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Companies
Limited

2020 Annual Report –
Financial Review

2020 Annual Report - Financial Review

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Financial Highlights[1]

As at or for the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(53 weeks)**	2019 (52 weeks)
Consolidated Results of Operations		
Revenue	**$ 52,714**	$ 48,037
Revenue growth	**9.7 %**	2.9 %
Operating income	**$ 2,365**	$ 2,270
Adjusted EBITDA[2]	**5,041**	4,912
Adjusted EBITDA margin[2]	**9.6 %**	10.2 %
Net interest expense and other financing charges	**$ 742**	$ 747
Adjusted net interest expense and other financing charges[2]	**742**	747
Income taxes	**431**	392
Adjusted income taxes[2]	**589**	571
Adjusted effective tax rate[2]	**26.6 %**	26.6 %
Net earnings	**$ 1,192**	$ 1,131
Net earnings attributable to shareholders of the Company	**1,108**	1,081
Net earnings available to common shareholders of the Company[i]	**1,096**	1,069
Adjusted net earnings available to common shareholders of the Company[2]	**1,527**	1,516
Consolidated per Common Share ($)		
Diluted net earnings	**$ 3.06**	$ 2.90
Adjusted diluted net earnings[2]	**$ 4.26**	$ 4.12
Dividends		
Dividends declared per common share ($)	**$ 1.280**	$ 1.240
Consolidated Financial Position and Cash Flows[ii]		
Cash and cash equivalents and short term investments	**$ 1,937**	$ 1,190
Cash flows from operating activities	**5,191**	3,960
Capital investments	**1,224**	1,206
Free cash flow[2]	**2,247**	1,210
Financial Measures		
Retail debt to retail adjusted EBITDA[2]	**2.8 x**	3.0 x
Adjusted return on equity[2]	**14.0 %**	13.7 %
Adjusted return on capital[2]	**8.2 %**	7.8 %

(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.

Financial Highlights[1]

As at or for the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (53 weeks)	2019[4] (52 weeks)
Retail Results of Operations		
Sales	**$ 51,859**	$ 47,099
Operating income	**2,231**	2,082
Adjusted gross profit[2]	**15,300**	13,998
Adjusted gross profit %[2]	**29.5 %**	29.7 %
Adjusted EBITDA[2]	**$ 4,882**	$ 4,700
Adjusted EBITDA margin[2]	**9.4 %**	10.0 %
Depreciation and amortization	**$ 2,571**	$ 2,502
Retail Operating Statistics		
Food retail same-store sales growth	**8.6 %**	1.1 %
Drug retail same-store sales growth	**4.9 %**	3.6 %
Drug retail same-store pharmacy sales growth	**5.3 %**	4.4 %
Drug retail same-store front store sales growth	**4.5 %**	2.9 %
Total retail square footage (in millions)	**71.0**	70.8
Number of corporate stores	**550**	548
Number of franchise stores	**542**	540
Number of Associate-owned drug stores	**1,347**	1,343
Financial Services Results of Operations		
Revenue	**$ 1,097**	$ 1,196
Earnings before income taxes	**47**	107
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	**$ 3,165**	$ 3,298
Credit card receivables	**3,109**	3,624
Allowance for credit card receivables	**237**	196
Annualized yield on average quarterly gross credit card receivables	**13.3 %**	13.5 %
Annualized credit loss rate on average quarterly gross credit card receivables	**3.4 %**	3.4 %

Management's Discussion and Analysis

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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 included on page 61 to 126 of this Annual Report – Financial Review ("Annual Report").

The Company's annual audited consolidated financial statements and the accompanying notes for the year ended January 2, 2021 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 24, 2021, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 127.

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2020 (13 weeks ended January 2, 2021) are against results for the fourth quarter of 2019 (12 weeks ended December 28, 2019) and all comparisons of results for the full-year of 2020 (53 weeks ended January 2, 2021) are against the results for the full-year of 2019 (52 weeks ended December 28, 2019).

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 9 "Quarterly Results of Operations", Section 16 "Strategic Update and 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 2021 is based on certain assumptions including assumptions about the COVID-19 pandemic, 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, including the COVID-19 pandemic 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 2020 Annual Information Form ("AIF") (for the year ended January 2, 2021). Such risks and uncertainties include:

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of the Company, as well as on vendor operations, consumer behaviour and the economy in general;
- 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;
- 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 effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- 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 realize benefits from investments in the Company's new IT systems;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- 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 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;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business and located in both advanced and developing markets;
- 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; 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 2020 AIF (for the year ended January 2, 2021), as well as the "Enterprise Risks and Risk Management" section of this MD&A, which includes discussion of COVID-19 related risks. 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 and everyday banking 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, referred to internally as the Company's Strategic Compass, is built around an unrelenting passion for customers. Guided by the elements of the Strategic Compass, the Company is committed to delivering industry leading financial performance by leveraging data-driven insights and by delivering process and efficiency excellence. This in turn fuels 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.

Loblaw is a recognized leader in Corporate Social Responsibility ("CSR"). Loblaw's long-standing commitment to CSR and its strong Environmental, Social and Governance ("ESG") practices are based on its goal of creating long-term value, including, sustainable solutions to material ESG risks and opportunities, establishment of measurable targets, transparent disclosure, proactive stakeholder engagement and robust governance practices.

Internally, colleagues are committed to Social Responsibility and Compliance, through a shared set of CORE Values and a "Blue Culture" that encourages all colleagues 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[1]

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 January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (53 weeks)**	2019[4] (52 weeks)
Consolidated		
Revenue growth	**9.7 %**	2.9 %
Operating income	**$ 2,365**	$ 2,270
Adjusted EBITDA[2]	**5,041**	4,912
Adjusted EBITDA margin[2]	**9.6 %**	10.2 %
Net earnings	**$ 1,192**	$ 1,131
Net earnings attributable to shareholders of the Company	**1,108**	1,081
Net earnings available to common shareholders of the Company[i]	**1,096**	1,069
Adjusted net earnings available to common shareholders of the Company[2]	**1,527**	1,516
Diluted net earnings per common share ($)	**$ 3.06**	$ 2.90
Adjusted diluted net earnings per common share[2] ($)	**$ 4.26**	$ 4.12
Cash and cash equivalents and short term investments	**$ 1,937**	$ 1,190
Cash flows from operating activities	**5,191**	3,960
Free cash flow[2]	**2,247**	1,210
Financial Measures		
Retail debt to retail adjusted EBITDA[2]	**2.8 x**	3.0 x
Adjusted return on equity[2]	**14.0 %**	13.7 %
Adjusted return on capital[2]	**8.2 %**	7.8 %
Retail Segment		
Food retail same-store sales growth	**8.6 %**	1.1 %
Drug retail same-store sales growth	**4.9 %**	3.6 %
Operating income	**$ 2,231**	$ 2,082
Adjusted gross profit[2]	**15,300**	13,998
Adjusted gross profit %[2]	**29.5 %**	29.7 %
Adjusted EBITDA[2]	**$ 4,882**	$ 4,700
Adjusted EBITDA margin[2]	**9.4 %**	10.0 %
Financial Services Segment		
Earnings before income taxes	**$ 47**	$ 107
Annualized yield on average quarterly gross credit card receivables	**13.3 %**	13.5 %
Annualized credit loss rate on average quarterly gross credit card receivables	**3.4 %**	3.4 %

(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.

5. Overall Financial Performance

5.1. Consolidated Results of Operations

Unless otherwise indicated, all financial information includes the impacts of the consolidation of franchises, COVID-19 and the 53rd week.

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (53 weeks)	2019 (52 weeks)	$ Change	% Change
Revenue	**$ 52,714**	$ 48,037	$ 4,677	9.7 %
Operating income	**2,365**	2,270	95	4.2 %
Adjusted EBITDA(2)	**5,041**	4,912	129	2.6 %
Adjusted EBITDA margin(2)	**9.6 %**	10.2 %		
Depreciation and amortization	**$ 2,596**	$ 2,524	$ 72	2.9 %
Net interest expense and other financing charges	**742**	747	(5)	(0.7)%
Income taxes	**431**	392	39	9.9 %
Adjusted income taxes(2)	**589**	571	18	3.2 %
Adjusted effective tax rate(2)	**26.6 %**	26.6 %		
Net earnings attributable to shareholders of the Company	**$ 1,108**	$ 1,081	$ 27	2.5 %
Net earnings available to common shareholders of the Company(i)	**1,096**	1,069	27	2.5 %
Adjusted net earnings available to common shareholders of the Company(2)	**1,527**	1,516	11	0.7 %
Diluted net earnings per common share ($)	**$ 3.06**	$ 2.90	$ 0.16	5.5 %
Adjusted diluted net earnings per common share(2) ($)	**$ 4.26**	$ 4.12	$ 0.14	3.4 %
Diluted weighted average common shares outstanding (in millions)	**358.2**	368.4		

(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.

