided by a third-party actuary. Both the service cost and contribution to be paid are determined based on the actuarial valuation.

**Other Long Term Employee Benefit Plans** The Company offers other long term employee benefits including contributory long term disability benefits and non-contributory continuation of health care and dental benefits to employees who are on long term disability leave. As the amount of the long term disability benefit does not depend on length of service, the obligation is recognized when an event occurs that gives rise to an obligation to make payments. The accounting for other long term employee benefit plans is similar to the method used for defined benefit plans except that all actuarial gains and losses are recognized in operating income.

**Defined Contribution Plans** The Company maintains a number of defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees into a registered plan and has no further significant obligation to pay any further amounts. The costs of benefits for defined contribution plans are expensed as employees have rendered service.

**Multi-Employer Pension Plans** The Company participates in multi-employer pension plans (“MEPPs”) which are accounted for as defined contribution plans. The Company’s responsibility to make contributions to these plans is limited to amounts established pursuant to its collective agreements. Defined benefit MEPPs are accounted for as defined contribution plans as adequate information to account for the Company’s participation in the plans is not available due to the size and number of contributing employers in the plans. The contributions made by the Company to MEPPs are expensed as contributions are due.

**Termination Benefits** Termination benefits are recognized as an expense at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits payable are discounted to their present value when the effect of the time value of money is material.

**Equity-Settled Equity-Based Compensation Plans** Stock options, Restricted Share Units (“RSUs”), Performance Share Units (“PSUs”), Director Deferred Share Units (“DSUs”) and Executive Deferred Share Units (“EDSUs”) issued by the Company are substantially all settled in common shares and are accounted for as equity-settled awards.

Stock options outstanding have a seven year term to expiry, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is based on the greater of the volume weighted average trading price of the Company’s common share for either the five trading days prior to the date of grant or the trading day immediately preceding the grant date. The fair value of each tranche of options granted is measured separately at the grant date using a Black-Scholes option pricing model, and includes the following assumptions:

- The expected dividend yield is estimated based on the expected annual dividend prior to the option grant date and the closing share price as at the option grant date;
- The expected share price volatility is estimated based on the Company’s historical volatility over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the grant date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on historical experience and general option holder behaviour.

RSUs and PSUs vest after the end of a three year performance period. The number of PSUs that vest is based on the achievement of specified performance measures. The fair value of each RSU and PSU granted is measured separately at the grant date based on the market value of a Loblaw common share. Dividends paid may be reinvested in RSUs and PSUs and are treated as capital transactions.

The Company established a trust for each of the RSU and PSU plans to facilitate the purchase of shares for future settlement upon vesting. The Company is the sponsor of the respective trusts and has assigned Computershare Trust Company of Canada as the trustee. The trusts are considered structured entities and are consolidated in the Company’s financial statements with the cost of the acquired shares recorded at book value as a reduction to share capital. Any premium on the acquisition of the shares above book value is applied to retained earnings until the shares are issued to settle RSU and PSU plan obligations.

Members of the Board, who are not management of the Company, may elect to receive a portion of their annual retainers and fees in the form of DSUs. Eligible executives of the Company may elect to defer up to 100% of the Short Term Incentive Plan earned in any year into the EDSU plan. Dividends paid earn fractional DSUs and EDSUs, respectively and are treated as capital transactions. DSUs and EDSUs vest upon grant.

The compensation expense for equity-settled plans is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures.

Upon exercise of options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital. Upon settlement of RSUs and PSUs, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

**Cash-Settled Equity-Based Compensation Plans** Certain DSUs and stock options are accounted for as cash-settled awards.

The fair value of the amount payable to the recipients in respect of these cash-settled equity-based compensation plan is re-measured at each balance sheet date, and a compensation expense is recognized in SG&A over the vesting period for each tranche with a corresponding change in the liability.

**Employee Share Ownership Plan** The Company’s contributions to the Employee Share Ownership Plan (“ESOP”) are measured at cost and recorded as compensation expense in operating income when the contribution is made. The ESOP is administered through a trust which purchases the Company’s common shares on the open market on behalf of its employees.

### Accounting Standard Implemented in 2019

**IFRS 16** In 2016, the IASB issued IFRS 16, replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it had the option of adopting a fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company adopted the standard on December 30, 2018 using the modified retrospective approach. The Company applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively, as if the standard had been applied since lease commencement dates, using the Company's incremental borrowing rates at the date of initial application.

Substantially all of the Company's operating leases are real estate leases for retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and information technology ("IT") equipment. The Company recognized right-of-use assets and lease liabilities for its operating leases except for certain classes of underlying assets in which the lease terms are 12 months or less. The depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease. There are no significant impacts to the Company's existing finance leases under IAS 17 as a lessee.

The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are primarily related to non-consolidated franchise stores, medical centers and ancillary tenants within stores. As an intermediate lessor, the Company reassessed the classification of its subleases by reference to the right-of-use assets arising from the head lease and recognized a corresponding finance lease receivable when the reassessment concluded that the subleases were finance leases.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

- grandfathered the definition of leases for existing contracts at the date of initial application;
- applied the recognition exemption for certain short-term trailer rentals and properties. The practical expedient for excluding leases for which the lease term ends within 12 months of the date of initial application was not elected by the Company;
- used portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- excluded initial direct costs from the measurement of right-of-use assets at the date of initial application; and
- used hindsight in determining lease term at the date of initial application.

The Company did not exercise the practical expedient wherein a lessee may rely on its assessment of whether leases are onerous applying IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review. On the date of initial application, the Company applied the requirements of IAS 36, "Impairment of Assets" and recorded an impairment of \$94 million on right-of-use assets in opening retained earnings, which represents an incremental \$46 million to the previous onerous lease provision.

The impact of adopting IFRS 16 on the Company's balance sheet as at December 30, 2018 was as follows:

Consolidated Balance Sheets (millions of Canadian Dollars) Increase / (Decrease)	As reported as at December 29, 2018	IFRS 16 Adjustments	As at December 30, 2018
<b>Current assets</b>			
Prepaid expenses and other assets <sup>(i)</sup>	\$ 304	\$ (104)	\$ 200
Total current assets impacted	\$ 304	\$ (104)	\$ 200
Fixed assets <sup>(ii)</sup>	5,931	(435)	5,496
Right-of-use assets <sup>(ii)</sup>	—	7,602	7,602
Intangible assets <sup>(iii)</sup>	7,798	(82)	7,716
Deferred income tax assets <sup>(iv)</sup>	144	34	178
Other assets <sup>(v)</sup>	389	128	517
Total assets impacted	\$ 14,566	\$ 7,143	\$ 21,709
<b>Current liabilities</b>			
Trade payables and other liabilities <sup>(vi)</sup>	\$ 5,302	\$ (11)	\$ 5,291
Provisions <sup>(vii)</sup>	165	(4)	161
Long term debt due within one year <sup>(ii)</sup>	1,647	(37)	1,610
Lease liabilities due within one year <sup>(ii)</sup>	—	1,192	1,192
Total current liabilities impacted	\$ 7,114	\$ 1,140	\$ 8,254
Provisions <sup>(vii)</sup>	152	(51)	101
Long term debt <sup>(ii)</sup>	6,379	(498)	5,881
Lease liabilities <sup>(ii)</sup>	—	7,985	7,985
Deferred income tax liabilities <sup>(iv)</sup>	1,947	(256)	1,691
Other liabilities <sup>(vi)</sup>	793	(379)	414
Retained earnings <sup>(viii)</sup>	4,580	(798)	3,782
Total liabilities and equity impacted	\$ 20,965	\$ 7,143	\$ 28,108

(i) Relates to prepaid rent as at December 29, 2018, which is captured under lease liabilities due within one year after the implementation of IFRS 16.

(ii) Leases previously classified as finance lease arrangements under IAS 17 were presented within fixed assets (see note 15), long term debt due within one year and long term debt (see note 22). Effective December 30, 2018, these balances are included in right-of-use assets, lease liabilities due within one year and lease liabilities (see note 29).

(iii) Derecognize fair value of acquired leased assets on business combination as at December 29, 2018 (see note 17).

(iv) Deferred income tax impacts resulting from the implementation entries at the date of initial application.

(v) Recognize finance lease receivable as determined under IFRS 16.

(vi) Derecognize deferred rent obligation, tenant inducements and fair value of acquired leased liabilities on business combination as at December 29, 2018 (see note 23).

(vii) Derecognize the base rent portion of the onerous lease provision (see note 21).

(viii) The cumulative effects of initial application are recorded in retained earnings with no restatement of the comparative period.

The Company used its incremental borrowing rates as at December 30, 2018 to measure lease liabilities. The weighted average incremental borrowing rate was 4.36%. The weighted average lease term remaining as at December 30, 2018 was approximately 10 years.

The following reconciliation is between lease liabilities recognized on December 30, 2018 and operating lease commitments disclosed under IAS 17 as at December 29, 2018 discounted using the incremental borrowing rates as at the date of initial application:

(millions of Canadian Dollars)	As at December 30, 2018
Operating lease commitments as at December 29, 2018 as disclosed in the Company's notes to the consolidated financial statements	\$ 9,987
Discounted using the incremental borrowing rates as at December 30, 2018 <sup>(i)</sup>	\$ 8,048
Finance lease obligations recognized as at December 29, 2018 <sup>(ii)</sup>	535
Extension and termination options reasonably certain to be exercised <sup>(iii)</sup>	594
<b>Lease liabilities recognized as at December 30, 2018</b>	<b>\$ 9,177</b>
Lease liabilities due within one year	\$ 1,192
Lease liabilities	7,985
<b>Total lease liabilities</b>	<b>\$ 9,177</b>

- (i) Operating lease commitments as at December 29, 2018 were disclosed based on undiscounted cash flows. Under IFRS 16, lease payment obligations are discounted using the Company's incremental borrowing rates.
- (ii) Finance lease obligations, as determined under IAS 17, were recognized in lease liabilities on December 30, 2018 at the carrying amount immediately before the date of initial application.
- (iii) Operating lease commitments as at December 29, 2018 reflected only the contractual lease payments. Under IFRS 16, lease liabilities include lease payments for renewal periods where management is reasonably certain to renew.

### Note 3. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates and judgments in applying the Company's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes.

Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy, a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses.

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements. The Company's significant accounting policies are disclosed in note 2.

#### Consolidation

**Judgments Made in Relation to Accounting Policies Applied** The Company uses judgment in determining the entities that it controls and therefore consolidates. The Company controls an entity when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the entity's returns. The Company consolidates all of its wholly owned subsidiaries. Judgment is applied in determining whether the Company controls the entities in which it does not have ownership rights or does not have full ownership rights. Most often, judgment involves reviewing contractual rights to determine if rights are participating (giving power over the entity) or protective rights (protecting the Company's interest without giving it power).

#### Inventories

**Key Sources of Estimation** Inventories are carried at the lower of cost and net realizable value which requires the Company to utilize estimates related to fluctuations in shrink, future retail prices, the impact of vendor rebates on cost, seasonality and costs necessary to sell the inventory.

## Impairment of Non-Financial Assets (Goodwill, Intangible Assets, Fixed Assets and Right-of-Use Assets)

**Judgments Made in Relation to Accounting Policies Applied** Management is required to use judgment in determining the grouping of assets to identify their CGUs for the purposes of testing fixed assets and right-of-use assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each retail location is a separate CGU for the purposes of fixed asset and right-of-use asset impairment testing. For the purpose of goodwill and indefinite life intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and indefinite life intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

**Key Sources of Estimation** In determining the recoverable amount of a CGU or a group of CGUs, various estimates are employed. The Company determines fair value less costs to sell using such estimates as market rental rates for comparable properties, recoverable operating costs for leases with tenants, non-recoverable operating costs, discount rates, capitalization rates and terminal capitalization rates. The Company determines value in use by using estimates including projected future sales, earnings and capital investment consistent with strategic plans presented to the Board. Discount rates are consistent with external industry information reflecting the risk associated with the specific cash flows.

## Customer Loyalty Awards Programs

**Key Sources of Estimation** The Company defers revenue at the time the award is earned by members based on the relative fair value of the award. The relative fair value is determined by allocating consideration between the fair value of the loyalty awards earned by loyalty program members, net of breakage, and the goods and services on which the awards were earned, based on their relative stand-alone selling price. The estimated fair value per point for the PC Optimum® program is determined based on the program reward schedule and is \$1 for every 1,000 points earned. The breakage rate of the program is an estimate of the amount of points that will never be redeemed. The rate is reviewed on an ongoing basis and is estimated utilizing historical redemption activity and anticipated earn and redeem behaviour of members.

## Impairment of Credit Card Receivables

**Judgments Made in Relation to Accounting Policies Applied** In each stage of the impairment model, impairment is determined based on the probability of default, loss given default, and expected exposures at default on drawn and undrawn exposures on credit card receivables, discounted using an average portfolio yield rate. The application of the ECL model requires management to apply the following significant judgments, assumptions and estimations:

- Movement of impairment measurement between the three stages of the ECL model, based on the assessment of the increase in credit risks on credit card receivables. The assessment of changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss experience and external credit scores;
- Thresholds for significant increase in credit risks based on changes in probability of default over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic conditions.

## Income and Other Taxes

**Judgments Made in Relation to Accounting Policies Applied** The calculation of current and deferred income taxes requires management to make certain judgments regarding the tax rules in jurisdictions where the Company performs activities. Application of judgments is required regarding the classification of transactions and in assessing probable outcomes of claimed deductions including expectations about future operating results and the timing and reversal of temporary differences.

## Segment Information

**Judgments Made in Relation to Determining the Aggregation of Operating Segments** The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. The Retail reportable operating segment consists of several operating segments comprised primarily of food retail and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise. The Company has aggregated its retail operating segments on the basis of their similar economic characteristics, customers and nature of products. This similarity in economic characteristics reflects the fact that the Company's retail operating segments operate primarily in Canada and are therefore subject to the same economic market pressures and regulatory environment. The Company's retail operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The similar economic characteristics also include the provision of centralized, common functions such as marketing and IT across all retail operating segments.

The retail operating segments' customer profile is primarily individuals who are purchasing goods for their own or their family's personal needs and consumption. The nature of products and the product assortment sold by each of the retail operating segments is also similar and includes grocery, pharmaceuticals, cosmetics, electronics and housewares. The aggregation of the retail operating segments reflects the nature and financial effects of the business activities in which the Company engages and the economic environment in which it operates.

## Provisions

**Judgments made in Relation to Accounting Policies Applied and Key Sources of Estimation** The recording of provisions requires management to make certain judgments regarding whether there is a present legal or constructive obligation as a result of a past event, it is probable that the Company will be required to settle the obligation and if a reliable estimate of the amount of the obligation can be made. The Company has recorded provisions primarily in respect of restructuring, environmental and decommissioning liabilities, certain onerous costs on leased properties and legal claims. The Company reviews the merits, risks and uncertainties of each provision, based on current information, and the amount expected to be required to settle the obligation. Provisions are reviewed on an ongoing basis and are adjusted accordingly when new facts and events become known to the Company.

## Leases

**Judgments Made in Relation to Accounting Policies Applied** Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option including investments in major leaseholds, store performances, past business practice and the length of time remaining before the option is exercisable. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew. Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the retail industry may impact management's assessment of lease term, and any changes in management's estimate of lease terms may have a material impact on the Company's balance sheet and statement of earnings.

**Key Sources of Estimation** In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate using a base risk-free interest rate estimated by reference to the Government of Canada bond yield with an adjustment that reflects the Company's credit rating, the security, lease term and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change due to changes in the business and macroeconomic environment.

## Note 4. Future Accounting Standard

**IFRS 17** In 2017, the IASB issued IFRS 17, "Insurance Contracts" ("IFRS 17") replacing IFRS 4, "Insurance Contracts". IFRS 17 introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to these contracts. Additionally, IFRS 17 requires an entity to recognize profits as it delivers insurance services, rather than when it receives premiums. The standard is effective for annual periods beginning on or after January 1, 2021 and is to be applied retrospectively. However, the IASB has proposed deferring the effective date to January 1, 2022. While early adoption is permitted, the Company does not intend to early adopt IFRS 17. The Company is currently assessing the impact of the standard on its consolidated financial statements.

## Note 5. Business Acquisitions

**Consolidation of Franchises** The Company accounts for the consolidation of existing franchises as business acquisitions and consolidates its franchises as of the date the franchisee enters into a Franchise Agreement with the Company. The assets acquired and liabilities assumed through the consolidation are valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises are included in the Company's results of operations from the date of acquisition.

The following table summarizes the amounts recognized for the assets acquired, the liabilities assumed and the non-controlling interests recognized at the acquisition dates:

(millions of Canadian dollars)	2019	2018
Net assets acquired:		
Cash and cash equivalents	\$ 20	\$ 18
Inventories	51	66
Fixed assets (note 15)	67	78
Trade payables and other liabilities <sup>(i)</sup>	(48)	(36)
Other liabilities <sup>(i)</sup>	(73)	(114)
Non-controlling interests	(17)	(12)
Total net assets acquired	\$ —	\$ —

(i) On consolidation, trade payables and other liabilities and other liabilities eliminate against existing accounts receivable, franchise loans receivable and franchise investments held by the Company.

## Note 6. Discontinued Operations

On November 1, 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders.

Following the reorganization, the Company no longer retained its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties in its consolidated financial statements. As a result, for the annual period ended December 29, 2018, the Choice Properties segment, net of eliminations, has been presented as Discontinued Operations. The classification as Discontinued Operations occurred at October 31, 2018, which is the date of the reorganization. Accordingly, the comparative consolidated statement of earnings and comprehensive income were presented separately between Continuing and Discontinued Operations. Unless otherwise specified, all other notes to the consolidated financial statements for the comparative annual period include amounts from both Continuing and Discontinued Operations.

The transaction had no impact on the ongoing operating relationship between the Company and Choice Properties, and the Strategic Alliance Agreement and leases remained in place. The Company continues to be Choice Properties' largest tenant (see note 34).

All transactions between the Retail and the Choice Properties segments prior to the reorganization were fully eliminated in the consolidated financial statements. The Company has presented the results of Continuing Operations to reflect the on-going presentation of transactions between the Retail segment and Choice Properties, including rent paid and lease surrender payments to Choice Properties, gains related to the sale leaseback of properties to Choice Properties and site intensification payments received from Choice Properties. The elimination of intercompany transactions prior to the spin-out have been reflected in Discontinued Operations.

The results of Discontinued Operations presented in the consolidated statement of earnings are as follows:

(millions of Canadian dollars)	October 31, 2018
Revenue <sup>(i)</sup>	\$ 933
Selling, general and administrative expenses <sup>(i)</sup>	512
Operating Income	\$ 421
Net interest expense and other financing charges <sup>(ii)</sup>	316
Earnings before income taxes	\$ 105
Income taxes	58
Net earnings from Discontinued Operations	\$ 47

- (i) Revenue included \$445 million of rental revenue, \$164 million of cost recovery, and \$10 million of lease surrender, recognized by Choice Properties generated from the Company. Costs recoveries related to common area maintenance and properties were presented as an expense in SG&A.
- (ii) Net interest expense and other financing charges primarily included interest expense on long term debt of \$186 million, distributions to external unit holders of \$113 million and a loss of \$33 million related to the fair value adjustment to the Trust Unit liability.

The Company's balance sheet as at October 31, 2018 included total assets and total liabilities of approximately \$11.2 billion and \$11.1 billion, respectively, related to Choice Properties. Included in total assets were \$4,770 million of fixed assets and \$4,819 million of investment properties, and included in total liabilities were \$7,222 million of long term debt and \$3,071 million related to the Trust Unit liability.

The assets and liabilities disposed of in connection with the Discontinued Operations included the assets and liabilities of Canadian Real Estate Investment Trust ("CREIT"). On May 4, 2018, Choice Properties acquired all the assets and assumed all the liabilities, including outstanding debt, of CREIT for total consideration of \$3,708 million. The consideration was comprised of \$1,652 million of cash and the issuance of 182,836,481 new Trust Units. Included in the acquisition were \$32 million of cash and cash equivalents, \$4,730 million of investment properties, \$342 million of goodwill and \$1,841 million of long term debt.

**Cash Flows** The net change in cash flows related to Discontinued Operations was as follows:

(millions of Canadian dollars)	2018 <sup>(i)</sup>
Cash flows from operations	\$ 581
Cash flows used in investing	(1,884)
Cash flows from financing	1,678
Cash flows from Discontinued Operations	\$ 375

- (i) Reflects the cash flows of Discontinued Operations up to the date of the reorganization, November 1, 2018.

Significant long term debt transactions of Choice Properties are described below:

**Debentures** The following table summarizes the debentures of Choice Properties issued or assumed in 2018.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018	
<b>Choice Properties Senior Unsecured Debentures</b>				
– Series I <sup>(i)</sup>	3.01%	March 21, 2022	\$	300
– Series J <sup>(i)</sup>	3.55%	January 10, 2025		350
– Series K <sup>(ii)</sup>	3.56%	September 9, 2024		550
– Series L <sup>(ii)</sup>	4.18%	March 8, 2028		750
– Series A-C <sup>(iii)</sup>	3.68%	July 24, 2018		125
– Series B-C <sup>(iii)</sup>	4.32%	January 15, 2021		100
– Series C-C <sup>(iii)</sup>	2.56%	November 30, 2019		100
– Series D-C <sup>(iii)</sup>	2.95%	January 18, 2023		125
<b>Total debentures issued or assumed</b>			<b>\$</b>	<b>2,400</b>

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus filed in the first quarter of 2018.

(ii) The net proceeds from the issuance of Series K and L were held in escrow as a part of the financing for the acquisition of CREIT. During the second quarter of 2018, the Company completed the acquisition of CREIT and the proceeds were released from escrow.

(iii) Assumed by the Company in connection with the acquisition of CREIT.

The following table summarizes the debentures repaid in 2018:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018	
Choice Properties Senior Unsecured Debentures – Series A	3.55%	July 5, 2018 <sup>(i)</sup>	\$	400
Choice Properties Senior Unsecured Debentures – Series A-C	3.68%	July 24, 2018		125
<b>Total debentures repaid</b>			<b>\$</b>	<b>525</b>

(i) Choice Properties Series A Unsecured Debentures were redeemed on February 12, 2018.

**Unsecured Term Loan Facilities** During 2018, Choice Properties obtained \$800 million through two unsecured term loan facilities, one \$175 million 4-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2022 and one \$625 million 5-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2023. The term loans bore interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%.

**Committed Credit Facility** The component of Choice Properties committed lines of credit was as follows:

(millions of Canadian dollars except where otherwise indicated)	Maturity Date	As at October 31, 2018	
		Available Credit	Drawn
Choice Properties Committed Syndicated Credit Facility <sup>(i)</sup>	May 4, 2023	\$ 1,500	\$ 375

(i) During the second quarter of 2018, Choice properties entered into a new syndicated \$1,500 million senior unsecured committed revolving credit facility maturing May 4, 2023. The credit facility bore interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%.

**Note 7. Net Interest Expense and Other Financing Charges**

The components of net interest expense and other financing charges from Continuing Operations were as follows:

(millions of Canadian dollars)	2019	2018
<b>Interest expense and other financing charges</b>		
Lease liabilities (note 29)	\$ 387	\$ —
Long term debt	301	333
Borrowings related to credit card receivables	45	41
Post-employment and other long term employee benefits (note 26)	7	11
Independent funding trusts	19	19
Bank indebtedness	6	8
Capitalized interest	—	(1)
	<b>\$ 765</b>	<b>\$ 411</b>
<b>Interest income</b>		
Accretion income	\$ (8)	\$ (5)
Short term interest income	(10)	(18)
	<b>\$ (18)</b>	<b>\$ (23)</b>
Charge related to Glenhuron Bank Limited (note 8)	\$ —	\$ 176
<b>Net interest expense and other financing charges from Continuing Operations</b>	<b>\$ 747</b>	<b>\$ 564</b>

**Note 8. Income Taxes**

The components of income taxes from Continuing Operations were as follows:

(millions of Canadian dollars)	2019	2018
<b>Current income taxes</b>		
Current period	\$ 522	\$ 493
Charge related to Glenhuron Bank Limited	—	191
Adjustment in respect of prior periods	8	(86)
	<b>\$ 530</b>	<b>\$ 598</b>
<b>Deferred income taxes</b>		
Origination and reversal of temporary differences	\$ (118)	\$ (83)
Effect of change in income tax rates	(4)	—
Adjustment in respect of prior periods	(16)	91
	<b>\$ (138)</b>	<b>\$ 8</b>
<b>Income taxes from Continuing Operations</b>	<b>\$ 392</b>	<b>\$ 606</b>

On September 7, 2018, the Tax Court of Canada (“Tax Court”) released its decision relating to Glenhuron Bank Limited (“Glenhuron”), a wholly-owned Barbadian subsidiary of the Company that was wound up in 2013. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal (see note 32). Although the Company believes in the merits of its position, it recorded a charge during the third quarter of 2018 of \$367 million, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes. The Company believes that this provision will be sufficient to cover its ultimate liability if the appeal is unsuccessful. In the third quarter of 2018, the Company made a cash payment of \$235 million to fund the tax and interest owing in light of the decision of the Tax Court. On October 15, 2019, the appeal was heard by the Federal Court of Appeal, with the court reserving judgment until a later date.

In the first quarter of 2018, voting control of the Company was acquired by a related group, which included Weston and Wittington, which resulted in certain adjustments in respect to prior periods for tax purposes during the first quarter of 2018.

Income tax (recoveries) expense recognized in other comprehensive income was as follows:

(millions of Canadian dollars)	2019	2018
Net defined benefit plan actuarial (losses) gains (note 26)	\$ (1)	\$ 33
Adjustment to fair value on transfer of investment properties	—	5
Total income tax (recoveries) expense recognized in other comprehensive income	\$ (1)	\$ 38

The effective income tax rate in the consolidated statement of earnings was reported at rates different than the weighted average basic Canadian federal and provincial statutory income tax rates for the following reasons:

	2019	2018
Weighted average basic Canadian federal and provincial statutory income tax rate	26.7 %	26.6 %
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	(0.1)%	(0.9)%
Charge related to Glenhuron	— %	14.0 %
Non-deductible and non-taxable items	— %	4.1 %
Impact of income tax rate changes on deferred income tax balances	(0.3)%	— %
Adjustments in respect of prior periods	(0.5)%	0.6 %
Other	(0.1)%	0.2 %
Effective income tax rate applicable to earnings before income taxes	25.7 %	44.6 %

**Unrecognized deferred tax assets** Deferred income tax assets were not recognized on the consolidated balance sheets in respect of the following items:

(millions of Canadian dollars)	2019	2018
Deductible temporary differences	\$ 14	\$ 17
Non-capital loss carryforwards	167	153
Unrecognized deferred tax assets	\$ 181	\$ 170

The non-capital loss carryforwards expire in the years 2029 to 2039. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

**Recognized deferred tax assets and liabilities** Deferred tax assets and liabilities were attributable to the following:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Trade payables and accrued liabilities	\$ 76	\$ 53
Other liabilities	35	355
Lease liabilities	2,211	—
Fixed assets	(463)	(554)
Right-of-use assets	(1,772)	—
Goodwill and intangible assets	(1,630)	(1,786)
Non-capital loss carryforwards (expiring 2033 to 2039)	84	41
Other	89	88
<b>Net deferred income tax liabilities</b>	<b>\$ (1,370)</b>	<b>\$ (1,803)</b>
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	\$ 169	\$ 144
Deferred income tax liabilities	(1,539)	(1,947)
<b>Net deferred income tax liabilities</b>	<b>\$ (1,370)</b>	<b>\$ (1,803)</b>

**Note 9. Basic and Diluted Net Earnings per Common Share**

(millions of Canadian dollars except where otherwise indicated)	2019	2018
Net earnings attributable to shareholders of the Company	\$ 1,081	\$ 766
Net earnings from Discontinued Operations (note 6)	—	(47)
Net earnings from Continuing Operations attributable to shareholders of the Company	\$ 1,081	\$ 719
Dividends on Preferred Shares in equity (note 24)	(12)	(12)
Net earnings from Continuing Operations available to common shareholders	\$ 1,069	\$ 707
Weighted average common shares outstanding (in millions) (note 24)	365.4	376.7
Dilutive effect of equity-based compensation (in millions)	2.1	1.8
Dilutive effect of certain other liabilities (in millions)	0.9	0.8
Diluted weighted average common shares outstanding (in millions)	368.4	379.3
Net earnings per common share - Basic (\$)		
Continuing Operations	\$ 2.93	\$ 1.88
Discontinued Operations	\$ —	\$ 0.12
Net earnings per common share - Diluted (\$)		
Continuing Operations	\$ 2.90	\$ 1.87
Discontinued Operations	\$ —	\$ 0.12

In 2019, 1,514,400 (2018 – 4,541,548) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share from Continuing Operations as they were anti-dilutive.

## Note 10. Cash and Cash Equivalents, Short Term Investments and Security Deposits

The components of cash and cash equivalents, short term investments and security deposits were as follows:

### Cash and Cash Equivalents

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Cash	\$ 549	\$ 539
Cash equivalents		
Government treasury bills	161	323
Bankers' acceptances	348	117
Corporate commercial paper	75	86
<b>Total cash and cash equivalents</b>	<b>\$ 1,133</b>	<b>\$ 1,065</b>

### Short Term Investments

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Government treasury bills	\$ 44	\$ 26
Bankers' acceptances	10	50
Corporate commercial paper	3	17
Other	—	1
<b>Total short term investments</b>	<b>\$ 57</b>	<b>\$ 94</b>

**Security Deposits** As at December 28, 2019, the Company recorded nil (December 29, 2018 – \$800 million) in security deposits. The security deposits as at December 29, 2018 were related to funds held by the Company for repayment of the \$800 million debenture, which was repaid on December 31, 2018 (see note 22).

### Note 11. Accounts Receivable

The following is an aging of the Company's accounts receivable:

(millions of Canadian dollars)	As at December 28, 2019				As at December 29, 2018 <sup>(i)</sup>			
	0-90 days	91-180 days	> 180 days	Total	0-90 days	91-180 days	> 180 days	Total
Accounts receivable	\$ 1,071	\$ 36	\$ 77	\$ 1,184	\$ 1,097	\$ 53	\$ 68	\$ 1,218

(i) Comparative figures have been restated to conform with current year presentation.