The COVID-19 pandemic impacted the Company's operations throughout the year, Sales in the Food Retail business were positively impacted, however costs remained elevated to ensure the safety and security of customers and colleagues. Loblaw continued to deliver value in the categories that mean most to consumers, maintaining conventional, drug and beauty market share improvements earned over the course of the pandemic, and improving its trajectory in discount. In Drug Retail, strength in convenience categories supported front store sales while the pandemic negatively impacted higher margin categories. Looking ahead, the COVID-19 pandemic has accelerated certain longer-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital Retail, Connected Healthcare Network, and Payments and Rewards.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share Net earnings available to common shareholders of the Company were $1,096 million ($3.06 per common share), an increase of $27 million ($0.16 per common share) or 2.5% compared to the same period in 2019, which included the impact of the 53rd week of $35 million. The increase included improvements in the underlying operating performance of $11 million and the favourable year-over year net impact of adjusting items totaling $16 million, as described below:

- the improvement in underlying operating performance of $11 million ($0.03 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) which was mostly attributable to the impact of the 53rd week.

  partially offset by,
  - a decline in the underlying operating performance in the Financial Services segment.
- the favourable year-over-year net impact of adjusting items totaling $16 million ($0.02 per common share) was primarily due to the following:
  - the year-over-year favourable change in fixed asset and other related impairments, net of recoveries of $43 million ($0.11 per common share);
  - the year-over-year favourable change in restructuring and other related costs of $12 million ($0.03 per common share); and
  - the favourable impact of prior year pension annuities and buy-outs of $7 million ($0.02 per common share);

  partially offset by,
  - the unfavourable impact of reversal of certain prior period items in 2019 of $16 million ($0.04 per common share);
  - the year-over-year unfavourable change in fair value adjustments on non-operating properties of $12 million ($0.03 per common share);
  - the unfavourable impact of the prior year reversal of certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart Corporation acquisition costs incurred in 2014 of $8 million ($0.02 per common share);
  - the unfavourable impact of fair value adjustments on fuel and foreign currency contracts of $4 million ($0.01 per common share);
  - the unfavourable impact of the prior year change in statutory corporate income tax rate change of $4 million ($0.01 per common share); and
  - the year-over-year unfavourable change in net gain on sale of non-operating properties of $2 million ($0.01 per common share).
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares ($0.11 per common share).

Adjusted net earnings available to common shareholders of the Company[(2)] were $1,527 million ($4.26 per common share), an increase of $11 million or 0.7% compared to the same period in 2019, which included the impact of the 53rd week of $35 million.

Adjusted diluted net earnings per common share[(2)] were $4.26 per common share, an increase of $0.14 or 3.4%, which included the impact of the 53rd week of $0.10. Adjusted diluted net earnings per common share[(2)] also included the favourable impact of the repurchase of common shares.

Revenue

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (53 weeks)	2019 (52 weeks)	$ Change	% Change
Retail	**$ 51,859**	$ 47,099	$ 4,760	10.1 %
Financial Services	**1,097**	1,196	(99)	(8.3)%
Consolidation and Eliminations	**(242)**	(258)	16	6.2 %
Revenue	**$ 52,714**	$ 48,037	$ 4,677	9.7 %

Revenue was $52,714 million in 2020, an increase of $4,677 million, or 9.7%, compared to the same period in 2019, primarily driven by an increase in Retail segment sales of $4,760 million, which included the impact of the 53rd week of $878 million. Excluding the consolidation of franchises, Retail segment sales increased by $4,248 million, or 9.3%, due to positive same-store sales growth and a net increase in Retail square footage, which included the impact of the 53rd week of $845 million. The increase in Retail segment sales was partially offset by a decrease in Financial Services segment sales of $99 million, primarily driven by lower interest income, lower credit card related revenues from lower customer spending due to COVID-19 and lower sales attributable to the partial closure of The Mobile Shop™ kiosks due to COVID-19 in the second quarter of 2020.

Operating Income Operating income was $2,365 million in 2020, an increase of $95 million compared to 2019, which included the impact of the 53rd week of $67 million. The increase included improvements in the underlying operating performance of $58 million, and the favourable year-over-year change in adjusting items totaling $37 million, as described below:

- improvements in underlying operating performance of $58 million were primarily due to an improvement in the underlying operating performance of the Retail segment, including the favourable contribution from the consolidation of franchises of $36 million and the favourable impact of the 53rd week. This was partially offset by a decline in the underlying operating performance of the Financial Services segment.
- the favourable change in adjusting items totaling $37 million was primarily due to the following:
  - the year-over-year favourable change in fixed asset and other related impairments, net of recoveries of $58 million;
  - the year-over-year favourable change in restructuring and other related costs of $16 million; and
  - the favourable impact of prior year pension annuities and buy-outs of $10 million;

  partially offset by,
  - the unfavourable impact of reversal of certain prior period items in 2019 of $22 million;
  - the year-over-year unfavourable change in fair value adjustment on non-operating properties of $16 million;
  - the unfavourable impact of fair value adjustments on fuel and foreign currency contracts of $5 million; and
  - the year-over-year unfavourable change in net gain on the sale of non-operating properties of $3 million.

Adjusted EBITDA(2)

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (53 weeks)	2019 (52 weeks)	$ Change	% Change
Retail	**$ 4,882**	$ 4,700	$ 182	3.9 %
Financial Services	**159**	212	(53)	(25.0)%
Adjusted EBITDA(2)	**$ 5,041**	$ 4,912	$ 129	2.6 %

Adjusted EBITDA(2) was $5,041 million in 2020, an increase of $129 million compared to the same period in 2019. The year-to-date increase in adjusted EBITDA(2) was primarily due to an increase in the Retail segment of $182 million, and included the year-over-year favourable impact of consolidation of franchises of $61 million and the favourable impact of the 53rd week of $67 million. This was partially offset by a decrease in the Financial Services segment of $53 million.

Depreciation and Amortization Depreciation and amortization was $2,596 million in 2020, an increase of $72 million compared to the same period in 2019. The increase in depreciation and amortization in 2020 was primarily driven by the consolidation of franchises and an increase in IT assets. Depreciation and amortization in 2020 included the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $509 million (2019 – $508 million).

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $742 million in 2020. When compared to 2019, this represented a decrease of $5 million, which included the impact of the 53rd week of $6 million. The decrease in net interest expense and other financing charges in 2020 was primarily driven by a reduction in interest expense from lease liabilities, partially offset by higher interest expense from the Financial Services segment.

Income Taxes

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (53 weeks)**	2019 (52 weeks)	$ Change	% Change
Income taxes	**$ 431**	$ 392	$ 39	9.9 %
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**158**	167	(9)	(5.4)%
Reserve release related to 2014 tax audit	**—**	8	(8)	(100.0)%
Statutory corporate income tax rate change	**—**	4	(4)	(100.0)%
Adjusted income taxes(2)	**$ 589**	$ 571	$ 18	3.2 %
Effective tax rate	**26.6 %**	25.7 %		
Adjusted effective tax rate(2)	**26.6 %**	26.6 %		

Income tax expense in 2020 was $431 million (2019 – $392 million) and the effective tax rate was 26.6% (2019 – 25.7%). The increase was primarily attributable to the prior year reversal of certain tax reserves following the completion of a tax audit that included a review of Shoppers Drug Mart acquisition costs that were incurred in 2014, net of the impact of certain non-deductible items. The increase was also impacted by the remeasurement of certain deferred tax balances due to the Alberta rate decrease that was substantively enacted in the second quarter of 2019.

Adjusted income tax expense(2) in 2020 was $589 million (2019 – $571 million) and the adjusted income tax rate(2) was 26.6% (2019 – 26.6%).

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 Bank Limited ("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 of Canada ("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. During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of the Company and reversed the decision of the Tax Court. During the fourth quarter, on October 29, 2020, the Supreme Court of Canada ("Supreme Court") granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. The Company has not reversed any portion of the $367 million of charges recorded during the third quarter of 2018, of which $176 million was recorded in interest and $191 million was recorded in income taxes.

Process and Efficiency In 2020, the Company recorded $58 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the restructuring charges are approximately $40 million of charges related to the previously announced 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. Volumes from the distribution centres in Laval and Ottawa will be transferred to Cornwall and the Company expects to incur additional restructuring costs throughout 2021 and through to 2022 related to these closures.

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 January 2, 2021, December 28, 2019, and December 29, 2018. 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 completed on November 1, 2018, under which the Company distributed its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties") to George Weston Limited ("Weston") 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 January 2, 2021 and December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2020 (53 weeks)	2019 (52 weeks)	2018 (52 weeks)
Revenue	**$ 52,714**	$ 48,037	$ 46,693
Operating income	**2,365**	2,270	1,923
Adjusted EBITDA[(2)]	**5,041**	4,912	3,528
Adjusted EBITDA margin[(2)]	**9.6 %**	10.2 %	7.6 %
Depreciation and amortization	**$ 2,596**	$ 2,524	$ 1,497
Adjusted net interest expense and other financing charges[(2)]	**742**	747	387
Adjusted effective tax rate[(2)]	**26.6 %**	26.6 %	26.8 %
Net earnings	**$ 1,192**	$ 1,131	$ 800
Continuing Operations	**1,192**	1,131	753
Discontinued Operations	**—**	—	47
Net earnings attributable to the shareholders of the Company from Continuing Operations	**1,108**	1,081	719
Net earnings available to common shareholders of the Company[(i)]	**1,096**	1,069	754
Continuing Operations	**1,096**	1,069	707
Discontinued Operations	**—**	—	47
Adjusted net earnings available to common shareholders of the Company[(2)]	**$ 1,527**	$ 1,516	$ 1,746
Continuing Operations	**1,527**	1,516	1,539
Discontinued Operations	**—**	—	207
Basic net earnings per common share ($)	**$ 3.08**	$ 2.93	$ 2.00
Continuing Operations	**$ 3.08**	$ 2.93	$ 1.88
Discontinued Operations	**$ —**	$ —	$ 0.12
Diluted net earnings per common share ($)	**$ 3.06**	$ 2.90	$ 1.99
Continuing Operations	**$ 3.06**	$ 2.90	$ 1.87
Discontinued Operations	**$ —**	$ —	$ 0.12
Adjusted diluted net earnings per common share[(2)] ($)	**$ 4.26**	$ 4.12	$ 4.60
Continuing Operations	**$ 4.26**	$ 4.12	$ 4.06
Discontinued Operations	**$ —**	$ —	$ 0.54
Diluted weighted average common shares (in millions)	**358.2**	368.4	379.3
Dividends declared per common share ($)	**$ 1.280**	$ 1.240	$ 1.155
Dividends declared per Second Preferred Share, Series B ($)	**$ 1.325**	$ 1.325	$ 1.325
Total assets	**$ 35,870**	$ 36,309	$ 30.153
Total long term debt	**$ 7,046**	$ 7,098	$ 8,026
Lease liabilities	**8,901**	9,110	—
Long term financial liabilities	**$ 15,947**	$ 16,208	$ 8,026

(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.