The following are continuities of the Company's allowances for uncollectable accounts receivable:

(millions of Canadian dollars)	2019	2018
Allowances, beginning of year	\$ (30)	\$ (52)
Net write-off	6	22
<b>Allowances, end of year</b>	<b>\$ (24)</b>	<b>\$ (30)</b>

Credit risk associated with accounts receivable is discussed in note 31.

**Note 12. Credit Card Receivables**

The components of credit card receivables were as follows:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018 <sup>(i)</sup>
Gross credit card receivables	\$ 3,820	\$ 3,476
Allowance for credit card receivables	(196)	(167)
Credit card receivables	\$ 3,624	\$ 3,309
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> <sup>®</sup> (note 22)	\$ 1,000	\$ 750
Securitized to Other Independent Securitization Trusts	725	915
Total securitized to independent securitization trusts	\$ 1,725	\$ 1,665

(i) Comparative figures have been restated to conform with current year presentation.

The Company, through PC Bank, participates in various securitization programs that provide a source of funds for the operation of its credit card business. PC Bank maintains and monitors a co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The associated liability of *Eagle* is recorded in long term debt (see note 22). The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt.

The securitization agreements between PC Bank and the Other Independent Securitization Trusts are renewed and extended on an annual basis. The existing agreements were renewed in 2019, with their respective maturity dates extended to 2021 and with all other terms and conditions remaining substantially the same.

On a year-to-date basis in 2019, PC Bank recorded a \$190 million net decrease of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts due to additional funding acquired from the *Eagle* issuance in 2019.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at December 28, 2019 were \$175 million (December 29, 2018 – \$110 million).

The Company has arranged letters of credit on behalf of PC Bank for the benefit of the independent securitization trusts (see note 33).

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 28, 2019 and throughout 2019.

The following is an aging of the Company's gross credit card receivables:

(millions of Canadian dollars)	As at December 28, 2019				As at December 29, 2018 <sup>(i)</sup>			
	Current	1-90 days past due	> 90 days past due	Total	Current	1-90 days past due	> 90 days past due	Total
Gross credit card receivables	\$ 3,610	\$ 176	\$ 34	\$ 3,820	\$ 3,260	\$ 187	\$ 29	\$ 3,476

(i) Comparative figures have been restated to conform with current year presentation.

The following are continuities of the Company's allowance for credit card receivables for the years ended December 28, 2019 and December 29, 2018:

(millions of Canadian dollars)	As at December 28, 2019			
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	\$ 62	\$ 80	\$ 25	\$ 167
Increase / (Decrease) during the period:				
Transfers <sup>(i)</sup>				
To Stage 1	31	(31)	—	—
To Stage 2	(7)	8	(1)	—
To Stage 3	(1)	(16)	17	—
New loans originated <sup>(ii)</sup>	9	13	3	25
Net remeasurements <sup>(iii)</sup>	(22)	38	105	121
Write-offs	—	—	(139)	(139)
Recoveries	—	—	22	22
Balance, end of year	\$ 72	\$ 92	\$ 32	\$ 196

(i) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.

(ii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.

(iii) Net remeasurement of loss allowance includes impact from changes in loan balances and credit quality during the year.

(millions of Canadian dollars)	As at December 29, 2018			
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year <sup>(i)</sup>	\$ 51	\$ 71	\$ 23	\$ 145
Increase / (Decrease) during the period:				
Transfers <sup>(ii)</sup>				
To Stage 1	26	(26)	—	—
To Stage 2	(4)	6	(2)	—
To Stage 3	(1)	(14)	15	—
New loans originated <sup>(iii)</sup>	9	14	3	26
Net remeasurements <sup>(iv)</sup>	(19)	29	80	90
Write-offs	—	—	(120)	(120)
Recoveries	—	—	26	26
Balance, end of year	\$ 62	\$ 80	\$ 25	\$ 167

(i) Allowance at the beginning of 2018 included the impacts of the implementation of IFRS 9, "Financial Instruments".

(ii) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.

(iii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.

(iv) Net remeasurement of loss allowance includes impact from changes in loan balances and credit quality during the year.

The allowances for credit card receivables recorded in the consolidated balance sheets are maintained at a level which is considered adequate to absorb credit-related losses on credit card receivables.

### Note 13. Inventories

For inventories recorded as at December 28, 2019, the Company recorded an inventory provision of \$33 million (December 29, 2018 – \$37 million) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during 2019 and 2018.

### Note 14. Assets Held for Sale

The Company classifies certain assets, primarily land and buildings, that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in the Company's retail business segment. In 2019, the Company recorded a net gain of \$12 million (2018 – nominal loss) from the sale of these assets. Impairment charges of \$8 million were recognized on these properties in 2019 (2018 – \$3 million).

**Note 15. Fixed Assets**

The following are continuities of the cost and the accumulated depreciation of fixed assets for the years ended December 28, 2019 and December 29, 2018:

	2019							
(millions of Canadian dollars)	Land	Buildings and building improvements	Equipment and fixtures	Leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total	
<b>Cost</b>								
Balance, beginning of year <sup>(i)</sup>	\$ 230	\$ 1,772	\$ 7,635	\$ 3,715	\$ 950	\$ 404	\$ 14,706	
IFRS 16 adjustments (note 2)	—	—	(42)	—	(950)	—	(992)	
Restated balance, beginning of year	\$ 230	\$ 1,772	\$ 7,593	\$ 3,715	\$ —	\$ 404	\$ 13,714	
Additions <sup>(ii)</sup>	—	23	159	47	—	601	830	
Business acquisitions (note 5)	—	1	66	—	—	—	67	
Disposals	(31)	(31)	(44)	(19)	—	—	(125)	
Net transfer to assets held for sale	(9)	(4)	—	—	—	—	(13)	
Transfer from assets under construction	29	24	433	130	—	(616)	—	
Balance, end of year	\$ 219	\$ 1,785	\$ 8,207	\$ 3,873	\$ —	\$ 389	\$ 14,473	
<b>Accumulated depreciation</b>								
Balance, beginning of year <sup>(i)</sup>	\$ —	\$ 814	\$ 5,726	\$ 1,694	\$ 539	\$ 2	\$ 8,775	
IFRS 16 adjustments (note 2)	—	—	(18)	—	(539)	—	(557)	
Restated balance, beginning of year	\$ —	\$ 814	\$ 5,708	\$ 1,694	\$ —	\$ 2	\$ 8,218	
Depreciation	—	53	456	282	—	—	791	
Impairment losses	—	10	23	23	—	—	56	
Reversal of impairment losses	—	(6)	(1)	(4)	—	—	(11)	
Disposals	—	(17)	(38)	(15)	—	—	(70)	
Net transfer to assets held for sale	—	(1)	—	—	—	—	(1)	
Balance, end of year	\$ —	\$ 853	\$ 6,148	\$ 1,980	\$ —	\$ 2	\$ 8,983	
<b>Carrying amount as at:</b>								
<b>December 28, 2019</b>	\$ 219	\$ 932	\$ 2,059	\$ 1,893	\$ —	\$ 387	\$ 5,490	

(i) Comparative figures have been restated to conform with current year presentation.

(ii) Additions to fixed assets include \$13 million prepayment that was made in 2018. The balance was transferred from other assets in 2019.

(millions of Canadian dollars)	Land	Buildings and building improvements	Equipment and fixtures	Leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
<b>Cost</b>							
Balance, beginning of year	\$ 1,975	\$ 8,151	\$ 7,090	\$ 2,054	\$ 936	\$ 518	\$ 20,724
Additions	22	66	289	117	20	506	1,020
Business acquisitions (note 5)	—	—	78	—	—	—	78
Disposals	(27)	(53)	(66)	(14)	(6)	—	(166)
Discontinued Operations (note 6)	(1,732)	(5,009)	(6)	(12)	—	(92)	(6,851)
Transfer on Discontinued Operations <sup>(i)</sup>	—	(1,555)	—	1,555	—	—	—
Net transfer to assets held for sale	(15)	(15)	—	—	—	—	(30)
Net transfer to investment properties (note 16)	(43)	(23)	—	(3)	—	—	(69)
Transfer from assets under construction	50	210	250	18	—	(528)	—
Balance, end of year	\$ 230	\$ 1,772	\$ 7,635	\$ 3,715	\$ 950	\$ 404	\$ 14,706
<b>Accumulated depreciation</b>							
Balance, beginning of year	\$ 2	\$ 3,159	\$ 5,333	\$ 1,062	\$ 491	\$ 8	\$ 10,055
Depreciation	—	196	419	153	45	—	813
Impairment losses	—	78	26	19	3	(5)	121
Reversal of impairment losses	(1)	(24)	(3)	(11)	—	—	(39)
Disposals	(1)	(18)	(45)	(20)	—	—	(84)
Discontinued Operations (note 6)	(1)	(2,072)	(4)	(3)	—	(1)	(2,081)
Transfer on Discontinued Operations <sup>(i)</sup>	1	(498)	—	497	—	—	—
Net transfer to assets held for sale	—	(1)	—	—	—	—	(1)
Net transfer to investment properties (note 16)	—	(6)	—	(3)	—	—	(9)
Balance, end of year	\$ —	\$ 814	\$ 5,726	\$ 1,694	\$ 539	\$ 2	\$ 8,775
<b>Carrying amount as at:</b>							
<b>December 29, 2018</b>	\$ 230	\$ 958	\$ 1,909	\$ 2,021	\$ 411	\$ 402	\$ 5,931

(i) Comparative figures have been restated to conform with current year presentation. As a result of the spin-out of Choice Properties, buildings owned by Choice Properties and leased by the Company will be accounted for as operating leases. The building components associated with these leases post spin-out are classified as leasehold improvements.

**Assets under Construction** The cost of additions to properties under construction for the year ended December 28, 2019 was \$601 million (December 29, 2018 – \$506 million). Included in this amount are nil capitalized borrowing costs (2018 – \$4 million at a weighted average capitalization rate of 4.0%).

**Fixed Asset Commitments** As at December 28, 2019, the Company had entered into commitments of \$128 million (December 29, 2018 – \$233 million) for the construction, expansion and renovation of buildings and the purchase of real property.

**Impairment Losses and Reversals of Fixed Assets and Right-of-Use Assets** For the year ended December 28, 2019, the Company recorded \$52 million (2018 – \$114 million) of impairment losses on fixed assets and \$28 million (2018 – nil) of impairment losses on right-of-use assets (see note 29) in respect of 43 CGUs (2018 – 42 CGUs) in the retail operating segment. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 2% (2018 – 5%) of impaired CGUs had carrying values which were \$1 million (2018 – \$9 million) greater than their fair value less costs to sell. The remaining 98% (2018 – 95%) of impaired CGUs had carrying values which were \$79 million (2018 – \$105 million) greater than their value in use.

For the year ended December 28, 2019, the Company recorded \$11 million (2018 – \$39 million) of impairment reversals on fixed assets and \$1 million (2018 – nil) of impairment reversals on right-of-use assets (see note 29) in respect of 7 CGUs (2018 – 25 CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying values. Approximately 14% (2018 – No) of CGUs with impairment reversals had fair value less costs to sell of \$4 million greater than their carrying values (2018 – none). The remaining 86% (2018 – All) of CGUs with impairment reversals had value in use of \$8 million (2018 – \$39 million) greater than their carrying values.

When determining the value in use of a retail location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant assets within the CGU for owned locations or the remaining lease term of the CGU for leased locations. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that are consistent with industry averages, all of which are consistent with strategic plans presented to the Company's Board. The estimate of the value in use of relevant CGUs was determined using a pre-tax discount rate of 8.5% at December 28, 2019 (December 29, 2018 – 8.0% to 8.5%).

Additional impairment losses of \$4 million (2018 – \$7 million) were incurred related to store closures, renovations and conversions of retail locations.

#### Note 16. Investment Properties

The following are continuities of investment properties for the years ended December 28, 2019 and December 29, 2018:

(millions of Canadian dollars)	2019	2018
Balance, beginning of year	\$ 234	\$ 276
Adjustment to fair value of investment properties	15	(47)
Additions	—	41
Business acquisitions (note 6)	—	4,730
Disposals	(1)	(23)
Discontinued Operations (note 6)	—	(4,819)
Impairment losses	—	(6)
Net transfer from fixed assets <sup>(i)</sup> (note 15)	—	81
Net transfer to assets held for sale	(76)	(5)
Other	—	6
Balance, end of year	\$ 172	\$ 234

(i) Included a fair value gain of \$21 million related to transfer of fixed assets to investment properties in 2018.

During 2019, the Company recognized in operating income \$2 million (2018 – \$2 million) of rental income and incurred direct operating costs of \$1 million (2018 – \$1 million) related to its investment properties. In addition, the Company recognized direct operating costs of \$2 million (2018 – \$3 million) related to its investment properties for which no rental income was earned.

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. At December 28, 2019, the pre-tax discount rates used in the valuations for investment properties ranged from 9.75% to 10.25% (December 29, 2018 – 8.25% to 8.75%) and the terminal capitalization rates ranged from 6.00% to 9.00% (December 29, 2018 – 6.25% to 9.00%).

## Note 17. Intangible Assets

The following are continuities of the cost and the accumulated amortization of intangible assets for the years ended December 28, 2019 and December 29, 2018:

2019						
(millions of Canadian dollars)	Indefinite life intangible assets	Definite life internally generated intangible assets	Software	Other definite life intangible assets	Total	
<b>Cost</b>						
Balance, beginning of year	\$ 3,489	\$ 20	\$ 2,741	\$ 6,042	\$ 12,292	
IFRS 16 adjustment (note 2)	—	—	—	(207)	(207)	
Restated balance, beginning of year	\$ 3,489	\$ 20	\$ 2,741	\$ 5,835	\$ 12,085	
Additions	1	—	370	5	376	
Business acquisitions	—	—	—	23	23	
Disposals	—	—	—	(1)	(1)	
Balance, end of year	\$ 3,490	\$ 20	\$ 3,111	\$ 5,862	\$ 12,483	
<b>Accumulated amortization</b>						
Balance, beginning of year	\$ —	\$ 20	\$ 1,845	\$ 2,629	\$ 4,494	
IFRS 16 adjustment (note 2)	—	—	—	(125)	(125)	
Restated balance, beginning of year	\$ —	\$ 20	\$ 1,845	\$ 2,504	\$ 4,369	
Amortization	—	—	279	502	781	
Disposal	—	—	—	(1)	(1)	
Impairment losses	—	—	—	12	12	
Balance, end of year	\$ —	\$ 20	\$ 2,124	\$ 3,017	\$ 5,161	
<b>Carrying amount as at:</b>						
<b>December 28, 2019</b>	\$ 3,490	\$ —	\$ 987	\$ 2,845	\$ 7,322	
2018						
(millions of Canadian dollars)	Indefinite life intangible assets	Definite life internally generated intangible assets	Software	Other definite life intangible assets	Total	
<b>Cost</b>						
Balance, beginning of year	\$ 3,485	\$ 20	\$ 2,434	\$ 6,011	\$ 11,950	
Additions	4	—	312	8	324	
Business acquisitions	30	—	—	25	55	
Disposal	—	—	(5)	(2)	(7)	
Discontinued Operations	(30)	—	—	—	(30)	
Balance, end of year	\$ 3,489	\$ 20	\$ 2,741	\$ 6,042	\$ 12,292	
<b>Accumulated amortization</b>						
Balance, beginning of year	\$ —	\$ 20	\$ 1,574	\$ 2,105	\$ 3,699	
Amortization	—	—	264	524	788	
Disposal	—	—	(4)	(1)	(5)	
Impairment losses	—	—	11	1	12	
Balance, end of year	\$ —	\$ 20	\$ 1,845	\$ 2,629	\$ 4,494	
<b>Carrying amount as at:</b>						
<b>December 29, 2018</b>	\$ 3,489	\$ —	\$ 896	\$ 3,413	\$ 7,798	

**Indefinite Life Intangible Assets** Indefinite life intangible assets are comprised of brand names, trademarks, import purchase quotas and certain liquor licenses. The brand names and trademarks are a result of the Company's acquisition of Shoppers Drug Mart and T&T Supermarket Inc. The Company expects to renew the registration of the brand names, trademarks, import purchase quotas and liquor licenses at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, the Company assessed these intangibles to have indefinite useful lives.

The Company completed its annual impairment tests for indefinite life intangible assets and concluded there was no impairment.

**Key Assumptions** The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 18).

**Software** Software is comprised of software purchases and development costs. There were no capitalized borrowing costs included in 2019 (2018 – nil).

**Other Definite Life Intangible Assets** Other definite life intangible assets primarily consist of prescription files, the customer loyalty awards program and customer relationships.

### Note 18. Goodwill

The following is a continuity of the cost and the accumulated impairment of goodwill for the years ended December 28, 2019 and December 29, 2018:

(millions of Canadian dollars)	2019	2018
<b>Cost</b>		
Balance, beginning of year	\$ 4,936	\$ 4,916
Business acquisitions <sup>(i)</sup>	4	362
Discontinued Operations (note 6)	—	(342)
Balance, end of year	\$ 4,940	\$ 4,936
<b>Accumulated impairment losses</b>		
Balance, beginning of year	\$ 994	\$ 994
Impairment losses	—	—
Balance, end of year	\$ 994	\$ 994
<b>Carrying amount as at the end of the year</b>	<b>\$ 3,946</b>	<b>\$ 3,942</b>

(i) Included goodwill of \$342 million associated with the acquisition of CREIT in 2018 (see note 6).

The carrying amount of goodwill attributed to each CGU grouping was as follows:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Shoppers Drug Mart	\$ 2,974	\$ 2,972
Market	375	375
Discount	461	459
T&T Supermarket Inc.	129	129
All other	7	7
Carrying amount as at the end of the year	<b>\$ 3,946</b>	<b>\$ 3,942</b>

**Key Assumptions** The key assumptions used to calculate the fair value less costs to sell are discount rates, growth rates and expected changes in margins. These assumptions are considered to be Level 3 in the fair value hierarchy.

The weighted average cost of capital was determined to be 7.1% to 9.3% (December 29, 2018 – 7.0% to 9.3%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of comparable public traded companies.

Cash flow projections have been discounted using a rate derived from the Company's after-tax weighted average cost of capital. At December 28, 2019, the after-tax discount rate used in the recoverable amount calculations was 7.1% to 9.3% (December 29, 2018 – 7.0% to 9.3%). The pre-tax discount rate was 9.7% to 12.7% (December 29, 2018 – 9.5% to 12.7%).

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using an estimated long term growth rate of 2.0% (December 29, 2018 – 2.0%). The budgeted EBITDA growth was based on the Company's three year strategic plan approved by the Board.

#### Note 19. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Sundry investments and other receivables	\$ 22	\$ 31
Accrued benefit plan asset (note 26)	229	225
Finance lease receivable (note 29)	114	—
Other	154	133
<b>Total other assets</b>	<b>\$ 519</b>	<b>\$ 389</b>

#### Note 20. Customer Loyalty Awards Program Liability

The carrying amount of the liability associated with the Company's customer loyalty awards programs ("loyalty liability") was as follows:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Loyalty liability	\$ 191	\$ 228

The majority of the Company's loyalty liability, which is a contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

**Note 21. Provisions**

The following is a continuity of provisions for the years ended December 28, 2019 and December 29, 2018:

(millions of Canadian dollars)	2019	2018
Balance, beginning of year	\$ 317	\$ 452
IFRS 16 adjustment (note 2)	(55)	—
Restated balance, beginning of year	\$ 262	\$ 452
Additions	93	114
Payments	(118)	(217)
Reversals	(16)	(32)
Balance, end of year	\$ 221	\$ 317

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Recorded on the consolidated balance sheets as follows:		
Current portion of provisions	\$ 119	\$ 165
Non-current portion of provisions	102	152
Total provisions	\$ 221	\$ 317

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, certain onerous costs on leased properties, legal claims and the Loblaw Card Program.

**Competition Bureau Investigation** In 2017, the Company and Weston announced actions taken to address their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, the Company offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. As at December 28, 2019, the Loblaw Card Program liability was \$17 million (December 29, 2018 – \$21 million). The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages (see note 32).

**Restructuring and other related costs** The Company continues to execute on a multi-year plan, initiated in 2018, that focuses on improving processes and generating efficiencies across administrative, store, and distribution network infrastructure. Many initiatives are underway to reduce the complexity and cost of business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. As at December 28, 2019, the provision related to restructuring and other related costs was \$65 million (December 29, 2018 – \$107 million).

## Note 22. Long Term Debt

The components of long term debt were as follows

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
<b>Debentures</b>		
Loblaw Companies Limited Notes		
3.75%, due 2019	\$ —	\$ 800
5.22%, due 2020	350	350
4.86%, due 2023	800	800
3.92%, due 2024	400	400
6.65%, due 2027	100	100
6.45%, due 2028	200	200
4.49%, due 2028	400	400
6.50%, due 2029	175	175
11.40%, due 2031		
Principal	151	151
Effect of coupon repurchase	15	(4)
6.85%, due 2032	200	200
6.54%, due 2033	200	200
8.75%, due 2033	200	200
6.05%, due 2034	200	200
6.15%, due 2035	200	200
5.90%, due 2036	300	300
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
<b>Guaranteed Investment Certificates</b>		
1.10% – 3.78%, due 2020 – 2024	1,311	1,141
<b>Independent Securitization Trust</b>		
2.23%, due 2020	250	250
2.71%, due 2022	250	250
3.10%, due 2023	250	250
2.28%, due 2024	250	—
<b>Independent Funding Trusts</b>	505	536
<b>Finance Lease Obligations<sup>(i)</sup></b>	—	535
<b>Transaction costs and other</b>	(14)	(13)
<b>Total long term debt</b>	<b>\$ 7,098</b>	<b>\$ 8,026</b>
<b>Less amount due within one year</b>	<b>1,127</b>	<b>1,647</b>
<b>Long Term Debt</b>	<b>\$ 5,971</b>	<b>\$ 6,379</b>

(i) As a result of the implementation of IFRS 16, finance lease obligations are included in lease liabilities (see note 2).

Significant long term debt transactions are described below.

**Debentures** The following table summarizes the debentures issued in 2018. There were no debentures issued in 2019.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Loblaw Companies Limited Notes	3.92%	June 10, 2024	\$ 400
Loblaw Companies Limited Notes	4.49%	December 11, 2028	400
<b>Total debentures issued</b>			<b>\$ 800</b>

The following table summarizes the debentures and term loans repaid in 2019 and 2018:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2019	Principal Amount 2018
Shoppers Drug Mart Notes	2.36%	May 24, 2018	\$ —	\$ 275
Loblaw Companies Limited Notes <sup>(i)</sup>	3.75%	March 12, 2019	<b>800</b>	—
Loblaw Companies Limited Term Loan <sup>(ii)</sup>	Variable	March 28, 2019	—	48
Loblaw Companies Limited Term Loan <sup>(iii)</sup>	Variable	March 29, 2019	—	250
<b>Total debentures and term loans repaid</b>			<b>\$ 800</b>	<b>\$ 573</b>

- (i) The Company recorded an early repayment premium charge of \$3 million in net interest expense and other financing charges when the Company redeemed, at par, the \$800 million debenture with an original maturity date of March 12, 2019 on December 31, 2018.
- (ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.
- (iii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.

**Guaranteed Investment Certificates** The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2019 and 2018:

(millions of Canadian dollars)	2019	2018
Balance, beginning of year	\$ 1,141	\$ 852
GICs issued	<b>453</b>	495
GICs matured	<b>(283)</b>	(206)
<b>Balance, end of year</b>	<b>\$ 1,311</b>	<b>\$ 1,141</b>

**Independent Securitization Trust** The notes issued by *Eagle* are debentures, which are collateralized by PC Bank's credit card receivables (see note 12).

During 2019, *Eagle* issued \$250 million (2018 – \$250 million) of senior and subordinated term notes with a maturity date of July 17, 2024 (2018 – July 17, 2023) at a weighted average interest rate of 2.28% (2018 – 3.10%). In connection with this issuance, \$250 million (2018 – \$250 million) of bond forward agreements were settled, resulting in a realized fair value loss of \$8 million (2018 – loss of \$1 million) before income taxes recorded in other comprehensive income and a net effective interest rate of 2.94% (2018 – 3.15%) on the *Eagle* notes issued (see note 30).

During 2018, \$400 million of 2.91% senior and subordinated term notes issued by *Eagle* matured and were repaid.

**Independent Funding Trusts** As at December 28, 2019, the independent funding trusts had drawn \$505 million (December 29, 2018 – \$536 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

During 2019, the Company renewed the revolving committed credit facility relating to the independent funding trusts until May 27, 2022.

**Committed Credit Facility** The Company has a \$1.0 billion committed credit facility with a maturity date of June 10, 2021. These facilities contain certain financial covenants (see note 25). As at December 28, 2019 and December 29, 2018, there were no amounts drawn under this facility.

**Long Term Debt due Within One Year** The following table summarizes long term debt due within one year:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Loblaw Companies Limited notes	\$ 350	\$ 800
Guaranteed investment certificates	527	274
Independent securitization trust	250	—
Independent funding trust	—	536
Finance lease obligations <sup>(i)</sup>	—	37
<b>Long term debt due within one year</b>	<b>\$ 1,127</b>	<b>\$ 1,647</b>

(i) As a result of the implementation of IFRS 16, finance lease obligations are included in lease liabilities (see note 2).

**Schedule of Repayments** The schedule of repayments of long term debt, based on maturity, is as follows:

(millions of Canadian dollars)	As at December 28, 2019
2020	\$ 1,127
2021	517
2022	865
2023	1,133
2024	724
Thereafter	2,746
<b>Total long term debt (excludes transaction costs)</b>	<b>\$ 7,112</b>

See note 30 for the fair value of long term debt.

**Reconciliation of Long Term Debt** The following table reconciles the changes in cash flows from financing activities for long term debt:

(millions of Canadian dollars)	2019	2018
Long term debt, beginning of period	\$ 8,026	\$ 11,177
Reclassification of finance lease obligations due to IFRS 16 (note 2)	(535)	—
Long term debt after reclassification, beginning of period	\$ 7,491	\$ 11,177
Total debt assumed on acquisition of CREIT (note 6)	\$ —	\$ 1,841
Long term debt issuances <sup>(i)(ii)</sup>	672	4,880
Long term debt repayments <sup>(ii)(iii)</sup>	(1,083)	(2,715)
Discontinued Operations (note 6)	—	(7,222)
<b>Total cash flow from long term debt financing activities</b>	<b>\$ (411)</b>	<b>\$ (3,216)</b>
Finance lease additions, net of disposals	\$ —	\$ 14
Other non-cash changes	18	51
<b>Total non-cash long term debt activities</b>	<b>\$ 18</b>	<b>\$ 65</b>
<b>Long term debt, end of period</b>	<b>\$ 7,098</b>	<b>\$ 8,026</b>

(i) Includes net issuances from the Independent Funding Trust, which are revolving debt instruments.

(ii) Includes net issuances or repayments from the Choice Properties' credit facilities depending on the activity in the period in 2018.

(iii) Includes repayments on finance lease obligations of \$83 million in 2018.

**Note 23. Other Liabilities**

The components of other liabilities were as follows:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Net defined benefit plan obligation (note 26)	\$ 320	\$ 294
Other long term employee benefit obligation	119	109
Deferred lease obligation <sup>(i)</sup>	—	315
Fair value of acquired leases <sup>(i)</sup>	—	54
Equity-based compensation liabilities (note 27)	3	2
Other <sup>(i)</sup>	16	19
<b>Other liabilities</b>	<b>\$ 458</b>	<b>\$ 793</b>

(i) Certain balances were impacted as a result of the implementation of IFRS 16 (see note 2).

**Note 24. Share Capital**

**First Preferred Shares (authorized – 1.0 million shares)** There were no First Preferred Shares outstanding as at December 28, 2019 and December 29, 2018.

**Second Preferred Share Capital (authorized – unlimited)** The Company has outstanding 9.0 million 5.30% non-voting Second Preferred Shares, Series B, with a face value of \$225 million, which were issued for net proceeds of \$221 million. These preferred shares are presented as a component of equity on the consolidated balance sheets.

**Common Shares (authorized – unlimited)** Common shares issued are fully paid and have no par value. The activity in the common shares issued and outstanding during the years was as follows:

(millions of Canadian dollars except where otherwise indicated)	2019		2018	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	371,790,967	\$ 7,177	386,293,941	\$ 7,460
Issued for settlement of stock options	1,886,733	94	2,081,235	98
Purchased and cancelled <sup>(i)</sup>	(13,613,225)	(206)	(16,584,209)	(381)
Issued and outstanding, end of year	360,064,475	\$ 7,065	371,790,967	\$ 7,177
Shares held in trust, beginning of year	(734,727)	\$ (15)	(780,938)	\$ (15)
Purchased for future settlement of RSUs and PSUs	(900,000)	(16)	(582,500)	(12)
Released for settlement of RSUs and PSUs (note 27)	521,425	10	628,711	12
Shares held in trust, end of year	(1,113,302)	\$ (21)	(734,727)	\$ (15)
Issued and outstanding, net of shares held in trust, end of year	358,951,173	\$ 7,044	371,056,240	\$ 7,162
Weighted average outstanding, net of shares held in trust (note 9)	365,360,161		376,747,429	

(i) Common shares purchased and cancelled in 2018 do not include the repurchase obligation under the automatic share purchase plan, which were transacted and settled in the first quarter of 2019.

**Dividends** The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarters of 2019 and 2018, the Board raised the quarterly dividend by \$0.02 to \$0.315 and by \$0.025 to \$0.295 per common share, respectively.

The following table summarizes the Company's cash dividends declared for the years as indicated:

	2019 <sup>(i)</sup>	2018
<b>Dividends declared per share (\$)</b>		
Common Share	\$ 1.240	\$ 1.155
Second Preferred Share, Series B	\$ 1.325	\$ 1.325

(i) The fourth quarter dividends for 2019 of \$0.315 per share declared on common shares were payable and paid on December 30, 2019. The fourth quarter dividends for 2019 of \$0.33125 per share declared on Second Preferred Shares, Series B were payable and paid on December 31, 2019.

(millions of Canadian dollars)	2019	2018
<b>Dividends declared</b>		
Common Share	\$ 453	\$ 433
Second Preferred Share, Series B (note 9)	12	12
<b>Total dividends declared</b>	\$ 465	\$ 445

Subsequent to the end of the year, the Board declared a quarterly dividend of \$0.315 per common share payable on April 1, 2020 to shareholders of record on March 15, 2020, and a quarterly dividend of \$0.33125 per share on the Second Preferred Shares, Series B payable on March 31, 2020 to shareholders of record on March 15, 2020.