Revenue Revenue was $52,714 million in 2020, an increase of $4,677 million compared to 2019, which includes the impact of the 53rd week of $878 million. Food retail same-store sales growth[5] was 8.6% (2019 – 1.1%). Drug retail same-store sales growth[5] was 4.9% (2019 – 3.6%).

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%).

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 2018, the Company experienced food price inflation while drug retail prices were negatively impacted by the effects of incremental healthcare reform. Sales in 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. In 2020, the COVID-19 pandemic had a significant impact on our colleagues, customers, suppliers and other stakeholders. The Company experienced sales volatility and changes in sales mix as the pandemic impacted consumer behaviour throughout the year. Retail segment sales over the past three years were also impacted by the consolidation of franchisees.

The Company's Financial Services segment sales were negatively impacted by the COVID-19 pandemic from lower credit card related revenues from lower customer spending and lower sales attributable to the partial closure of *The Mobile Shop* kiosks during the second quarter of 2020. The Financial Services segment also launched the PC Money™ Account in the third quarter of 2020, an everyday banking product that allows account holders to earn *PC Optimum* points by making payments. In both 2019 and 2018, the Company's Financial Services segment sales 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:

- the impact of the 53rd week in fiscal year 2020;
- changes in underlying operating performance of the Retail segment, including positive same-store sales growth in both Food retail and Drug retail in 2020, 2019 and 2018. The Company's financial results for the year ended January 2, 2021 show increased revenue, driven by increased demand for the Company's products, as well as increased cost of merchandise inventories sold. In addition, SG&A also increased as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers;
- cost savings and operating efficiencies from Process and Efficiency initiatives and investments in and benefits from strategic initiatives;
- fluctuations 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 charge related to Glenhuron;
  - asset impairments, net of recoveries;
  - the impact of healthcare reform on inventory balances;
  - the Loblaw Card Program;
  - restructuring and other related costs;
  - 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 In 2020, total assets of $35,870 million decreased by 1.2% compared to 2019. The decrease was primarily driven by the decrease in credit card receivables as a result of lower customer spending due to COVID-19 and an increase in depreciation and amortization of intangible and right-of-use assets. This was partially offset by an increase in cash and cash equivalents. Long term financial liabilities of $15,947 million decreased by 1.6% compared to 2019. This was primarily driven by decrease in lease liability due to lease payments, which was partially offset by additions of property leases and lease extensions.

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, "Leases" ("IFRS 16"). Long term financial liabilities of $16,208 million increased by 101.9% compared to 2018. This was primarily driven by the increase in lease liabilities due to the implementation of IFRS 16.

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 and everyday banking services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

6.1 Retail Segment

Unless otherwise indicated, the following financial information includes the impacts of the consolidation of franchises, COVID-19 and the 53rd week.

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(53 weeks)**	2019[4] (52 weeks)	$ Change	% Change
Sales	**$ 51,859**	$ 47,099	$ 4,760	10.1 %
Operating income	**2,231**	2,082	149	7.2 %
Adjusted gross profit[2]	**15,300**	13,998	1,302	9.3 %
Adjusted gross profit %[2]	**29.5 %**	29.7 %		
Adjusted EBITDA[2]	**$ 4,882**	$ 4,700	$ 182	3.9 %
Adjusted EBITDA margin[2]	**9.4 %**	10.0 %		
Depreciation and amortization	**$ 2,571**	$ 2,502	$ 69	2.8 %

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(53 weeks)**		2019 (52 weeks)	
	Sales	**Same-store sales[5]**	Sales	Same-store sales
Food retail	**$ 37,596**	**8.6 %**	$ 33,756	1.1 %
Drug retail	**14,263**	**4.9 %**	13,343	3.6 %
Pharmacy	**6,758**	**5.3 %**	6,307	4.4 %
Front store	**7,505**	**4.5 %**	7,036	2.9 %

Sales Retail segment sales were $51,859 million in 2020, an increase of $4,760 million, or 10.1% compared to 2019, which included the impact of the 53rd week of $878 million. After excluding the consolidation of franchises, Retail segment sales increased by $4,248 million, or 9.3%, which included the impact of the 53rd week of $845 million, primarily driven by the following factors:

- Food retail same-store sales growth[5] was 8.6% (2019 – 1.1%) for 2020. Food same-store sales growth[5] was positively impacted by COVID-19.
  - Sales growth in food was strong;
  - Sales growth in pharmacy was strong;
  - The Company's Food Retail average article price was higher by 3.9% (2019 – 2.5%), which reflects the year over year growth in Food Retail revenue over the average number of articles sold in the Company's stores. The increase in average article price was due to sales mix; and,
  - On a comparable week basis Food Retail basket size increased and traffic decreased in 2020.
- Drug retail same-store sales growth[5] was 4.9% (2019 – 3.6%). Drug same-store sales[5] was positively impacted by COVID-19.
  - Pharmacy same-store sales growth[5] was 5.3% (2019 – 4.4%). The number of prescriptions dispensed increased by 6.0% (2019 – 3.2%). On a same-store basis[5], the number of prescriptions dispensed increased by 4.2% (2019 – 3.1%) and the average prescription value increased by 0.5% (2019 – 0.7%).
  - Front store same-store sales growth[5] was 4.5% (2019 – 2.9%).

In 2020, 19 food and drug stores were opened, and 9 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.2 million square feet, or 0.3%.

Operating Income Operating income was $2,231 million in 2020, an increase of $149 million compared to the same period in 2019, which included the impact of the 53rd week of $67 million. The increase was driven by improvements in the underlying operating performance of $114 million and the favourable change in adjusting items totaling $35 million, as described below:

- the improvements in underlying operating performance of $114 million was primarily from an increase in adjusted gross profit[2], 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 $36 million, and were positively impacted by the 53rd week; and,
- the favourable change in adjusting items totaling $35 million was primarily due to the following:
  - the year-over-year favourable change in fixed asset and other related impairments, net of recoveries of $58 million;
  - the year-over-year favourable change in restructuring and other related costs of $14 million; and
  - the favourable impact of prior year pension annuities and buy-outs of $10 million;

  partially offset by,
  - the unfavourable impact of reversal of certain prior period items in 2019 of $22 million;
  - the year-over-year unfavourable change in fair value adjustment on non-operating properties of $16 million;
  - the unfavourable impact of fair value adjustments on fuel and foreign currency contracts of $5 million; and
  - the year-over-year unfavourable change in net gain on the sale of non-operating properties of $3 million.

Adjusted Gross Profit[2] Adjusted gross profit[2] was $15,300 million in 2020, an increase of $1,302 million compared to the same period in 2019. Adjusted gross profit percentage[2] of 29.5% decreased by 20 basis points compared to 2019. Excluding the consolidation of franchises, adjusted gross profit[2] increased by $834 million. Adjusted gross profit percentage[2], excluding the consolidation of franchises, was 27.0%, a decrease of 60 basis points compared to the same period in 2019. Food and Drug retail margins were negatively impacted as a result of COVID-19 related changes in sales mix and competitive pricing.

Adjusted EBITDA[2] Adjusted EBITDA[2] was $4,882 million in 2020, an increase of $182 million compared to the same period in 2019. The increase included the year-over-year favourable impact of the consolidation of franchises of $61 million. Excluding the consolidation of franchises, the increase was driven by an increase in adjusted gross profit[2] of $834 million, partially offset by an increase in selling, general and administrative expenses ("SG&A") of $713 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 17.6%, a decrease of 10 basis points compared to the same period in 2019, driven by sales leverage from higher sales volume and process and efficiency gains partially offset by COVID-19 related costs and incremental e-commerce labour costs as a result of higher online sales.

Adjusted EBITDA[2] included gains of nil (2019 – $7 million) related to the sale and leaseback of properties to Choice Properties in 2020.

Depreciation and Amortization Depreciation and amortization was $2,571 million in 2020, an increase of $69 million compared to the same period in 2019. The increase in depreciation and amortization was 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 of $509 million (2019 – $508 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 first quarter of 2020, the Company consolidated all of its remaining franchisees for accounting purposes under a simplified franchise agreement implemented in 2015 ("Franchise Agreement").

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

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars unless where otherwise indicated)	**2020** **(13 weeks)**	2019[4] (12 weeks)	**2020** **(53 weeks)**	2019[4] (52 weeks)
Number of consolidated franchise stores, beginning of period	**526**	444	**470**	400
Add: Net number of consolidated franchise stores in the period	**—**	26	**56**	70
Number of consolidated franchise stores, end of period[i]	**526**	470	**526**	470
Sales	**$ 439**	$ 318	**$ 1,866**	$ 1,354
Adjusted gross profit[2]	**440**	333	**1,839**	1,371
Adjusted EBITDA[2]	**69**	32	**215**	154
Depreciation and amortization	**24**	21	**104**	79
Operating income	**45**	11	**111**	75
Net earnings	**42**	6	**88**	47
Net income attributable to non-controlling interests	**46**	9	**84**	50

(i) The number of franchise stores disclosed elsewhere includes certain stores under buying arrangements which will not be subject to the Franchise Agreement.

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.

6.2 Financial Services Segment

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(53 weeks)**	2019 (52 weeks)	$ Change	% Change
Revenue	**$ 1,097**	$ 1,196	$ (99)	(8.3)%
Earnings before income taxes	**47**	107	(60)	(56.1)%

(millions of Canadian dollars except where otherwise indicated)	**As at** **January 2, 2021**	As at December 28, 2019	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,165**	$ 3,298	$ (133)	(4.0)%
Credit card receivables	**3,109**	3,624	(515)	(14.2)%
Allowance for credit card receivables	**237**	196	41	20.9 %
Annualized yield on average quarterly gross credit card receivables	**13.3 %**	13.5 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**3.4 %**	3.4 %		

Revenue Revenue was $1,097 million in 2020. When compared to the same period in 2019, this represented a decrease of $99 million, primarily driven by:

- lower interest income attributable to a lower volume of credit card receivables;
- lower interchange income and credit card related fees primarily driven by lower customer spending; and
- lower sales attributable to the partial closure of *The Mobile Shop* kiosks during the second quarter of 2020.

Earnings before income taxes Earnings before income taxes were $47 million in 2020. When compared to the same period in 2019, this represented a decrease of $60 million. The decrease was primarily driven by:

- lower revenue, as described above;
- higher credit losses from the increase in expected credit losses attributable to the recessionary environment; and
- higher interest expenses;

partially offset by,

- lower loyalty program costs; and
- lower customer acquisition costs.

Credit Card Receivables As at January 2, 2021, credit card receivables were $3,109 million. When compared to December 28, 2019, this represented a decrease of $515 million. This decrease was primarily driven by lower customer spending and higher payment rate. The allowance for credit card receivables increased to $237 million, an increase of $41 million compared to December 28, 2019.

7. Liquidity and Capital Resources

7.1 Cash Flows

Major Cash Flow Components

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(53 weeks)**	2019 (52 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of year	**$ 1,133**	$ 1,065	$ 68	6.4 %
Cash flows from (used in):				
Operating activities	**$ 5,191**	$ 3,960	$ 1,231	31.1 %
Investing activities	**(1,376)**	(289)	(1,087)	(376.1)%
Financing activities	**(3,282)**	(3,606)	324	9.0 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	**2**	3	(1)	(33.3)%
Change in cash and cash equivalents	**$ 535**	$ 68	$ 467	686.8 %
Cash and cash equivalents, end of year	**$ 1,668**	$ 1,133	$ 535	47.2 %

Cash Flows from Operating Activities Cash flows from operating activities were $5,191 million in 2020, an increase of $1,231 million compared to 2019. The increase in cash flows from operating activities was primarily due to a decrease in credit card receivables as a result of reduced customer spending due to COVID-19 and higher payment rates compared to prior year, lower income taxes paid and higher cash earnings.

Cash Flows used in Investing Activities Cash flows used in investing activities were $1,376 million in 2020, an increase of $1,087 million compared to 2019. The increase in cash flows used in investing activities was primarily due to the release of $800 million in security deposits in the prior year to repay $800 million of the Company's debentures and an increase in short term investments driven by higher cash earnings and preservation of liquidity.

Capital Investments and Store Activity

For the years ended January 2, 2021 and December 28, 2019	2020 (53 weeks)	2019 (52 weeks)	% Change
Corporate square footage (in millions)	**35.5**	35.6	(0.3)%
Franchise square footage (in millions)	**16.7**	16.5	1.2 %
Associate-owned drug store square footage (in millions)	**18.8**	18.7	0.5 %
Total retail square footage (in millions)	**71.0**	70.8	0.3 %
Number of corporate stores	**550**	548	0.4 %
Number of franchise stores	**542**	540	0.4 %
Number of Associate-owned drug stores	**1,347**	1,343	0.3 %
Total number of stores	**2,439**	2,431	0.3 %
Percentage of corporate real estate owned	**7 %**	8 %	
Percentage of franchise real estate owned	**4 %**	4 %	
Percentage of Associate-owned drug store real estate owned	**1 %**	1 %	
Average store size (square feet)			
Corporate	**64,500**	65,000	(0.8)%
Franchise	**30,800**	30,600	0.7 %
Associate-owned drug store	**14,000**	13,900	0.7 %

Capital Investments Capital investments were $1,224 million in 2020, an increase of $18 million or 1.5% compared to 2019.

Cash Flows used in Financing Activities Cash flows used in financing activities were $3,282 million in 2020, a decrease of $324 million compared to 2019. The decrease in cash flows used in financing activities was primarily due to a net repayment of long term debt in the current year of $69 million compared to a net repayment of long term debt of $411 million in the prior year, a decrease in share buybacks, and an increase in bank indebtedness, partially offset by an increase in lease payments and timing of the fourth quarter of 2020 dividend payment.

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

Free Cash Flow[(2)]

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (53 weeks)	2019 (52 weeks)	$ Change	% Change
Cash flows from operating activities	**$ 5,191**	$ 3,960	$ 1,231	31.1 %
Less:				
Capital investments	**1,224**	1,206	18	1.5 %
Interest paid	**336**	349	(13)	(3.7)%
Lease payments, net	**1,384**	1,195	189	15.8 %
Free cash flow[(2)(i)]	**$ 2,247**	$ 1,210	$ 1,037	85.7 %

(i) The consolidated free cash flow[(2)] includes $1,595 million (2019 – $1,467 million) of free cash flow[(2)] from the Retail segment and $652 million (2019 – used $257 million) of free cash flow[(2)] from the Financial Services segment.

Free cash flow[(2)] was $2,247 million in 2020, an increase of $1,037 million compared to 2019. The increase in free cash flow[(2)] was primarily due to a decrease in credit card receivables as a result of reduced customer spending due to COVID-19 and higher payment rates compared to prior year, lower income taxes paid and higher cash earnings, partially offset by an increase in lease payments.

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.

President's Choice Bank ("PC Bank") expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*® ("*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, as monitored by management, by reportable operating segment:

			As at January 2, 2021			As at December 28, 2019
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total
Bank indebtedness	**$ 86**	**$ —**	**$ 86**	$ 18	$ —	$ 18
Demand deposits from customers	**—**	**24**	**24**	—	—	—
Short term debt	**—**	**575**	**575**	—	725	725
Long term debt due within one year	**—**	**597**	**597**	350	777	1,127
Long term debt	**4,811**	**1,638**	**6,449**	4,437	1,534	5,971
Certain other liabilities[i]	**117**	**—**	**117**	65	—	65
Total debt excluding lease liabilities	**$ 5,014**	**$ 2,834**	**$ 7,848**	$ 4,870	$ 3,036	$ 7,906
Lease liabilities due within one year	**1,379**	**—**	**1,379**	1,419	—	1,419
Lease liabilities	**7,522**	**—**	**7,522**	7,691	—	7,691
Total debt including total lease liabilities	**$ 13,915**	**$ 2,834**	**$ 16,749**	$ 13,980	$ 3,036	$ 17,016

(i) Includes financial liabilities of $46 million related to the sale of five retail properties to Choice Properties.

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[2] ratio as a measure of the leverage being employed.

	As at January 2, 2021	As at December 28, 2019
Retail debt to retail adjusted EBITDA[2]	**2.8 x**	3.0 x

The Retail debt to retail adjusted EBITDA[2] ratio as at January 2, 2021 decreased compared to December 28, 2019, primarily due to an improvement in adjusted EBITDA[2] and decrease in Retail debt. Retail debt to retail adjusted EBITDA[2] was positively impacted by the 53rd week.

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 January 2, 2021 and throughout the year, the Company was in compliance with such covenants. As at January 2, 2021 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 2020. There were no debentures issued in 2019.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2020**
Loblaw Companies Limited Notes[(i)]	2.28%	May 7, 2030	**$ 350**
Total debentures issued			**$ 350**

(i) In connection with this issuance, during 2020, $350 million of bond forward agreements were settled, resulting in a realized fair value loss of $34 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the May 7, 2030 notes. This settlement also resulted in a net effective interest rate of 3.34% on the May 7, 2030 notes issued.

The following table summarizes the debentures repaid in 2020 and 2019:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2020**	Principal Amount 2019
Loblaw Companies Limited Notes[(i)]	3.75%	March 12, 2019	**$ —**	$ 800
Loblaw Companies Limited Notes	5.22%	June 18, 2020	**350**	—
Total debentures repaid			**$ 350**	$ 800

(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.

Committed Credit Facility The Company has a $1.0 billion committed credit facility, with a maturity date of October 7, 2023, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants. During 2020, the Company withdrew and repaid $350 million under this facility. As at January 2, 2021 and December 28, 2019, there were no amounts drawn under this facility. In 2020, the Company amended its committed credit facility and extended the maturity date from June 10, 2021 to October 7, 2023.

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 January 2, 2021**	As at December 28, 2019
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust®*	**$ 1,050**	$ 1,000
Securitized to Other Independent Securitization Trusts	**575**	725
Total securitized to independent securitization trusts	**$ 1,625**	$ 1,725

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 January 2, 2021 and throughout 2020.

During 2020, *Eagle* issued $300 million (2019 – $250 million) of senior and subordinated term notes with a maturity date of July 17, 2025 (2019 – July 17, 2024) at a weighted average interest rate of 1.34% (2019 – 2.28%). In connection with this issuance, $200 million (2019 – $250 million) of bond forward agreements were settled, resulting in a realized fair value loss of $11 million (2019 – loss of $8 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.07% (2019 – 2.94%) on the *Eagle* notes issued.

During 2020, $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23%, previously issued by *Eagle*, matured and were repaid on September 17, 2020. As a result, during 2020, there was a net change in the balances related to *Eagle* notes of $50 million. There were no repayments of notes issued by *Eagle* in 2019.

Independent Funding Trusts As at January 2, 2021, the independent funding trusts had drawn $512 million (December 28, 2019 – $505 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 January 2, 2021, the Company provided a credit enhancement of $64 million (December 28, 2019 – $64 million) for the benefit of the independent funding trusts representing not less than 10% (2019 – not less than 10%) of the principal amount of loans outstanding.

The revolving committed credit facility relating to the independent funding trusts has a maturity date of May 27, 2022.

Guaranteed Investment Certificates The following table summarizes PC Bank's GICs activity, before commissions, in 2020 and 2019:

(millions of Canadian dollars)	2020	2019
Balance, beginning of year	**$ 1,311**	$ 1,141
GICs issued	**410**	453
GICs matured	**(536)**	(283)
Balance, end of year	**$ 1,185**	$ 1,311

As at January 2, 2021, $597 million in GICs were recorded as long term debt due within one year (December 28, 2019 – $527 million).