**Normal Course Issuer Bid** Activity under the Company's Normal Course Issuer Bid ("NCIB") during the years was as follows:

(millions of Canadian dollars except where otherwise indicated)	2019	2018
Common shares repurchased under the NCIB for cancellation (number of shares)	<b>13,613,225</b>	16,584,209
Cash consideration paid <sup>(i)</sup>	\$ 937	\$ 1,082
Premium charged to retained earnings	546	886
Reduction in common share capital	206	381
Common shares repurchased under the NCIB and held in trust (number of shares)	<b>900,000</b>	582,500
Cash consideration paid	\$ 62	\$ 36
Premium charged to retained earnings	46	24
Reduction in common share capital	16	12

(i) In 2019, cash consideration paid includes \$185 million paid for common shares related to the automatic share purchase plan as described below.

In addition, during 2019, the Company repurchased and distributed 5,857 (2018 – 18,405) common shares under its NCIB to certain directors for settlement of their equity-based compensation plans.

In the first quarter of 2019, the Company completed an automatic share purchase plan ("ASPP") that was initiated in the fourth quarter of 2018 to facilitate the repurchase of the Company's common shares under its NCIB. Under the ASPP, the Company's broker purchased 2,927,733 common shares for approximately \$185 million. The Company recognized the obligation to repurchase the shares in trade payable and other liabilities as at December 29, 2018.

In the second quarter of 2019, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 18,455,884 of the Company's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of December 28, 2019, the Company had purchased 10,817,468 common shares under its current NCIB.

**Note 25. Capital Management**

In order to manage its capital structure, the Company, among other activities, may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB, issue new shares or issue or repay long term debt with the objective of:

- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future development of the business;
- minimizing the after-tax cost of its capital while taking into consideration current and future industry, market and economic risks and conditions;
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to manage the long term capital investments of the business;
- returning an appropriate amount of capital to shareholders; and
- targeting an appropriate leverage and capital structure for the Company and each of its reportable operating segments.

The Company has policies in place which govern debt financing plans and risk management strategies for liquidity, interest rates and foreign exchange. These policies outline measures and targets for managing capital, including a range for leverage consistent with the desired credit rating. Management and the Audit Committee regularly review the Company's compliance with, and performance against, these policies. In addition, management regularly reviews these policies to ensure they remain consistent with the risk tolerance acceptable to the Company.

The following table summarizes the Company's total capital under management:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Bank indebtedness	\$ 18	\$ 56
Short term debt	725	915
Long term debt due within one year	1,127	1,647
Long term debt	5,971	6,379
Certain other liabilities	65	48
Total debt excluding lease liabilities	\$ 7,906	\$ 9,045
Lease liabilities due within one year	\$ 1,419	\$ —
Lease liabilities	7,691	—
Total debt including lease liabilities	\$ 17,016	\$ 9,045
Equity attributable to shareholders of the Company	11,234	12,119
Total capital under management	\$ 28,250	\$ 21,164

**Short Form Base Shelf Prospectus Filings** During 2019, the Company filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$2 billion of unsecured debentures and/or preferred shares over a 25-month period.

During 2019, Eagle filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$1.25 billion of notes over a 25-month period.

**Covenants and Regulatory Requirements** The Company is subject to certain key financial and non-financial covenants under its existing Credit Facility, certain debentures and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at December 28, 2019 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework, which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio. PC Bank is also subject to the OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio standard. As at the end of 2019 and throughout the year, PC Bank has met all applicable regulatory requirements.

## Note 26. Post-Employment and Other Long Term Employee Benefits

The Company sponsors a number of pension plans, including registered defined benefit pension plans, registered defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company under these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian chartered bank.

The Company's Pension Committee oversees the Company's pension plans. The Pension Committee is responsible for assisting the Board in fulfilling its general oversight responsibilities for the plans. The Pension Committee assists the Board with oversight of management's administration of the plans, pension investment and monitoring responsibilities, and compliance with legal and regulatory requirements.

The Company's defined benefit pension plans are primarily funded by the Company, predominantly non-contributory and the benefits are, in general, based on career average earnings subject to limits. The funding is based on a solvency valuation for which the assumptions may differ from the assumptions used for accounting purposes as detailed in this note.

The Company also offers certain other defined benefit plans other than pension plans. These other defined benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for these other defined benefits are those who retire at certain ages having met certain service requirements. The majority of other defined benefit plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company's defined benefit pension plans and other defined benefit plans expose it to a number of actuarial risks, such as longevity risk, interest rate risk and market risk.

In Canada, the Company also has a national defined contribution plan for salaried employees. All newly hired salaried employees are only eligible to participate in this defined contribution plan.

The Company also contributes to various MEPPs, which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements.

The Company expects to make contributions in 2020 to its defined benefit and defined contribution plans and the MEPPs in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

**Other Long Term Employee Benefits** The Company offers other long term employee benefit plans that include long term disability benefits and continuation of health care and dental benefits while on disability.

**Defined Benefit Pension Plans and Other Defined Benefit Plans** Information on the Company's defined benefit pension plans and other defined benefit plans, in aggregate, is summarized as follows:

	2019		2018	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
(millions of Canadian dollars)				
Present value of funded obligations	\$ (1,560)	\$ —	\$ (1,471)	\$ —
Present value of unfunded obligations	(147)	(151)	(134)	(148)
Total present value of defined benefit obligation	\$ (1,707)	\$ (151)	\$ (1,605)	\$ (148)
Fair value of plan assets	1,770	—	1,694	—
Total funded status of surpluses (obligations)	\$ 63	\$ (151)	\$ 89	\$ (148)
Assets not recognized due to asset ceiling	(3)	—	(10)	—
Total net defined benefit plan surpluses (obligations)	\$ 60	\$ (151)	\$ 79	\$ (148)
Recorded on the consolidated balance sheets as follows:				
Other Assets (note 19)	\$ 229	\$ —	\$ 225	\$ —
Other Liabilities (note 23)	\$ (169)	\$ (151)	\$ (146)	\$ (148)

The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligations:

	2019			2018		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
<b>Changes in the fair value of plan assets</b>						
Fair value, beginning of year	\$ 1,694	\$ —	\$ 1,694	\$ 1,916	\$ —	\$ 1,916
Employer contributions	47	—	47	43	—	43
Employee contributions	2	—	2	4	—	4
Benefits paid	(56)	—	(56)	(62)	—	(62)
Interest income	60	—	60	66	—	66
Actuarial gains (losses) in other comprehensive income (loss)	213	—	213	(41)	—	(41)
Settlements <sup>(i)</sup>	(187)	—	(187)	(228)	—	(228)
Other	(3)	—	(3)	(4)	—	(4)
Fair value, end of year	\$ 1,770	\$ —	\$ 1,770	\$ 1,694	\$ —	\$ 1,694
<b>Changes in the present value of the defined benefit plan obligations</b>						
Balance, beginning of year	\$ 1,605	\$ 148	\$ 1,753	\$ 1,925	\$ 154	\$ 2,079
Current service cost	60	5	65	58	5	63
Interest cost	59	5	64	69	5	74
Benefits paid	(66)	(7)	(73)	(72)	(8)	(80)
Employee contributions	2	—	2	2	—	2
Actuarial losses (gains) in other comprehensive income (loss)	224	—	224	(150)	(8)	(158)
Settlements <sup>(i)</sup>	(177)	—	(177)	(227)	—	(227)
Balance, end of year	\$ 1,707	\$ 151	\$ 1,858	\$ 1,605	\$ 148	\$ 1,753

(i) Settlements relate to annuity purchases.

In 2019 and 2018, the Company completed several annuity purchases with respect to former employees. These activities are designed to reduce the Company's defined benefit pension plan obligations and decrease future risks and volatility associated with these obligations. The Company paid \$187 million (2018 – \$228 million) from the impacted plans' assets to settle \$177 million (2018 – \$227 million) of pension obligations and recorded settlement charges of \$10 million (2018 – \$1 million) in SG&A. The settlement charges resulted from the difference between the amount paid for the annuity purchases and the value of the Company's defined benefit plan obligations related to these annuity purchases at the time of the settlement.

For 2019, the actual return on plan assets was \$273 million (2018 – \$25 million).

The net defined benefit obligation can be allocated to the plans' participants as follows:

- Active plan participants 64% (2018 – 57%);
- Deferred plan participants 14% (2018 – 9%); and
- Retirees 22% (2018 – 34%).

During 2020, the Company expects to contribute approximately \$46 million (2019 – contributed \$45 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

The net cost recognized in earnings before income taxes for the Company's defined benefit pension plans and other defined benefit plans was as follows:

	2019			2018		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Current service cost	\$ 60	\$ 5	\$ 65	\$ 58	\$ 5	\$ 63
Interest cost on net defined benefit plan obligations	(1)	5	4	3	5	8
Settlement charges <sup>(i)</sup>	10	—	10	1	—	1
Other	3	—	3	4	—	4
Net post-employment defined benefit cost	\$ 72	\$ 10	\$ 82	\$ 66	\$ 10	\$ 76

(i) Relates to annuity purchases.

The actuarial losses (gains) recognized in other comprehensive income (loss) net of taxes for defined benefit plans were as follows:

	2019			2018		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Return on plan assets, excluding amounts included in net interest expense and other financing charges	\$ (213)	\$ —	\$ (213)	\$ 41	\$ —	\$ 41
Experience adjustments	(2)	(22)	(24)	4	2	6
Actuarial losses (gains) from change in financial assumptions	226	22	248	(154)	(10)	(164)
Change in liability arising from asset ceiling	(7)	—	(7)	(7)	—	(7)
Total net actuarial losses (gains) recognized in other comprehensive income (loss) before income taxes	\$ 4	\$ —	\$ 4	\$ (116)	\$ (8)	\$ (124)
Income tax (recoveries) expenses on actuarial losses (gains) (note 8)	(1)	—	(1)	31	2	33
Actuarial losses (gains) net of income tax (recoveries) expenses	\$ 3	\$ —	\$ 3	\$ (85)	\$ (6)	\$ (91)

The cumulative actuarial (gains) losses before income taxes recognized in equity for the Company's defined benefit plans were as follows:

	2019			2018		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Cumulative amount, beginning of year	\$ (97)	\$ (87)	\$ (184)	\$ 19	\$ (79)	\$ (60)
Net actuarial losses (gains) recognized in the year before income taxes	4	—	4	(116)	(8)	(124)
Cumulative amount, end of year	\$ (93)	\$ (87)	\$ (180)	\$ (97)	\$ (87)	\$ (184)

**Composition of Plan Assets** The defined benefit pension plan assets are held in trust and consist of the following asset categories:

(millions of Canadian dollars, except where otherwise indicated)	2019		2018	
<b>Equity securities</b>				
Canadian - pooled funds	\$ 61	3%	\$ 49	3%
Foreign - pooled funds	546	31%	446	26%
Total equity securities	\$ 607	34%	\$ 495	29%
<b>Debt securities</b>				
Fixed income securities:				
- government	\$ 794	45%	\$ 439	26%
- corporate	184	10%	155	9%
Fixed income pooled funds <sup>(i)</sup> :				
- government	32	2%	277	16%
- corporate	12	1%	10	1%
Total debt securities	\$ 1,022	58%	\$ 881	52%
Other investments	125	7%	121	7%
Cash and cash equivalents	16	1%	197	12%
Total	\$ 1,770	100%	\$ 1,694	100%

(i) Both government and corporate securities may be included within the same fixed income pooled fund.

As at December 28, 2019 and December 29, 2018, the defined benefit pension plans did not directly include any of the Company's securities.

All equity and debt securities and other investments are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly as prices or indirectly, either derived from prices or as per agreements for contractual returns.

The Company's asset allocation reflects a balance of interest-rate sensitive investments, such as fixed income investments, and equities, which are expected to provide higher returns over the long term. The Company's targeted asset allocations are actively monitored and adjusted on a plan by plan basis to align the asset mix with the liability profiles of the plans.

**Principal Actuarial Assumptions** The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan cost for the year were as follows (expressed as weighted averages):

	2019		2018	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
<b>Defined Benefit Plan Obligations</b>				
Discount rate	3.25%	3.00%	4.00%	4.00%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table <sup>(i)</sup>	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational
<b>Net Defined Benefit Plan Cost</b>				
Discount rate	4.00%	4.00%	3.50%	3.50%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table <sup>(i)</sup>	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational

n/a – not applicable

(i) Public or private sector mortality table is used depending on the prominent demographics of each plan.

The weighted average duration of the defined benefit obligation as at December 28, 2019 is 18.9 years (December 29, 2018 – 17.8 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at the end of the year was estimated at 4.50% and is expected to remain at 4.50% as at year end 2020.

**Sensitivity of Key Actuarial Assumptions** The following table outlines the key assumptions for 2019 (expressed as weighted averages) and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan cost.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	Defined Benefit Pension Plans		Other Defined Benefit Plans	
	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost <sup>(i)</sup>	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost <sup>(i)</sup>
Discount rate	3.25%	4.00%	3.00%	4.00%
Impact of:				
1% increase	\$ (295)	\$ (26)	\$ (20)	\$ —
1% decrease	\$ 358	\$ 26	\$ 25	\$ —
Expected growth rate of health care costs			4.50%	4.50%
Impact of:				
1% increase	n/a	n/a	\$ 14	\$ 1
1% decrease	n/a	n/a	\$ (11)	\$ (1)

n/a – not applicable

(i) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

**Multi-Employer Pension Plans** During 2019, the Company recognized an expense of \$65 million (2018 – \$66 million) in operating income, which represents the contributions made in connection with MEPPs. During 2020, the Company expects to continue to make contributions into these MEPPs.

The Company, together with its franchises, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan (“CCWIPP”), with approximately 55,000 (2018 – 54,000) employees as members. Included in the 2019 expense described above are contributions of \$64 million (2018 – \$65 million) to CCWIPP.

**Post-Employment and Other Long Term Employee Benefit Costs** The net cost recognized in earnings before income taxes for the Company’s post-employment and other long term employee benefit plans was as follows:

(millions of Canadian dollars)	2019	2018
Net post-employment defined benefit cost <sup>(i)</sup>	\$ 82	\$ 76
Defined contribution costs <sup>(ii)</sup>	24	25
Multi-employer pension plan costs <sup>(iii)</sup>	65	66
Total net post-employment benefit costs	\$ 171	\$ 167
Other long term employee benefit costs <sup>(iv)</sup>	39	28
Net post-employment and other long term employee benefit costs	\$ 210	\$ 195
Recorded on the consolidated statement of earnings as follows:		
Selling, general and administrative expenses (note 28)	\$ 203	\$ 184
Net interest expense and other financing charges (note 7)	7	11
Net post-employment and other long term employee benefit costs	\$ 210	\$ 195

(i) Includes settlement charges of \$10 million (2018 – \$1 million) related to annuity purchases.

(ii) Amounts represent the Company’s contributions made in connection with defined contribution plans.

(iii) Amounts represent the Company’s contributions made in connection with MEPPs.

(iv) Other long term employee benefit costs include \$3 million (2018 – \$3 million) of net interest expense and other financing charges.

**Note 27. Equity-Based Compensation**

The Company's equity-based compensation expense, which includes Loblaw Stock Option, RSU, PSU, DSU and EDSU plans, was \$45 million during 2019 (2018 – \$49 million). The expense was recognized in operating income.