Associate Guarantees The Company has arranged for its pharmacist owners of corporations licensed to operate retail drug stores at specific location using the Company's trademarks ("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 January 2, 2021, the Company's maximum obligation in respect of such guarantees was $580 million (December 28, 2019 – $580 million) with an aggregate amount of $470 million (December 28, 2019 – $468 million) in available lines of credit allocated to the Associates by the various banks. As at January 2, 2021, Associates had drawn an aggregate amount of $86 million (December 28, 2019 – $18 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(2) and Adjusted Return on Capital(2)

	As at January 2, 2021	As at December 28, 2019
Adjusted return on equity(2)	**14.0 %**	13.7 %
Adjusted return on capital(2)	**8.2 %**	7.8 %

Adjusted return on equity(2) as at January 2, 2021 increased compared to December 28, 2019 primarily due to the decrease in retained earnings as a result of common share repurchases and an increase in net earnings. Adjusted return on equity(2) was positively impacted by the 53rd week.

Adjusted return on capital(2) as at January 2, 2021 increased compared to December 28, 2019 primarily due to a decrease in total debt and an increase in cash and cash equivalents. Adjusted return on capital(2) was positively impacted by the 53rd week.

7.5 Credit Ratings

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

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

During 2020, Dominion Bond Rating Service upgraded the credit ratings of the Company from BBB (mid) to BBB (high) with a stable trend, and Standard and Poor's reaffirmed the credit ratings and outlook of the Company.

7.6 Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at January 2, 2021 and December 28, 2019.

Second Preferred Shares (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 activities in the common shares issued and outstanding during the years were as follows:

	2020 (53 weeks)		2019 (52 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**360,064,475**	**$ 7,065**	371,790,967	$ 7,177
Issued for settlement of stock options	**601,756**	**35**	1,886,733	94
Purchased and cancelled	**(13,304,751)**	**(263)**	(13,613,225)	(206)
Issued and outstanding, end of year	**347,361,480**	**$ 6,837**	360,064,475	$ 7,065
Shares held in trust, beginning of year	**(1,113,302)**	**$ (21)**	(734,727)	$ (15)
Purchased for future settlement of RSUs and PSUs	**(145,000)**	**(3)**	(900,000)	(16)
Released for settlement of RSUs and PSUs	**585,518**	**11**	521,425	10
Shares held in trust, end of year	**(672,784)**	**$ (13)**	(1,113,302)	$ (21)
Issued and outstanding, net of shares held in trust, end of year	**346,688,696**	**$ 6,824**	358,951,173	$ 7,044
Weighted average outstanding, net of shares held in trust	**355,484,682**		365,360,161	

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 fourth quarter of 2020 and in the second quarter of 2019, the Board raised the quarterly dividend by $0.02 to $0.335 and by $0.02 to $0.315 per common share, respectively.

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

	2020[(i)]	2019
Dividends declared per share ($)		
Common Share	**$ 1.280**	$ 1.240
Second Preferred Share, Series B	**$ 1.325**	$ 1.325

(i) The fourth quarter dividends for 2020 of $0.335 per share declared on Common Shares were paid on December 30, 2020. The fourth quarter dividends for 2020 of $0.33125 per share declared on Second Preferred Shares, Series B were paid on December 31, 2020.

(millions of Canadian dollars)	**2020**	2019
Dividends declared		
Common Share	**$ 453**	$ 453
Second Preferred Share, Series B	**12**	12
Total dividends declared	**$ 465**	$ 465

Subsequent to the end of the year, the Board declared a quarterly dividend of $0.335 per common share, payable on April 1, 2021 to shareholders of record on March 15, 2021 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on March 31, 2021 to shareholders of record on March 15, 2021.

Normal Course Issuer Bid Activities under the Company's Normal Course Issuer Bid ("NCIB") during the years were as follows:

(millions of Canadian dollars except where otherwise indicated)	**2020**	2019
Common shares repurchased under the NCIB for cancellation (number of shares)	**13,304,751**	13,613,225
Cash consideration paid[(i)]	**$ 888**	$ 937
Premium charged to retained earnings	**625**	546
Reduction in common share capital	**263**	206
Common shares repurchased under the NCIB and held in trust (number of shares)	**145,000**	900,000
Cash consideration paid	**$ 10**	$ 62
Premium charged to retained earnings	**7**	46
Reduction in common share capital	**3**	16

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

During 2020, the Toronto Stock Exchange ("TSX") accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from Weston under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company.

Pursuant to an exemption order granted by the Ontario Securities Commission ("OSC"), on December 21, 2020, the Company purchased, for cancellation, 3,269,208 common shares from an entity controlled by Mr. W. Galen Weston ("Mr. Weston"), the then controlling shareholder of Weston. The common shares were purchased at a price approved by the OSC and count towards the common shares the Company is entitled to purchase under its NCIB.

During 2020, 13,304,751 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $888 million, including 4,940,680 common shares purchased from Weston and 3,269,208 common shares purchased from an entity controlled by Mr. Weston, for aggregate cash consideration of $336 million and $205 million, respectively.

In the second quarter of 2020, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 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 at January 2, 2021, the Company had purchased 10,547,174 common shares for cancellation under its current NCIB.

During 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.

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, surety bond, 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 $506 million as at January 2, 2021 (December 28, 2019 – $510 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 and other transactions in the normal course of business:

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 28, 2019 – $12 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of $3 million (December 28, 2019 – $2 million).

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 January 2, 2021, the guarantee on behalf of PC Bank to MasterCard® was USD $190 million (December 28, 2019 – USD $190 million).

Cash Collateralization As at January 2, 2021, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $102 million (December 28, 2019 – $103 million), of which a nominal amount (December 28, 2019 – $1 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 January 2, 2021:

Summary of Contractual Obligations

	Payments due by year						
(millions of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	Total
Total debt (including interest payments[i])	$ 1,588	$ 1,216	$ 1,459	$ 997	$ 664	$ 4,527	$ 10,451
Foreign exchange forward contracts	315	28	—	—	—	—	343
Financial Liabilities[ii]	3	2	2	2	3	27	39
Lease payments	1,355	1,197	1,204	1,063	992	3,653	9,464
Contracts for purchases of investment projects[iii]	68	—	—	—	—	—	68
Purchase obligations[iv]	363	171	109	61	51	10	765
Total contractual obligations	$ 3,692	$ 2,614	$ 2,774	$ 2,123	$ 1,710	$ 8,217	$ 21,130

(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 January 2, 2021.

(ii) These are the contractual payments that the Company is committed to related to the sale of five retail properties to Choice Properties.

(iii) 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.

(iv) 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:

			January 2, 2021 (53 weeks)			December 28, 2019 (52 weeks)
(millions of Canadian dollars)	**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
Derivatives designated as cash flow hedges						
Foreign Exchange Forwards	**$ —**	**$ —**	**$ —**	$ —	$ (1)	$ 1
Bond Forwards[i]	**—**	**(40)**	**(5)**	—	(6)	—
Interest Rate Swaps[ii]	**—**	**1**	**(4)**	(1)	—	(1)
Total derivatives designated as cash flow hedges	**$ —**	**$ (39)**	**$ (9)**	$ (1)	$ (7)	$ —

(i) PC Bank uses bond forwards, with a notional value of $25 million (2019 – $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. During 2020, PC Bank settled $200 million of bond forward and the Company issued and settled $350 million of bond forward. The Company has concluded that these hedges were effective as at their respective settlement date.

(ii) PC Bank uses interest rate swaps, with a notional value of $225 million (2019 – $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:

			January 2, 2021 (53 weeks)			December 28, 2019 (52 weeks)
(millions of Canadian dollars)	**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
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	**$ (7)**	**$ —**	**$ (3)**	$ (5)	$ —	$ (16)
Other Non-Financial Derivatives	**(4)**	**—**	**(23)**	5	—	12
Total derivatives not designated in a formal hedging relationship	**$ (11)**	**$ —**	**$ (26)**	$ —	$ —	$ (4)

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 year 2020 is 53 weeks and fiscal year 2019 was 52 weeks. 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:

Summary of Consolidated Quarterly Results

					2020					2019
(millions of Canadian dollars except where otherwise indicated)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (13 weeks)**	**Total (53 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)
Revenue	**$11,800**	**$11,957**	**$15,671**	**$13,286**	**$52,714**	$10,659	$11,133	$14,655	$11,590	$48,037
Adjusted EBITDA[2]	**1,169**	**1,016**	**1,524**	**1,332**	**5,041**	1,040	1,175	1,492	1,205	4,912
Net earnings available to common shareholders of the Company	**240**	**169**	**342**	**345**	**1,096**	198	286	331	254	1,069
Adjusted net earnings available to common shareholders of the Company[2]	**352**	**266**	**464**	**445**	**1,527**	290	373	458	395	1,516
Net earnings per common share:										
Basic ($)	**$ 0.67**	**$ 0.47**	**$ 0.96**	**$ 0.98**	**$ 3.08**	$ 0.54	$ 0.78	$ 0.91	$ 0.70	$ 2.93
Diluted ($)	**$ 0.66**	**$ 0.47**	**$ 0.96**	**$ 0.98**	**$ 3.06**	$ 0.53	$ 0.77	$ 0.90	$ 0.70	$ 2.90
Adjusted diluted net earnings per common share[2] ($)	**$ 0.97**	**$ 0.74**	**$ 1.30**	**$ 1.26**	**$ 4.26**	$ 0.78	$ 1.01	$ 1.25	$ 1.09	$ 4.12
Food Retail same-store sales growth[5]	**9.6 %**	**10.0 %**	**6.9 %**	**8.6 %**	**8.6 %**	2.0 %	0.6 %	0.1 %	1.9 %	1.1 %
Drug Retail same-store sales growth/(loss)[5]	**10.7 %**	**(1.1)%**	**6.1 %**	**3.7 %**	**4.9 %**	2.2 %	4.0 %	4.1 %	3.9 %	3.6 %

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

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter. Revenue was unusually high in each quarter of 2020 compared to the same periods of 2019 due to COVID-19;
- the impact of the 13th/53rd week in the fourth quarter of and fiscal year 2020;
- 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 0.6 million square feet to 71.0 million square feet.