The carrying amounts of the Company's equity-based compensation arrangements, which include Loblaw Stock Option, RSU, PSU, DSU and EDSU plans, were recorded on the consolidated balance sheets as follows:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
Other liabilities (note 23)	\$ 3	\$ 2
Contributed surplus	100	107

During 2018, the Company cancelled stock options and granted new stock options at an adjusted share price to "make-whole" stock option holders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties. In addition, the Company issued additional RSUs, PSUs, DSUs and EDSUs to "make-whole" unit holders as a result of the spin-out. These "make-whole" arrangements were not considered modifications to the Company's equity-based compensation plans and as a result had no impact on the Company's financial statements.

The following are details related to the equity-based compensation plans of the Company:

**Stock Option Plan** The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options up to 28,137,162 common shares.

The following is a summary of the Company's stock option plan activity:

	2019		2018	
	Options (number of shares)	Weighted Average Exercise Price / Share	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	7,509,631	\$ 51.60	7,487,774	\$ 53.77
Granted <sup>(i)</sup>	1,552,458	\$ 65.66	9,672,806	\$ 53.26
Exercised <sup>(ii)</sup>	(2,345,820)	\$ 43.82	(2,081,235)	\$ 38.87
Forfeited/cancelled <sup>(i)</sup>	(398,347)	\$ 57.88	(7,569,714)	\$ 59.36
Outstanding options, end of year	6,317,922	\$ 57.57	7,509,631	\$ 51.60
Options exercisable, end of year	2,117,144	\$ 52.79	3,033,156	\$ 45.14

(i) During 2018, the Company cancelled all 6,725,773 stock options and granted 8,013,333 stock options at an adjusted share price to "make-whole" stock option holders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

(ii) During 2019, the Company settled 459,087 stock options in cash.

The following is the weighted average remaining contractual life and exercise price of outstanding and exercisable stock options as at December 28, 2019:

	2019 Outstanding Options			2019 Exercisable Options	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
Range of Exercise Prices					
\$34.12 – \$56.28	2,708,412	3.7	\$ 52.35	1,215,214	\$ 48.63
\$56.29 – \$60.40	2,091,359	3.8	\$ 58.46	897,345	\$ 58.36
\$60.41 – \$70.19	1,518,151	6.2	\$ 65.65	4,585	\$ 64.90
	6,317,922		\$ 57.57	2,117,144	\$ 52.79

During 2019, the Company issued common shares on the exercise of stock options with a weighted average market share price of \$69.21 (2018 – \$65.45). The Company received cash consideration of \$82 million (2018 – \$78 million) related to the exercise of these options.

The fair value of stock options granted during 2019 was \$12 million (2018 – \$15 million). The assumptions used to measure the fair value of options granted during 2019 and 2018 under the Black-Scholes valuation model at date of grant were as follows:

	2019	2018
Expected dividend yield	1.8%	1.8%
Expected share price volatility	13.7% – 15.7%	15.2% – 21.0%
Risk-free interest rate	1.4% – 1.8%	1.9% – 2.3%
Expected life of options	3.7 – 6.2 years	3.9 – 6.3 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at December 28, 2019 was 9.0% (December 29, 2018 – 9.0%).

**Restricted Share Unit Plan** The following is a summary of the Company's RSU plan activity:

(number of awards)	2019	2018
Restricted share units, beginning of year	1,024,275	824,705
Granted <sup>(i)</sup>	355,311	528,614
Reinvested	17,125	7,954
Settled	(274,335)	(277,698)
Forfeited	(89,544)	(59,300)
Restricted share units, end of year	1,032,832	1,024,275

(i) During 2018, as a result of the spin-out of Choice Properties, the Company granted additional 164,322 RSUs to "make-whole" RSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

The fair value of RSUs granted during 2019 was \$24 million (2018 – \$24 million).

**Performance Share Unit Plan** The following is a summary of the Company's PSU plan activity:

(number of awards)	2019	2018
Performance share units, beginning of year	674,945	631,528
Granted <sup>(i)</sup>	258,261	434,692
Reinvested	11,264	5,409
Settled	(235,881)	(355,618)
Forfeited	(45,894)	(41,066)
Performance share units, end of year	662,695	674,945

(i) During 2018, as a result of the spin-out of Choice Properties, the Company granted additional 114,778 PSUs to "make-whole" PSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

The fair value of PSUs granted during 2019 was \$16 million (2018 – \$15 million).

**Settlement of Awards from Shares Held in Trust** During 2019, the Company settled RSUs and PSUs totaling 521,425 (2018 – 633,316), of which 510,216 (2018 – 628,711) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 24). The settlements resulted in a \$10 million (2018 – \$12 million) increase to share capital and a net increase of \$19 million (2018 – \$25 million) to retained earnings.

**Director Deferred Share Unit Plan** The following is a summary of the Company's DSU plan activity:

(number of awards)	2019	2018
Director deferred share units, beginning of year	296,329	220,672
Granted <sup>(i)</sup>	34,895	78,860
Reinvested	5,673	2,917
Settled	—	(6,120)
Director deferred share units, end of year	336,897	296,329

(i) During 2018, as a result of the spin-out of Choice Properties, the Company granted additional 47,027 DSUs to "make-whole" DSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

The fair value of DSUs granted during 2019 was \$2 million (2018 – \$2 million).

**Executive Deferred Share Unit Plan** The following is a summary of the Company's EDSU plan activity:

(number of awards)	2019	2018
Executive deferred share units, beginning of year	45,473	47,294
Granted <sup>(i)</sup>	4,796	11,402
Reinvested	846	578
Settled	(5,857)	(13,801)
Executive deferred share units, end of year	45,258	45,473

(i) During 2018, as a result of the spin-out of Choice Properties, the Company granted additional 7,868 EDSUs to "make-whole" EDSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

The fair value of EDSUs granted during 2019 was nominal (2018 – nominal).

## Note 28. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2019	2018
Wages, salaries and other short term employment benefits	\$ 6,040	\$ 5,748
Post-employment benefits (note 26)	166	159
Other long term employee benefits (note 26)	37	25
Equity-based compensation	42	47
Capitalized to fixed assets	(56)	(54)
<b>Total employee costs</b>	<b>\$ 6,229</b>	<b>\$ 5,925</b>

## Note 29. Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, passenger vehicles, trailers and IT equipment. Leases of retail stores are a substantial portion of the Company's lease portfolio. Retail store leases typically have an initial contractual period of 10 to 15 years with additional renewal options available thereafter. The Company also has owned and leased properties that are leased and subleased to third parties, respectively. The subleases are primarily related to non-consolidated franchise stores, medical centers and ancillary tenants within stores.

### As a Lessee

**Right-of-Use Assets** The following is the continuity of the cost and accumulated depreciation of right-of-use assets for the year ended December 28, 2019:

(millions of Canadian dollars)	2019		
	Property	Other	Total
<b>Cost</b>			
Balance, beginning of period	\$ 7,536	\$ 66	\$ 7,602
Lease additions, net of lease terminations	238	2	240
Lease extensions and other items	499	—	499
Balance, end of period	\$ 8,273	\$ 68	\$ 8,341
<b>Accumulated depreciation</b>			
Balance, beginning of period	\$ —	\$ —	\$ —
Depreciation	928	24	952
Impairment losses, net of reversals (note 15)	27	—	27
Balance, end of period	\$ 955	\$ 24	\$ 979
<b>Carrying amount as at:</b>			
<b>December 28, 2019</b>	<b>\$ 7,318</b>	<b>\$ 44</b>	<b>\$ 7,362</b>

Under IAS 17, as at December 29, 2018, the carrying amount of finance lease assets of \$411 million was presented in fixed assets in note 15.

**Lease Liabilities** The following is the continuity of lease liabilities for the year ended December 28, 2019:

(millions of Canadian dollars)	2019
Balance, beginning of period	\$ 9,177
Lease additions, net of lease terminations	258
Lease extensions and other items	497
Lease payments	(1,209)
Interest expense on lease liabilities (note 7)	387
Balance, end of period	\$ 9,110
Lease liabilities due within one year	\$ 1,419
Lease liabilities	7,691
Total lease liabilities	\$ 9,110

Under IAS 17, as at December 29, 2018, finance lease obligations of \$535 million were presented in long term debt due within one year and long term debt in note 22.

**Liquidity** The future undiscounted contractual lease payments are as follows:

(millions of Canadian dollars)	Payments due by year						As at December 28, 2019
	2020	2021	2022	2023	2024	Thereafter	Total
Lease payments	\$ 1,437	\$ 1,272	\$ 1,108	\$ 1,118	\$ 975	\$ 4,234	\$ 10,144

The Company also has a future undiscounted cash flow of \$208 million related to leases not yet commenced but committed to.

**Finance Lease Future Payments Under IAS 17** As at December 29, 2018, the undiscounted future finance lease payments and future finance charges were \$933 million and \$398 million, respectively. During 2018, the Company also recognized \$2 million of contingent finance lease rent expense in SG&A.

**Operating Lease Future Payments Under IAS 17** As at December 29, 2018, the undiscounted future minimum lease payments were \$9,987 million. During 2018, the Company recognized \$1,234 million of operating lease rent expense and \$2 million of contingent operating lease rent expense in SG&A.

**Short-Term Leases** The Company has short-term leases that are primarily related to trailer rentals and certain properties. During 2019, \$27 million was recognized in cost of merchandise inventories sold and SG&A.

**Variable Lease Payments** The Company makes variable lease payments for property tax and insurance charges on leased properties. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of retail sales. During 2019, \$376 million was recognized in SG&A.

**Extension Options** Substantially all of the retail store leases have extension options for additional lease terms. As at December 28, 2019, approximately 8% of the lease liabilities are related to extension options that were deemed reasonably certain to be exercised.

As at December 28, 2019, approximately \$14 billion of discounted future lease payments are related to extension options that were not deemed to be reasonably certain to be exercised and were not included in lease liabilities. These future lease payments are discounted at the incremental borrowing rates associated with the current lease liability profile.

**Sale and Leaseback Transactions** During 2019, the Company disposed of and leased back four retail store properties, and recognized a gain of \$7 million in SG&A.

## As a Lessor

**Finance Leases** Finance lease receivable is included in other assets on the Company's consolidated balance sheet (see note 19). During 2019, the Company recognized finance interest income of \$5 million. The future finance lease payments to be received by the Company relating to properties that are subleased to third parties are as follows:

(millions of Canadian dollars)	Payments to be received by year						As at December 28, 2019
	2020	2021	2022	2023	2024	Thereafter	Total
Finance lease payments to be received	\$ 19	\$ 19	\$ 20	\$ 20	\$ 15	\$ 43	\$ 136
Less: unearned finance interest income	(5)	(4)	(3)	(3)	(2)	(5)	(22)
Total finance lease receivable (note 19)	\$ 14	\$ 15	\$ 17	\$ 17	\$ 13	\$ 38	\$ 114

*Finance Leases Under IAS 17* As at December 29, 2018, the Company did not classify any leases as finance leases.

**Operating Leases** During 2019, the Company recognized operating lease income of \$27 million, of which \$23 million is related to operating lease income from subleases of right-of-use assets.

The future undiscounted operating lease payments to be received by the Company are as follows:

(millions of Canadian dollars)	Payments to be received by year						As at December 28, 2019
	2020	2021	2022	2023	2024	Thereafter	Total
Operating lease income	\$ 14	\$ 11	\$ 9	\$ 7	\$ 5	\$ 28	\$ 74

*Operating Leases Under IAS 17* During 2018, the Company recognized \$198 million of operating lease income and \$1 million of contingent operating lease income in operating income. As at December 29, 2018, the undiscounted future minimum lease payments to be received by the Company's operating leases as classified under IAS 17 was \$41 million.

During 2018, the Company recognized \$65 million of sublease income and \$3 million of contingent sublease income in operating income. As at December 29, 2018, the undiscounted future minimum sublease payments to be received by the Company were \$327 million.

**Note 30. Financial Instruments**

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long term debt.

(millions of Canadian dollars)	As at December 28, 2019				As at December 29, 2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>								
Amortized cost:								
Franchise loans receivable	\$ —	\$ —	\$ 19	\$ 19	\$ —	\$ —	\$ 78	\$ 78
Certain other assets <sup>(i)</sup>	—	—	14	14	—	—	16	16
Fair value through other comprehensive income:								
Certain long term investments and other assets <sup>(i)</sup>	50	—	—	50	50	—	—	50
Derivatives included in prepaid expenses and other assets	—	—	—	—	—	1	—	1
Fair value through profit and loss:								
Security deposits	—	—	—	—	—	800	—	800
Derivatives included in prepaid expenses and other assets	5	—	1	6	2	11	—	13
<b>Financial liabilities</b>								
Amortized cost:								
Long term debt	\$ —	\$ 8,079	\$ —	\$ 8,079	\$ —	\$ 8,653	\$ —	\$ 8,653
Certain other liabilities <sup>(i)</sup>	—	—	9	9	—	—	13	13
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	—	2	—	2	—	5	—	5
Fair value through profit and loss:								
Derivatives included in trade payables and other liabilities	—	5	—	5	11	—	3	14

(i) Certain other assets, certain other long term investments and other assets, and certain other liabilities are included in the consolidated balance sheets in other assets and other liabilities, respectively.

There were no transfers between levels of the fair value hierarchy during the periods presented.

During 2019, the Company recognized a loss of \$3 million (2018 – gain of \$6 million) in operating income on financial instruments designated as amortized cost. In addition, during 2019, a net loss of \$1 million (2018 – net loss of \$3 million) was recorded in earnings before income taxes related to financial instruments required to be classified as FVTPL.

**Franchise Loans Receivable and Franchise Investments** The value of Loblaw franchise loans receivable of \$19 million (December 29, 2018 – \$78 million) was recorded in the consolidated balance sheets. In 2019, the Company recorded a gain of \$1 million (2018 – gain of \$3 million) in operating income related to these loans receivable.

The value of Loblaw franchise investments of \$12 million (December 29, 2018 – \$14 million) was recorded in other assets. During 2019, the Company recorded a gain of \$1 million (2018 – gain of \$2 million) in operating income related to these investments.

**Embedded Derivatives** The Company's level 3 financial instruments classified as FVTPL consist of embedded derivatives on purchase orders placed in neither Canadian dollars nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any one of the inputs could result in a significantly higher (lower) fair value measurement.

During 2019, a gain of \$4 million (2018 – loss of \$5 million) was recorded in operating income related to these derivatives. In addition, a corresponding \$1 million asset was included in prepaid expense and other assets as at December 28, 2019 (December 29, 2018 – \$3 million liability). As at December 28, 2019, a 1% increase (decrease) in foreign currency exchange rates would result in a gain (loss) in fair value of \$1 million.

**Securities Investments** PC Bank holds investments which are considered part of the liquid securities required to be held to meet its Liquidity Coverage Ratio. As at December 28, 2019, the FVOCI securities of \$50 million (December 29, 2018 – \$50 million) was included in other assets. During 2019, PC Bank recorded a nominal unrealized fair value gain (2018 – nominal unrealized fair value gain) in other comprehensive income related to these investments.