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

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter. The Company's financial results for the year ended January 2, 2021 show increased revenue, driven by increased demand for the Company's products, as well as increased cost of merchandise inventories sold. In addition, SG&A also increased as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers;
- the impact of the 13th/53rd week in the fourth quarter of and fiscal year 2020;
- the timing of holidays;
- the impact of the Company's store closure plan;
- 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:
  - restructuring and other related charges;
  - 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

Unless otherwise indicated, all financial information includes the impacts of the consolidation of franchises, COVID-19 and the 53rd week.

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2020:

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (13 weeks)**	2019 (12 weeks)	$ Change	% Change
Revenue	**$ 13,286**	$ 11,590	$ 1,696	14.6 %
Operating income	**702**	541	161	29.8 %
Adjusted EBITDA(2)	**1,332**	1,205	127	10.5 %
Adjusted EBITDA margin(2)	**10.0 %**	10.4 %		
Depreciation and amortization	**$ 609**	$ 589	$ 20	3.4 %
Net interest expense and other financing charges	**166**	176	(10)	(5.7)%
Adjusted net interest expense and other financing charges(2)	**166**	176	(10)	(5.7)%
Income taxes	**142**	99	43	43.4 %
Adjusted income taxes(2)	**180**	149	31	20.8 %
Adjusted effective tax rate(2)	**26.7 %**	26.8 %		
Net earnings attributable to shareholders of the Company	**$ 348**	$ 257	$ 91	35.4 %
Net earnings available to common shareholders of the Company	**345**	254	91	35.8 %
Adjusted net earnings available to common shareholders of the Company(2)	**445**	395	50	12.7 %
Diluted net earnings per common share ($)	**$ 0.98**	$ 0.70	$ 0.28	40.0 %
Adjusted diluted net earnings per common share(2) ($)	**$ 1.26**	$ 1.09	$ 0.17	15.6 %
Diluted weighted average common shares outstanding (in millions)	**353.8**	363.7		
Cash flows from (used in)(i):				
Operating activities	**$ 1,380**	$ 988	$ 392	39.7 %
Investing activities	**(275)**	(338)	63	18.6 %
Financing activities	**(940)**	(462)	(478)	(103.5)%
Dividends declared per common share ($)	**$ 0.335**	$ 0.315	$ 0.02	6.3 %
Dividends declared per Second Preferred Share, Series B ($)	**$ 0.33125**	$ 0.33125		

The COVID-19 pandemic impacted the Company's operations. In the fourth quarter, sales in the Food Retail business were positively impacted, however costs remained elevated to ensure the safety and security of customers and colleagues. Loblaw continued to deliver value in the categories that mean most to consumers, maintaining conventional, drug and beauty market share improvements earned over the course of the pandemic, and improving its trajectory in discount. In Drug Retail, strength in convenience categories supported front store sales while the pandemic negatively impacted higher margin categories. Looking ahead, the COVID-19 pandemic has accelerated certain longer-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital Retail, Connected Healthcare Network, and Payments and Rewards.

In the four weeks following the end of the quarter, Food Retail same-store-sales growth remained elevated and Drug Retail same-store-sales growth slowed in front store while remaining consistent in pharmacy. For the balance of the first quarter, both Food and Drug same-store-sales will lap consumer stockpiling that began in the first quarter of 2020. COVID related costs are trending in the range of $40 to $50 million for the first quarter of 2021.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share Net earnings available to common shareholders of the Company in the fourth quarter of 2020 were $345 million ($0.98 per common share). When compared to the fourth quarter of 2019, this represented an increase of $91 million ($0.28 per common share), which included the impact of the 53rd week of $35 million. The increase included improvements in the underlying operating performance of $50 million and the favourable change in adjusting items totaling $41 million, as described below:

- the improvement in underlying operating performance of $50 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) was driven by an increase in adjusted gross profit[2], partially offset by an increase in SG&A and an increase in depreciation and amortization. The 53rd week had a positive impact on the underlying operating performance of the Retail segment;

  partially offset by,
  - a decline in the underlying operating performance in the Financial Services segment.
- the favourable change in adjusting items totaling $41 million ($0.11 per common share) was primarily due to the following:
  - the year-over-year favourable change in fixed asset and other related impairments, net of recoveries of $43 million ($0.11 per common share); and,
  - the year-over-year favourable impact of restructuring and other related costs of $12 million ($0.03 per common share);

  partially offset by,
  - the year-over-year unfavourable change in fair value adjustments on non-operating properties of $10 million ($0.02 per common share); and,
  - the unfavourable impact of reversal of certain prior period items in 2019 of $5 million ($0.01 per common share).
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months ($0.03 per common share).

Adjusted net earnings available to common shareholders of the Company[2] in the fourth quarter of 2020 were $445 million. When compared to the fourth quarter of 2019, this represented an increase of $50 million, which included the impact of the 53rd week of $35 million.

Adjusted net earnings per common share[2] in the fourth quarter of 2020 were $1.26. When compared to the fourth quarter of 2019, this represented an increase of $0.17, which included the impact of the 53rd week of $0.10. The increase included the favourable impact of the repurchase of common shares.

Revenue

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(13 weeks)**	2019 (12 weeks)	$ Change	% Change
Retail	**$ 13,043**	$ 11,321	$ 1,722	15.2 %
Financial Services	**320**	337	(17)	(5.0)%
Consolidation and Eliminations	**(77)**	(68)	(9)	(13.2)%
Revenue	**$ 13,286**	$ 11,590	$ 1,696	14.6 %

Revenue was $13,286 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an increase of $1,696 million, or 14.6%. The increase was primarily driven by an increase in Retail segment sales of $1,722 million, which included the impact of the 53rd week of $878 million. After excluding the impact of consolidation of franchises, Retail segment sales increased by $1,601 million, or 14.6% due to positive same-store sales growth and a net increase in Retail square footage, which included the impact of the 53rd week of $845 million. The increase was partially offset by a decline in the underlying operating performance of the Financial Services segment sales of $17 million, which was due to lower interest income and lower credit card related fees, partially offset by higher sales attributable to *The Mobile Shop* and higher interchange income.

Operating Income Operating income was $702 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an increase of $161 million, which included the impact of the 53rd week of $67 million. The increase included improvements in the underlying operating performance of $108 million and the favourable change in adjusting items totaling $53 million, as described below:

- the improvement in underlying operating performance of $108 million was primarily due to the improvement in the underlying operating performance of the Retail segment, including the favourable contribution from the consolidation of franchises of $34 million. The improvements in the underlying operating performance of the Retail segment was positively impacted by the 53rd week. This was partially offset by the performance from the Financial Services segment.
- the favourable change in adjusting items totaling $53 million was primarily due to the following:
  - the year-over-year favourable change in fixed asset and other related impairments, net of recoveries of $58 million; and,
  - the year-over-year favourable impact of restructuring and other related costs of $14 million;

  partially offset by,
  - the year-over-year unfavourable change in fair value adjustments on non-operating properties of $13 million; and,
  - the unfavourable impact of reversal of certain prior period items in 2019 of $7 million.

Adjusted EBITDA[(2)]

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(13 weeks)**	2019 (12 weeks)	$ Change	% Change
Retail	**$ 1,270**	$ 1,135	$ 135	11.9 %
Financial Services	**62**	70	(8)	(11.4)%
Adjusted EBITDA[(2)]	**$ 1,332**	$ 1,205	$ 127	10.5 %

Adjusted EBITDA[(2)] was $1,332 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an increase of $127 million, which included the impact of the 53rd week of $67 million. The increase in adjusted EBITDA[(2)] was primarily due to improvements in the Retail segment, partially offset by the decline in the Financial Services segment.

Depreciation and Amortization Depreciation and amortization was $609 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an increase of $20 million. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $117 million (2019 – $116 million).

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $166 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented a decrease of $10 million, which included the impact of the 53rd week of $6 million. The decrease in net interest expense and other financing charges in the fourth quarter 2020 was primarily driven by a reduction in interest expense from lease liabilities and lower interest expense from the Financial Services segment.

Income Taxes

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(13 weeks)**	2019 (12 weeks)	$ Change	% Change
Income taxes	**$ 142**	$ 99	$ 43	43.4 %
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**38**	50	(12)	(24.0)%
Adjusted income taxes[(2)]	**$ 180**	$ 149	$ 31	20.8 %
Effective tax rate	**26.5 %**	27.1 %		
Adjusted effective tax rate[(2)]	**26.7 %**	26.8 %		

Income tax expense in the fourth quarter of 2020 was $142 million (2019 – $99 million) and the effective tax rate was 26.5% (2019 – 27.1%). The decrease in the effective tax rate was primarily attributable to a decrease in certain non-deductible items.

Adjusted income tax expense[(2)] in the fourth quarter of 2020 was $180 million (2019 – $149 million) and the adjusted effective tax rate[(2)] was 26.7% (2019 – 26.8%). The decrease in the adjusted effective tax rate[(2)] was primarily attributable to a decrease in certain non-deductible items.

Cash Flow

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (13 weeks)	2019 (12 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,499**	$ 944	$ 555	58.8 %
Cash flows from (used in):				
Operating activities	**$ 1,380**	$ 988	$ 392	39.7 %
Investing activities	**(275)**	(338)	63	18.6 %
Financing activities	**(940)**	(462)	(478)	(103.5)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	**4**	1	3	300.0 %
Change in cash and cash equivalents	**$ 169**	$ 189	$ (20)	(10.6)%
Cash and cash equivalents, end of period	**$ 1,668**	$ 1,133	$ 535	47.2 %

Cash Flows from Operating Activities Cash flows from operating activities in the fourth quarter of 2020 were $1,380 million, an increase of $392 million compared to the fourth quarter of 2019. The increase in cash flows from operating activities was primarily due to a decrease in credit card receivables as a result of higher payment rates compared to prior year and higher cash earnings.

Cash Flows used in Investing Activities Cash flows used in investing activities in the fourth quarter of 2020 were $275 million, a decrease of $63 million compared to the fourth quarter of 2019. The decrease in cash flows used in investing activities was primarily due to a decrease in short term investments.

Cash Flows used in Financing Activities Cash flows used in financing activities in the fourth quarter of 2020 were $940 million, an increase of $478 million compared to the fourth quarter of 2019. The increase in cash flows used in financing activities was primarily due to a net repayment of long term debt in the current quarter of $177 million compared to a net repayment of long term debt of $12 million in the prior year quarter, an increase in share buybacks, timing of the Q4 2020 dividend payment and a decrease in short term debt issuance.

Capital Investments In the fourth quarter of 2020, the Company invested $418 million (2019 – $426 million) in fixed asset purchases and intangible asset additions.

Free Cash Flow[2]

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (13 weeks)	2019 (12 weeks)	$ Change	% Change
Cash flows from operating activities	**$ 1,380**	$ 988	$ 392	39.7 %
Less:				
Capital investments	**418**	426	(8)	(1.9)%
Interest paid	**71**	74	(3)	(4.1)%
Lease payments, net	**285**	216	69	31.9 %
Free cash flow[2][i]	**$ 606**	$ 272	$ 334	122.8 %

(i) The consolidated free cash flow[2] includes $655 million (2019 – $602 million) of free cash flow[2] from the Retail segment and $49 million (2019 – $330 million) of free cash flow[2] used in the Financial Services segment.

Free cash flow[2] was $606 million in the fourth quarter of 2020, an increase of $334 million compared to the fourth quarter of 2019. The increase in free cash flow[2] was primarily due to a decrease in credit card receivables as a result of higher payment rates compared to prior year and higher cash earnings.

Segment Information

	January 2, 2021 (13 weeks)				December 28, 2019 (12 weeks)			
(millions of Canadian dollars)	Retail	Financial Services	Eliminations[(i)]	Total	Retail	Financial Services	Eliminations[(i)]	Total
Revenue[(ii)]	**$13,043**	**$ 320**	**$ (77)**	**$13,286**	$11,321	$ 337	$ (68)	$11,590
Operating income	**$ 649**	**$ 53**	**$ —**	**$ 702**	$ 480	$ 61	$ —	$ 541
Net interest expense and other financing charges	**146**	**20**	**—**	**166**	155	21	—	176
Earnings before income taxes	**$ 503**	**$ 33**	**$ —**	**$ 536**	$ 325	$ 40	$ —	$ 365
Operating income	**$ 649**	**$ 53**	**$ —**	**$ 702**	$ 480	$ 61	$ —	$ 541
Depreciation and amortization	**600**	**9**	**—**	**609**	581	8	—	589
Adjusting items[(iii)]	**138**	**—**	**—**	**138**	190	1	—	191
Less: amortization of intangible assets acquired with Shoppers Drug Mart	**(117)**	**—**	**—**	**(117)**	(116)	—	—	(116)
Adjusted EBITDA[(iii)]	**$ 1,270**	**$ 62**	**$ —**	**$ 1,332**	$ 1,135	$ 70	$ —	$ 1,205
Depreciation and amortization[(iv)]	**483**	**9**	**—**	**492**	465	8	—	473
Adjusted operating income	**$ 787**	**$ 53**	**$ —**	**$ 840**	$ 670	$ 62	$ —	$ 732

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

(ii) Included in Financial Services revenue is $111 million (December 28, 2019 – $125 million) of interest income.

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

(iv) Depreciation and amortization for the calculation of adjusted EBITDA[(2)] excludes $117 million (December 28, 2019 – $116 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

Retail Segment Fourth Quarter Results of Operations

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (13 weeks)**	2019[(4)] (12 weeks)	$ Change	% Change
Sales	**$ 13,043**	$ 11,321	$ 1,722	15.2 %
Operating income	**649**	480	169	35.2 %
Adjusted gross profit[(2)]	**3,832**	3,376	456	13.5 %
Adjusted gross profit %[(2)]	**29.4 %**	29.8 %		
Adjusted EBITDA[(2)]	**$ 1,270**	$ 1,135	$ 135	11.9 %
Adjusted EBITDA margin[(2)]	**9.7 %**	10.0 %		
Depreciation and amortization	**$ 600**	$ 581	$ 19	3.3 %

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (13 weeks)**		2019 (12 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 9,302**	**8.6 %**	$ 7,960	1.9 %
Drug retail	**3,741**	**3.7 %**	3,361	3.9 %
Pharmacy	**1,706**	**5.0 %**	1,517	6.1 %
Front Store	**2,035**	**2.8 %**	1,844	2.2 %

Sales, operating income, adjusted gross profit[(2)], adjusted gross profit percentage[(2)], adjusted EBITDA[(2)] and adjusted EBITDA margin[(2)] include the impacts of the consolidation of franchises.

Sales Retail segment sales were $13,043 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an increase of $1,722 million, or 15.2%, which included the impact of the 53rd week of $878 million. After excluding the consolidation of franchises, Retail segment sales increased by $1,601 million, or 14.6%, which included the impact of the 53rd week of $845 million, primarily driven by the following factors:

- Food retail same-store sales growth(5) was 8.6% (2019 – 1.9%) for the quarter. Food retail same-store sales growth(2) was positively impacted by COVID-19.
  - Sales growth in food was strong;
  - Sales growth in pharmacy was strong;
  - The Company's Food Retail average article price was higher by 3.9% (2019 – 0.8%), which reflects the year over year growth in Food Retail revenue over the average number of articles sold in the Company's stores in the quarter. The increase in average article price was due to sales mix; and,
  - On a comparable week basis Food Retail basket size increased and traffic decreased in the quarter.
- Drug retail same-store sales growth(5) was 3.7% (2019 – 3.9%).
  - Pharmacy same-store sales growth(5) was 5.0% (2019 – 6.1%). The number of prescriptions dispensed increased by 9.3% (2019 – 3.2%). On a same-store basis(5), the number of prescriptions dispensed increased by 1.9% (2019 – 3.1%) and year-over-year, the average prescription value increased by 2.0% (2019 – 2.4%); and
  - Front store same-store sales growth(5) of 2.8% (2019 – 2.2%).

In the last 12 months, 19 food and drug stores were opened, and 9 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.2 million square feet, or 0.3%.

Operating Income Operating income was $649 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an increase of $169 million, which included the impact of the 53rd week of $67 million. The increase was driven by improvements in underlying operating performance of $117 million and the favourable change in adjusting items totaling $52 million, as described below:

- the improvement in underlying operating performance of $117 million was driven by an increase in adjusted gross profit(2), 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 $34 million and was positively impacted by the 53rd week;
- the favourable change in adjusting items totaling $52 million which was primarily due to the following:
  - the year-over-year favourable change in fixed asset and other related impairments, net of recoveries of $58 million; and,
  - the year-over-year favourable impact of restructuring and other related costs of $13 million;

  partially offset by,
  - the year-over-year unfavourable change in fair value adjustments on non-operating properties of $13 million; and,
  - the unfavourable impact of reversal of certain prior period items in 2019 of $7 million.

Adjusted Gross Profit(2) Adjusted gross profit(2) in the fourth quarter of 2020 was $3,832 million. When compared to the fourth quarter of 2019, this represented an increase of $456 million. Excluding the consolidation of franchises, adjusted gross profit(2) increased by $349 million. The adjusted gross profit percentage(2) of 29.4% decreased by 40 basis points compared to the fourth quarter of 2019. The adjusted gross profit percentage(2), excluding the consolidation of franchises, was 26.9%. This represented a decrease of 80 basis points compared to the fourth quarter of 2019. Food margins were negatively impacted as a result of COVID-19 related changes in sales mix and competitive pricing. Drug retail margins were negatively impacted as a result of COVID-19 related changes in front store sales mix. Excluding the 53rd week, adjusted gross profit percentage(2) decreased by 70 basis points.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $1,270 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an increase of $135 million. The increase included the year-over-year favourable impact of the consolidation of franchises of $37 million. Excluding the consolidation of franchises, the increase was driven by an increase in adjusted gross profit(2) of $349 million, partially offset by an increase in SG&A of $251 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 17.4%, a decrease of 20 basis points compared to the fourth quarter of 2019. The favourable decrease of 20 basis points was primarily due to sales leverage as well as process and efficiency gains which were partially offset by COVID-19 related costs and incremental e-commerce labour costs as a result of increased on-line sales.

Adjusted EBITDA(2) was not impacted by any sale and leaseback of properties to Choice Properties in 2020 (2019 – nil).

Depreciation and Amortization Depreciation and amortization in the fourth quarter of 2020 was $600 million. When compared to the fourth quarter of 2019, this represented an increase of $19 million, primarily driven by 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 of $117 million (2019 – $116 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 January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(13 weeks)**	2019 (12 weeks)	$ Change	% Change
Revenue	**$ 320**	$ 337	$ (17)	(5.0)%
Earnings before income taxes	**33**	40	(7)	(17.5)%

(millions of Canadian dollars except where otherwise indicated)	**As at** **January 2, 2021**	As at December 28, 2019	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,165**	$ 3,298	$ (133)	(4.0)%
Credit card receivables	**3,109**	3,624	(515)	(14.2)%
Allowance for credit card receivables	**237**	196	41	20.9 %
Annualized yield on average quarterly gross credit card receivables	**13.3 %**	13.5 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**3.4 %**	3.4 %		

Revenue Revenue was $320 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented an decrease of $17 million. The decrease was primarily driven by:

- lower interest income attributable to a lower volume of credit card receivables; and
- lower credit card related fees primarily driven by lower customer spending;

partially offset by,

- higher sales attributable to *The Mobile Shop*; and
- higher interchange income due to prior year impact of 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 $33 million in the fourth quarter of 2020. When compared to the fourth quarter of 2019, this represented a decrease of $7 million, primarily driven by:

- lower revenue, as described above;

partially offset by,

- lower credit losses from the decrease in expected credit losses from an improving economic outlook and lower contractual charge-off; and
- lower customer acquisition costs.