**Other Derivatives** The Company uses bond forwards and interest rate swaps to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. The following is a summary of the fair values recognized in the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's other derivatives:

	December 28, 2019		
(millions of Canadian dollars)	Net asset/(liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
<b>Derivatives designated as cash flow hedges</b>			
Foreign Exchange Forwards <sup>(i)</sup>	\$ —	\$ (1)	\$ 1
Bond Forwards <sup>(ii)</sup>	—	(6)	—
Interest Rate Swaps <sup>(iii)</sup>	(1)	—	(1)
<b>Total derivatives designated as cash flow hedges</b>	<b>\$ (1)</b>	<b>\$ (7)</b>	<b>\$ —</b>
<b>Derivatives not designated in a formal hedging relationship</b>			
Foreign Exchange and Other Forwards	\$ (5)	\$ —	\$ (16)
Other Non-Financial Derivatives	5	—	12
<b>Total derivatives not designated in a formal hedging relationship</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (4)</b>
<b>Total derivatives</b>	<b>\$ (1)</b>	<b>\$ (7)</b>	<b>\$ (4)</b>

(i) PC Bank uses foreign exchange forwards, with a notional value of \$5 million USD, to manage its foreign exchange currency risk related to certain U.S. payables. The fair value of the derivatives is included in prepaid expenses and other assets.

(ii) PC Bank uses bond forwards, with a notional value of \$50 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

(iii) PC Bank uses interest rate swaps, with a notional value of \$300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

	December 29, 2018		
(millions of Canadian dollars)	Net asset/(liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
<b>Derivatives designated as cash flow hedges</b>			
Foreign Exchange Forwards	\$ 1	\$ 2	\$ —
Bond Forwards	(4)	(5)	1
Interest Rate Swaps	(1)	(1)	—
<b>Total derivatives designated as cash flow hedges</b>	<b>\$ (4)</b>	<b>\$ (4)</b>	<b>\$ 1</b>
<b>Derivatives not designated in a formal hedging relationship</b>			
Foreign Exchange and Other Forwards	\$ 11	\$ —	\$ 21
Other Non-Financial Derivatives	(11)	—	(20)
<b>Total derivatives not designated in a formal hedging relationship</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1</b>
<b>Total derivatives</b>	<b>\$ (4)</b>	<b>\$ (4)</b>	<b>\$ 2</b>

**Note 31. Financial Risk Management**

As a result of holding and issuing financial instruments, the Company is exposed to liquidity, credit and market risk. The following is a description of those risks and how the exposures are managed:

**Liquidity** Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost effective manner to fund its obligations as they come due. The Company is exposed to liquidity risk through, among other areas, PC Bank and its credit card business, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs and the acceptance of GIC deposits to fund the receivables of its credit cards. The Company would experience liquidity risk if it fails to maintain appropriate levels of cash and short term investments, it is unable to access sources of funding or it fails to appropriately diversify sources of funding. If any of these events were to occur, they could adversely affect the financial performance of the Company.

Liquidity risk is mitigated by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions, and by diversifying sources of funding, including the Company's committed credit facilities, and maintaining a well-diversified maturity profile of debt and capital obligations.

The following are the undiscounted contractual maturities of significant financial liabilities as at December 28, 2019:

	2020	2021	2022	2023	2024	Thereafter	Total <sup>(i)</sup>
<b>Derivative financial liabilities</b>							
Foreign exchange forward contracts	\$ 466	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 466
<b>Non-derivative financial liabilities</b>							
Bank indebtedness	18	—	—	—	—	—	18
Short term debt <sup>(ii)</sup>	725	—	—	—	—	—	725
Long term debt including interest payments <sup>(iii)</sup>	1,404	814	1,149	1,382	933	4,268	9,950
Other liabilities	3	3	—	—	—	—	6
<b>Total</b>	<b>\$ 2,616</b>	<b>\$ 817</b>	<b>\$ 1,149</b>	<b>\$ 1,382</b>	<b>\$ 933</b>	<b>\$ 4,268</b>	<b>\$ 11,165</b>

(i) The Company excluded trade payables and other liabilities, which are due within the next 12 months.

(ii) These are obligations owed to independent securitization trusts which are collateralized by the Company's credit card receivables (see note 12).

(iii) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities. Variable interest payments are based on the forward rates as of December 28, 2019.

**Credit** The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, finance lease receivable, franchise loans receivable, pension assets held in the Company's defined benefit plans and accounts receivable. Failure to manage credit risk could adversely affect the financial performance of the Company.

The risk related to derivative instruments, cash and cash equivalents, short term investments and security deposits is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments.

PC Bank manages its credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers.

Finance lease receivable, franchise loans receivable and accounts receivable, including amounts due from franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors and tenants, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

**Market** Market risk is the loss that may arise from changes in factors such as interest rates, foreign currency exchange rates, commodity prices, common share price and the impact these factors may have on other counterparties.

**Interest Rates** The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. An increase in interest rates could adversely affect the operations or financial performance of the Company. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 1% increase (decrease) in short term interest rates, with all other variables held constant, would result in an increase (decrease) of \$1 million to net interest expense and other financing charges.

**Currency Exchange Rates** The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated purchases in trade payables and other liabilities. A depreciating Canadian dollar relative to the USD will have a negative impact on year-over-year changes in reported operating income and net earnings, while an appreciating Canadian dollar relative to the USD will have the opposite impact. The Company is also exposed to fluctuations in the prices of USD denominated purchases as a result of changes in USD exchange rates. To manage a portion of this exposure, the Company uses derivative instruments in the form of futures contracts and forward contracts to minimize cost volatility related to foreign exchange.

**Commodity Prices** The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities. The Company estimates that based on the outstanding derivative contracts held by the Company as at December 28, 2019, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a loss of \$5 million on earnings before income taxes.

### **Note 32. Contingent Liabilities**

In the ordinary course of business, the Company is involved in and potentially subject to, legal actions and proceedings. In addition, the Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments.

There are a number of uncertainties involved in such matters, individually or in aggregate, and as such, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect on the Company's reputation, operations, financial condition or performance in future periods. It is not currently possible to predict the outcome of the Company's legal actions and proceedings with certainty. Management regularly assesses its position on the adequacy of accruals or provisions related to such matters and will make any necessary adjustments.

The following is a description of the Company's significant legal proceedings:

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice ("Superior Court") by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of \$500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. The Superior Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. The Company believes this claim is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2019 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. The allegations in the Ontario and Quebec class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 claims seek recovery of damages on behalf of opioid users directly. The Company believes these proceedings are without merit and is vigorously defending them. The Company does not currently have any significant accruals or provisions for these matters recorded in the consolidated financial statements.

The Company has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. On October 15, 2019, the appeal was heard by the Federal Court of Appeal, with the court reserving judgment until a later date.

**Indemnification Provisions** The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements, lease agreements in connection with business or asset acquisitions or dispositions, and other types of commercial agreements. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or in respect of future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. In addition, the terms of these indemnification provisions vary in amount and certain indemnification provisions do not provide for a maximum potential indemnification amount. Indemnity amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. As a result, the Company is unable to reasonably estimate its total maximum potential liability in respect of indemnification provisions. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

### Note 33. Financial Guarantees

The Company established letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and guarantees with a gross potential liability of approximately \$316 million as at December 28, 2019 (December 29, 2018 – \$317 million). In addition, the Company has provided to third parties the following significant guarantees:

**Associate Guarantees** The Company has arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at December 28, 2019, the Company's maximum obligation in respect of such guarantees was \$580 million (December 29, 2018 – \$580 million) with an aggregate amount of \$468 million (December 29, 2018 – \$466 million) in available lines of credit allocated to the Associates by the various banks. As at December 28, 2019, Associates had drawn an aggregate amount of \$18 million (December 29, 2018 – \$56 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

**Independent Funding Trusts** The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheet of the Company (see note 22). As at December 28, 2019 the Company has agreed to provide a credit enhancement of \$64 million (December 29, 2018 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (December 29, 2018 – 10%) of the principal amount of loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to the Company's franchisees. As well, each franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that a franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

**Lease Obligations** In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate, approximately \$12 million (December 29, 2018 – \$12 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of \$2 million (December 29, 2018 – \$3 million).

**Glenhuron Bank Limited Surety Bond** In connection with the Canada Revenue Agency's reassessment of the Company on certain income earned by Glenhuron (see note 8), the Company arranged for a surety bond to the Ministry of Finance in order to appeal the reassessments. As a result of the decision of the Tax Court and incremental payments, the amount of the surety bond is \$49 million (December 29, 2018 – \$46 million).

**Cash Collateralization** As at December 28, 2019, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of \$103 million (December 29, 2018 – \$103 million), of which \$1 million (December 29, 2018 – \$2 million) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

**Financial Services** The Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at December 28, 2019, the guarantee on behalf of PC Bank to MasterCard® was USD \$190 million (December 29, 2018 – USD \$190 million).

The Company had in place an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of \$11 million (December 29, 2018 – \$11 million).

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was \$70 million (December 29, 2018 – \$89 million), which represented approximately 10% (December 29, 2018 – 10%) of the securitized credit card receivables amount (see note 12).

#### **Note 34. Related Party Transactions**

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 52.2% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies that he controls, including Wittington, which owns a total of 81,706,054 of Weston's common shares, representing approximately 53.2% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,280,208 of the Company's common shares, representing approximately 1.5% of the Company's outstanding common shares.

In 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties (see note 6).

Following the reorganization, the Company no longer retains its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements. The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and all current agreements and arrangements, including The Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant, representing approximately 58% of Choice Properties' annual base rent revenue and 56% of its gross leasable area as at December 28, 2019 (December 29, 2018 – 68% and 59%, respectively).

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions for those in the normal course of business. The Company has reflected all transactions with Choice Properties below from the earliest period presented. Prior to November 1, 2018, these transactions were eliminated on consolidation.

**Transactions with Related Parties**

(millions of Canadian dollars)	Transaction Value	
	2019	2018
<b>Included in cost of merchandise inventories sold</b>		
Inventory purchases from a subsidiary of Weston	\$ 631	\$ 649
Inventory sold to a subsidiary of Weston	4	2
Inventory purchases from a related party <sup>(i)</sup>	27	30
<b>Operating income</b>		
<b>Transactions with Weston</b>		
Cost sharing agreements with Parent <sup>(ii)</sup>	\$ 32	\$ 42
Net administrative services provided by Parent <sup>(iii)</sup>	16	19
Lease of office space from a subsidiary of Wittington	4	4
<b>Transactions with Choice Properties</b>		
Lease payments to Choice Properties <sup>(iv)</sup>	\$ 736	\$ 742
Property management and other administration fees paid to Choice Properties	1	1
Lease surrender payments	3	10
Service agreement fees received from Choice Properties <sup>(v)</sup>	—	(2)
Site intensification payments received from Choice Properties <sup>(vi)</sup>	(5)	(6)
Gain on sale of properties to Choice Properties <sup>(vii)</sup>	(7)	(6)

- (i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at December 28, 2019 was \$2 million (December 29, 2018 – \$3 million).
- (ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.
- (iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.
- (iv) Lease payments paid to Choice Properties include base rent of \$526 million (2018 – \$543 million) and operating expenses of \$210 million (2018 – \$199 million).
- (v) The Company provided Choice Properties with administrative and other support services. This agreement was terminated on December 31, 2018.
- (vi) During 2019, the Company received site intensification payments from Choice Properties of \$5 million (2018 – \$6 million). Included in certain investment properties sold to Choice Properties is excess land with development potential. Choice Properties will compensate the Company, over time, with site intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess lands. The payments the Company receives are calculated in accordance with a payment grid, set out in the Strategic Alliance Agreement, that takes into account the region, market ranking and type of use for the property.
- (vii) During 2019, the Company disposed of three investment properties to Choice Properties for an aggregate purchase price of \$59 million (2018 – \$55 million) and recognized a gain of \$7 million (2018 – gain of \$6 million). These properties were leased back to the Company.

The net balances due to (from) related parties are comprised as follows:

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
	Weston <sup>(i)</sup>	\$ 33
Choice Properties <sup>(ii)</sup>	(12)	2

- (i) Balances relate to trade payables and other liabilities due to Weston, net of receivables from Weston.
- (ii) Balances relate to other receivables, net of other payables to Choice Properties.

**Post-Employment Benefit Plans** The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in the notes to the consolidated financial statements. During 2019, the Company also became a participant in a group plan, which is sponsored by the parent Company, Weston. As a participant of the group plan, the Company will make contributions for its share of defined benefit costs, including interest, service and administrative costs. In 2019, there were no payments made from the Company to the group plan.

**Income Tax Matters** From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

**Key Management Personnel** The Company's key management personnel are comprised of the Board and certain members of the executive team of the Company, as well as both the Board and certain members of the executive team of Weston and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

**Compensation of Key Management Personnel** Annual compensation of key management personnel that is directly attributable to the Company was as follows:

(millions of Canadian dollars)	2019	2018
Salaries, director fees and other short term employee benefits	\$ 6	\$ 6
Equity-based compensation	9	10
Total compensation	\$ 15	\$ 16

### Other Transactions and Agreements with Choice Properties

**Strategic Alliance Agreement** The Strategic Alliance Agreement established on the initial public offering ("IPO") of Choice Properties creates a series of rights and obligations between Choice Properties and the Company, intended to establish a preferential and mutually beneficial business and operating relationship. The Agreement expires on July 5, 2023, ten years from the IPO.

**Services Agreement** The Company provided Choice Properties with administrative and other support services. This agreement was terminated on December 31, 2018.

**Property Management Agreement** Choice Properties provides the Company with property management services for properties with third-party tenancies on a fee for service basis for an initial two-year term with automatic one-year renewals.

**Sublease Administration Agreement** Choice Properties provides the Company with certain administrative services related to the subleases of gas bar operations to Brookfield Business Partners L.P. on a fee for service basis for an initial five-year term with automatic one-year renewals.

**Letters of Credit** As at December 28, 2019, letters of credit totaling \$2 million were posted by the Company with the Province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from the Company (December 29, 2018 – \$3 million).

**Distributions on Choice Properties LP Units** Prior to the spin-out and the acquisition of CREIT by Choice Properties, the Company held all the Exchangeable Units and Class C LP Units issued by Choice Properties. For the year ended December 29, 2018, the Company received distributions totaling \$238 million on these units held.

**Trust Unit Distributions** Prior to the spin-out, the Company held Trust Units issued by Choice Properties. For the year ended December 29, 2018, the Company received distributions of \$13 million on the Units held.

**Commitments** The following is a summary of the Company's future undiscounted contractual lease payments to Choice Properties:

(millions of Canadian dollars)	Payments due by year						As at December 28, 2019	As at December 29, 2018
	2020	2021	2022	2023	2024	Thereafter	Total	Total
Lease payments	\$ 555	\$ 519	\$ 482	\$ 508	\$ 464	\$ 1,980	\$ 4,508	\$ 5,230

**Extension of Certain Lease Terms** During 2019, Choice Properties disposed of 30 properties, leased by the Company, to a third party purchaser. As part of the transaction, the Company extended certain lease terms with Choice Properties immediately prior to the sale where the Company believed it was reasonably certain to use the premises, which resulted in a lease modification impact of approximately \$52 million to right-of-use assets and lease liabilities. Furthermore, the Company was waived of certain future capital recovery charges by Choice Properties.

**Reimbursed Contract Revenue** Certain properties with solar rooftop leases were sold to Choice Properties in prior periods. The revenue associated with the solar rooftop leases was incorrectly allocated to Choice Properties. During the year ended December 28, 2019, Choice Properties reimbursed the Company \$7 million for revenue received in prior periods, and Choice Properties and the Company acknowledged that all future revenue and liabilities relating to the solar rooftop leases and related rooftop repair costs belong to the Company.

### Note 35. Segment Information

The Company has two reportable operating segments, with all material operations carried out in Canada:

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA<sup>(2)</sup> and adjusted operating income<sup>(2)</sup>, as reported to internal management, on a periodic basis. The chief operating decision maker evaluates Retail segment performance on a Continuing Operations basis.

Information for each reportable operating segment is included below:

(millions of Canadian dollars)	2019				2018			
	Retail	Financial Services	Eliminations <sup>(i)</sup>	Total	Retail	Financial Services	Eliminations <sup>(i)</sup>	Total
<b>Revenue<sup>(ii)</sup></b>	<b>\$ 47,099</b>	<b>\$ 1,196</b>	<b>\$ (258)</b>	<b>\$ 48,037</b>	\$ 45,836	\$ 1,082	\$ (225)	\$ 46,693
Operating income	\$ 2,082	\$ 188	\$ —	\$ 2,270	\$ 1,717	\$ 206	\$ —	\$ 1,923
Net interest expense and other financing charges	666	81	—	747	495	69	—	564
<b>Earnings before income taxes</b>	<b>\$ 1,416</b>	<b>\$ 107</b>	<b>\$ —</b>	<b>\$ 1,523</b>	\$ 1,222	\$ 137	\$ —	\$ 1,359
<b>Operating income</b>	<b>\$ 2,082</b>	<b>\$ 188</b>	<b>\$ —</b>	<b>\$ 2,270</b>	\$ 1,717	\$ 206	\$ —	\$ 1,923
Depreciation and amortization	2,502	22	—	2,524	1,487	10	—	1,497
Adjusting items <sup>(iii)</sup>	624	2	—	626	649	(20)	—	629
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(508)	—	—	(508)	(521)	—	—	(521)
Adjusted EBITDA <sup>(iii)</sup>	\$ 4,700	\$ 212	\$ —	\$ 4,912	\$ 3,332	\$ 196	\$ —	\$ 3,528
Depreciation and amortization <sup>(iv)</sup>	1,994	22	—	2,016	966	10	—	976
<b>Adjusted operating income</b>	<b>\$ 2,706</b>	<b>\$ 190</b>	<b>\$ —</b>	<b>\$ 2,896</b>	\$ 2,366	\$ 186	\$ —	\$ 2,552

(i) Eliminations includes the reclassification of revenue related to *PC MasterCard*<sup>®</sup> loyalty awards in the Financial Services segment.

(ii) Included in Financial Services revenue is \$478 million (2018 – \$426 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA<sup>(2)</sup>. Adjusted EBITDA<sup>(2)</sup> is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA<sup>(2)</sup> excludes \$508 million (2018 – \$521 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

The Company's revenue, by type of goods or services, is reconciled to the Company's segment revenue:

(millions of Canadian dollars)	2019	2018
Food retail	\$ 33,756	\$ 32,969
Drug retail		
Pharmacy	\$ 6,307	\$ 6,030
Front store	7,036	6,837
	\$ 13,343	\$ 12,867
Retail total	\$ 47,099	\$ 45,836
Financial Services	1,196	1,082
Eliminations <sup>(i)</sup>	(258)	(225)
Total	\$ 48,037	\$ 46,693

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

(millions of Canadian dollars)	As at December 28, 2019	As at December 29, 2018
<b>Total assets</b>		
Retail	\$ 31,661	\$ 25,796
Financial Services	4,648	4,357
	\$ 36,309	\$ 30,153

(millions of Canadian dollars)	2019 <sup>(i)</sup>	2018
<b>Additions to fixed assets and intangible assets</b>		
Retail	\$ 1,150	\$ 1,013
Financial Services	56	57
Discontinued Operations	—	264
	\$ 1,206	\$ 1,334

(i) Additions to fixed assets in the retail segment include \$13 million prepayment that was made in 2018. The balance was transferred from other assets in 2019.

### Note 36. Subsequent Events

**Distribution Centre Closures** Subsequent to the end of 2019, the Company announced the future closure of two distribution centres in Laval and Ottawa. The Company is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Over the next two years, the distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall. During this period, the Company expects to incur additional restructuring costs in 2020 and 2021 with respect to these closures.

## Three Year Summary

The Company's interest in Choice Properties is presented separately as Discontinued Operations in the Company's comparative results. Unless otherwise indicated, all financial information reflects the Company's results from Continuing Operations and includes the impacts of spin-out related depreciation, the implementation of IFRS 16 and the consolidation of franchises.

As at or for the years ended December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2019	2018	2017
<b>Consolidated Results of Operations</b>			
Revenue	\$ 48,037	\$ 46,693	\$ 46,587
Revenue growth	2.9%	0.2%	0.6%
Operating income	\$ 2,270	\$ 1,923	\$ 2,049
Adjusted EBITDA <sup>(2)</sup>	4,912	3,528	3,521
Adjusted EBITDA margin <sup>(2)</sup>	10.2%	7.6%	7.6%
Net interest expense and other financing charges	\$ 747	\$ 564	\$ 374
Adjusted net interest expense and other financing charges <sup>(2)</sup>	747	387	374
Net earnings (loss)	1,131	800	1,541
Continuing Operations	1,131	753	1,310
Discontinued Operations	—	47	231
Net earnings (loss) attributable to shareholders of the Company from Continuing Operations	1,081	719	1,286
Net earnings (loss) available to common shareholders of the Company	1,069	754	1,505
Continuing Operations	1,069	707	1,274
Discontinued Operations	—	47	231
Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup>	1,516	1,746	1,797
Continuing Operations	1,516	1,539	1,585
Discontinued Operations	—	207	212
<b>Consolidated Per Common Share (\$)</b>			
Diluted net earnings (loss)	\$ 2.90	\$ 1.99	\$ 3.79
Continuing Operations	\$ 2.90	\$ 1.87	\$ 3.21
Discontinued Operations	\$ —	\$ 0.12	\$ 0.58
Adjusted diluted net earnings <sup>(2)</sup>	\$ 4.12	\$ 4.60	\$ 4.52
Continuing Operations	\$ 4.12	\$ 4.06	\$ 3.99
Discontinued Operations	\$ —	\$ 0.54	\$ 0.53
<b>Consolidated Financial Position and Cash Flows</b>			
Cash and cash equivalents and short term investments	\$ 1,190	\$ 1,159	\$ 2,344
Cash flows from operating activities from Total Company	3,960	2,501	3,209
Capital investments from Total Company	1,206	1,334	1,259
Free cash flow <sup>(2)</sup> from Total Company	1,210	366	1,479
<b>Financial Measures</b>			
Retail debt to retail adjusted EBITDA <sup>(2)</sup>	3.0x	1.9x	1.9x
Adjusted return on equity <sup>(2)</sup>	13.7%	12.6%	12.6%
Adjusted return on capital <sup>(2)</sup>	7.8%	9.8%	9.8%

## Three Year Summary

As at or for the years ended December 28, 2019 and December 29, 2018  
(millions of Canadian dollars except where otherwise indicated)

	2019	2018 <sup>(3)</sup>	2017
<b>Retail Results of Operations</b>			
Sales	\$ 47,099	\$ 45,836	\$ 45,867
Operating income	2,082	1,717	1,843
Adjusted gross profit <sup>(2)</sup>	13,999	13,497	13,053
Adjusted gross profit % <sup>(2)</sup>	29.7%	29.4%	28.5%
Adjusted EBITDA <sup>(2)</sup>	\$ 4,700	\$ 3,332	\$ 3,329
Adjusted EBITDA margin <sup>(2)</sup>	10.0%	7.3%	7.3%
Depreciation and amortization	\$ 2,502	\$ 1,487	\$ 1,444
<b>Retail Operating Statistics</b>			
Food retail same-store sales growth	1.1%	1.1%	0.6%
Drug retail same-store sales growth	3.6%	2.4%	3.0%
Drug retail same-store pharmacy sales growth	4.4%	1.2%	3.1%
Drug retail same-store front store sales growth	2.9%	3.5%	2.9%
Total retail square footage (in millions)	70.8	70.4	70.3
Number of corporate stores	548	550	559
Number of franchise stores	540	535	534
Number of Associate-owned drug stores	1,343	1,337	1,334
<b>Financial Services Results of Operations</b>			
Revenue	\$ 1,196	\$ 1,082	\$ 953
Earnings before income taxes	107	137	150
<b>Financial Services Operating Measures and Statistics</b>			
Average quarterly net credit card receivables	\$ 3,298	\$ 3,040	\$ 2,908
Credit card receivables	3,624	3,309	3,100
Allowance for credit card receivables	196	167	47
Annualized yield on average quarterly gross credit card receivables	13.5%	13.2%	13.2%
Annualized credit loss rate on average quarterly gross credit card receivables	3.4%	3.2%	3.7%

### Financial Results and Financial Summary Endnotes

- (1) For financial definitions and ratios refer to the Glossary of Terms on page 134 of the Company's 2019 Annual Report.
- (2) See Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis for the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
- (3) Certain comparative figures have been restated to conform with current year presentation.

## Glossary of Terms

Term	Definition
Adjusted diluted net earnings per common share	Adjusted net earnings available to common shareholders including the effects of all dilutive instruments divided by the diluted weighted average number of common shares outstanding during the period (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA	Adjusted operating income before depreciation and amortization (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA margin	Adjusted EBITDA divided by sales (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted income tax	Income taxes adjusted for the tax impact of items included in adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted effective tax rate	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings attributable to shareholders of the Company	Net earnings attributable to shareholders of the Company adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings available to common shareholders of the Company	Adjusted net earnings attributable to shareholders of the Company less preferred dividends (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net interest expense and other financing charges	Net interest expense and other financing charges adjusted for items that are not necessarily reflective of the Company's ongoing net financing costs (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted operating income	Operating income adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on capital	Tax-effected adjusted operating income divided by average capital (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on equity	Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Annualized credit loss rate on average quarterly gross credit card receivables	Total credit card losses year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Annualized yield on average quarterly gross credit card receivables	Interest earned on credit card receivables year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Average article price	The price inflation on the specific mix of goods sold in the Company's stores.
Basic net earnings per common share	Net earnings available to common shareholders divided by the weighted average number of common shares of the Company outstanding during the period.
Capital under management	Total debt plus total equity attributable to shareholders of the Company.
Capital Investments	Fixed asset additions and intangible asset additions (see notes 15 and 17 of the Company's Consolidated Financial Statements).
Control brand	A brand and associated trademark that is owned by the Company for use in connection with its own products and services.
Conversion	A store that changes from one Company banner to another Company banner.
Diluted net earnings per common share	Net earnings available to common shareholders of the Company adjusted for the impact of dilutive items divided by the weighted average number of common shares outstanding during the period adjusted for the impact of dilutive items.
Diluted weighted average common shares outstanding	Weighted average number of common shares outstanding including the effects of all dilutive instruments.
Free Cash Flow	Cash flows from operating activities less intangible asset additions, fixed asset purchases, interest paid and net lease payments (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Net earnings attributable to shareholders of the Company	Net earnings less non-controlling interests.
Net earnings available to common shareholders of the Company	Net earnings attributable to shareholders of the Company less preferred dividends.
Operating income	Net earnings before net interest expense and other financing charges and income taxes.
Renovation	A capital investment in a store resulting in no significant change to the store square footage.
Retail debt to retail adjusted EBITDA	Retail segment total debt (see Section 7.2 "Liquidity and Capital Structure" of the Company's Management Discussion and Analysis) divided by Retail segment adjusted EBITDA.
Retail segment adjusted gross profit	Retail segment gross profit, adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Retail segment adjusted gross profit percentage	Retail segment adjusted gross profit divided by Retail segment sales.
Retail segment gross profit	Retail segment sales less cost of merchandise inventories sold.
Same-store sales	Retail segment sales from the same location for stores in operation in that location in both periods excluding sales from a store that has undergone a major expansion/contraction in the period.
Total equity attributable to common shareholders of the Company	Total equity less preferred shares outstanding and non-controlling interests.
Total equity attributable to shareholders of the Company	Total equity less non-controlling interests.
Total retail square footage	Total retail square footage includes corporate, franchised stores and associate-owned drug stores.
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the period the common shares were outstanding to the total time in that period.

## Corporate Profile

### National Head Office and Store Support Centre

Loblaw Companies Limited  
1 President's Choice Circle  
Brampton, Canada L6Y 5S5  
Tel: (905) 459-2500  
Fax: (905) 861-2206  
Website: loblaw.ca

### Stock Exchange Listing and Symbol

The Company's common shares and second preferred shares are listed on the Toronto Stock Exchange and trade under the symbols "L" and "L.PR.B.", respectively.

### Common Shares

At year-end 2019, W. Galen Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 52.2% of the Company's common shares.

At year-end 2019, there were 360,064,475 common shares issued and outstanding.

The average daily trading volume of the Company's common shares for 2019 was 537,406.

### Preferred Shares

At year-end 2019, there were 9,000,000 second preferred shares, Series B issued and outstanding.

The average daily trading volume of the Company's second preferred shares, Series B for 2019 was 5,660.

### Trademarks

Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited, its subsidiaries or the licensor and where used in this report, are in italics.

### Company Dividend Policy

The Company's dividend policy states: the declaration and payment of dividends and the amount thereof on the Company's common shares are at the discretion of the Board of Directors which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time.

### Common Dividend Dates

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payments dates for 2020 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
September 15	October 1
December 15	December 30

### Normal Course Issuer Bid

The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

### Value of Common Shares

For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company is \$0.958 per common share. The value on February 22, 1994 was \$7.67 per common share.

### Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Investor Relations at the Company's National Head Office or by e-mail at [investor@loblaw.ca](mailto:investor@loblaw.ca).

### Registrar and Transfer Agent

Computershare Investor Services Inc.  
100 University Avenue  
Toronto, Canada M5J 2Y1

Toll free: 1-800-564-6253 (Canada and U.S.)

Fax (416) 263-9394

Toll free fax: 1-888-453-0330

International direct dial: (514) 982-7555

To change your address, eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank.

### Independent Auditors

KPMG LLP  
Chartered Professional Accountants  
Toronto, Canada

### Annual General Meeting

The 2020 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday, April 30, 2020 at 11:00 a.m. (EDT), at the Meridian Arts Centre - Lyric Theatre, 5040 Yonge St., Toronto, Ontario, Canada, M2N 6R8.

The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investors section of the Company's website ([loblaw.ca](http://loblaw.ca)).

### Preferred Shares, Series B Dividend Dates

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated payment dates for 2020 are:

Record Date	Payment Date
March 15	March 31
June 15	June 30
September 15	September 30
December 15	December 31

loblaw.ca

shoppersdrugmart.ca

pharmaprix.ca

pcfinancial.ca

joefresh.ca

presidentschoice.ca

pcexpress.ca

beautyboutique.ca

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**Environmental Savings Summary**

By using 1,619 kg of paper manufactured with 30% post-consumer recycled fibre for the Annual Report and 2,522 kg of paper manufactured with 100% post-consumer recycled waste fibre for the 2019 Annual Report, Loblaw Companies Limited reduced its environmental footprint by:

Wood Use:	11,703 kg
Total Energy:	32.7 million BTUs
Greenhouse Gases:	15,818 kg of CO <sub>2</sub> equivalent
Wastewater Flow:	29,526 litres
Solid Waste:	126 kg

Environmental impact savings estimates were made using the Environmental Defense Paper Calculator, [www.papercalculator.org](http://www.papercalculator.org). Amounts calculated are approximate based on industry averages.