Credit Card Receivables As at January 2, 2021, credit card receivables were $3,109 million. When compared to December 28, 2019, this represented a decrease of $515 million. This decrease was primarily driven by lower customer spending and higher payment rates. The allowance for credit card receivables increased to $237 million, an increase of $41 million compared to December 28, 2019.

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 January 2, 2021.

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 International Financial Reporting Standards.

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 January 2, 2021.

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 2020 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 effective governance and management of risk within the Company is a key priority for the Board and management and, to this end, the Company has adopted an Enterprise Risk Management ("ERM") program. The 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 statement and within approved 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, and to provide a framework to promote the Company in engaging in activities within the approved risk appetite and tolerance levels;
- 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, through the Risk and Compliance Committee, 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 Statement. The Risk Appetite Statement 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 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.

COVID-19 Risk On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Since the onset of the pandemic, the Company has taken and will continue to take actions to mitigate the effects of COVID-19 on its day-to-day business operations, with the best interests of its employees, customers, suppliers and other stakeholders at the crux of every action taken. A dedicated COVID-19 response team established by management in the early stages of the pandemic is coordinating the Company's crisis management response. The Company is committed to keeping its grocery stores and pharmacies, including its Shoppers Drug Mart locations, open and stocked, all while ensuring appropriate measures are in place to protect the health and safety of its frontline colleagues and customers. The Company is also dedicated to promoting the health of the communities in which it operates and has played an important role in asymptomatic COVID-19 testing in Canada.

The duration and full impact of the COVID-19 pandemic on the Company remains unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the future financial results and operations of the Company. The Company continues to closely monitor the situation as it evolves day-to-day and may take further actions in response to directives of government and public health authorities or that are in the best interests of its colleagues, customers, suppliers or other stakeholders, as necessary.

Changes in the Company's operations in response to COVID-19 could materially impact financial results and may include temporary closures of facilities, temporary or long-term labour shortages or disruptions, temporary or long-term impacts on supply chains and distribution channels, temporary or long-term restrictions on cross-border commerce and travel including mandatory quarantine periods, greater currency volatility, and increased risks to IT systems, networks and digital services. In addition, the COVID-19 pandemic has changed consumer behaviours and accelerated the advancement of disruptive technologies and has resulted in a significant increase in e-commerce competition. The Company's inability to keep up with the pace of such behavioural changes or technological advancements or with its competitors could adversely affect the Company's operations or financial performance. The Company's performance may also be affected by the availability and efficacy of vaccines and the effectiveness of plans to administer those vaccines across the country.

The spread of COVID-19 has caused an economic slowdown and increased volatility in financial markets. Governments and central banks have responded with monetary and fiscal interventions intended to stabilize economic conditions. Although the ultimate impact of COVID-19 on the global economy and its duration remains uncertain, disruptions caused by COVID-19 may adversely affect the performance of the Company.

Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long term, adversely impact operations and the financial performance of the Company, including by adversely impacting demand for certain of the Company's products and services and/or the debt and equity markets. Governmental interventions aimed at containing COVID-19 could also impact the Company's available workforce, its supply chain and distribution channels, the products and services it is able to offer and/or its ability to engage in cross-border commerce.

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 January 2, 2021, which is hereby incorporated by reference:

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

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 and *PC Money* Account 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 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.

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 or *PC Money* Account 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.

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.

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 its strategic growth areas of Everyday Digital Retail, Payments and Rewards and Connected Healthcare, which are all subject to competitive pressures. 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.

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. 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. These payers have pursued and continue to pursue measures to manage the costs of their drug plans. Canada and each of the provinces 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. Additionally, the pan Canadian Pharmaceutical Alliance 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 and prescription drug pricing, legislative or otherwise, are expected to continue to put downward pressure on the value of 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 and pharmacy services. 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, privacy and confidentiality and interactions with provincial drug and eHealth systems, 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.

IT Systems Implementations and Data Management The operations of the Company are reliant on the continuous and uninterrupted operations of critical technology systems. Any technology failure/outage pertaining to availability or the capacity and sustainability of IT systems may result in disruptions impacting customers or financial performance, or may negatively impact the Company's reputation. 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 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 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. Moreover, lack of sensitive data classification, protection and use case approval may result in operational or reputational risk.

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, public health 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.

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.

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 labelling, 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.

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 2020 or prior 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. In February 2020, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and the Company. The allegations in the Ontario, Quebec and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and February 2020 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 matter was heard by the Federal Court of Appeal, and on April 23, 2020, the Federal Court of Appeal released its decision and reversed the decision of the Tax Court. On October 29, 2020, the Supreme Court granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. The Company has not reversed any portion of the $367 million of charges recorded during the third quarter of 2018, of which $176 million was recorded in interest and $191 million was recorded in income taxes.

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, 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.

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.

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® and *PC Money* Account. 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.

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, pandemic, 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.

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 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 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 41 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 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 minimum common equity Tier 1 capital ratio of 7.0%, a Tier 1 capital ratio of 8.5% and a total capital ratio of 10.5%. 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	Currency Exchange Rates
Credit	Commodity Prices
Interest Rates	Credit Ratings

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, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs, demand deposits from customers 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.

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, 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 and short term investments 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 and accounts receivable, including amounts due from 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.

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.

Credit Rating Credit ratings assigned to the Company or any of its securities may be changed at any time based on the judgment of the credit rating agencies and may also be impacted by a change in the credit rating of Weston, Choice Properties and their respective affiliates. In addition, the Company, Weston, Choice Properties and their respective affiliates may incur additional indebtedness in the future, which could impact current and future credit ratings. A reduction in credit ratings could materially adversely affect the market value of the Company's outstanding securities and the Company's access to and cost of financing.

13. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 182,874,456 of the Company's common shares, representing approximately 52.6% of the Company's outstanding common shares. Galen G. Weston beneficially owns or controls, directly and indirectly, including through Wittington Investments, Limited ("Wittington"), a total of 78,647,040 of Weston's common shares, representing approximately 51.6% of Weston's outstanding common shares. Galen G. Weston also beneficially owns 467,035 of the Company's common shares, representing approximately 0.1% of the Company's outstanding common shares.

Weston is also the controlling shareholder of Choice Properties. As at January 2, 2021, Weston's ownership interest in Choice Properties was approximately 61.8% (December 28, 2019 – 62.9%). The Company is Choice Properties' largest tenant, representing approximately 57% (December 28, 2019 – 58%) of Choice Properties' rental revenue and 55% (December 28, 2019 – 56%) of its gross leasable area as at January 2, 2021. The Company also executes various agreements and transactions with Choice Properties.

In the ordinary course of business, the Company enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Transactions with Related Parties

	Transaction Value	
(millions of Canadian dollars)	**2020**	2019[vii]
Included in cost of merchandise inventories sold		
Inventory purchases from a subsidiary of Weston	**$ 624**	$ 631
Inventory sold to a subsidiary of Weston	**1**	4
Inventory purchases from a related party[i]	**41**	27
Operating income		
Transactions with Weston and Wittington		
Cost sharing agreements with Weston[ii]	**$ 47**	$ 44
Net administrative services provided by Weston[iii]	**18**	16
Lease of office space from a subsidiary of Wittington	**3**	4
Transactions with Choice Properties		
Lease payments to Choice Properties[iv]	**$ 733**	$ 736
Property management and other administration fees paid to Choice Properties	**1**	1
Lease surrender payments paid to Choice Properties	**—**	3
Site intensification payments received from Choice Properties[v]	**(1)**	(5)
Gain on sale of properties to Choice Properties[vi]	**—**	(7)

(i) Associated British Foods plc is a related party by virtue of a common director of such entity's parent company and Wittington. Total balance outstanding owing to Associated British Foods plc as at January 2, 2021 was $2 million (December 28, 2019 – $2 million).

(ii) The Company and Weston 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) During 2020, lease payments paid to Choice Properties included base rent of $515 million (2019 – $526 million) and operating expenses of $218 million (2019 – $210 million).

(v) During 2020, the Company received site intensification payments from Choice Properties of $1 million (2019 – $5 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.

(vi) During 2020, the Company disposed of one development property to Choice Properties for proceeds of $8 million (2019 – $59 million).The proceeds were equivalent to the carrying amount of the property (2019 – gain of $7 million).

(vii) Comparative figures have been restated to conform with current year presentation.

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

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Weston[(i)]	**$ 55**	$ 33
Choice Properties[(ii)]	**(8)**	(12)

(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 2020, 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)	**2020**	2019
Salaries, director fees and other short term employee benefits	**$ 6**	$ 6
Equity-based compensation	**9**	9
Total compensation	**$ 15**	$ 15

Venture Fund During 2020, Loblaw, Weston and a wholly owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("Venture Fund"). The wholly owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee the Venture Fund. The purpose of the Venture Fund is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have 33% interest in the Venture Fund. The Company has a total capital commitment of $33 million over a 10-year period. During 2020, the Company invested $6 million in the Venture Fund, which was recorded in other assets. Subsequent to the end of 2020, the Company invested an additional $3 million in the Venture Fund.

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.

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. The property management agreement was terminated effective December 31, 2020.

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. The sublease administration agreement was terminated effective December 31, 2020.

Letters of Credit As at January 2, 2021, 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 28, 2019 – $2 million).

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

	Payments due by year						**As at January 2, 2021**	As at December 28, 2019
(millions of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	**Total**	Total
Lease payments	$ 517	$ 479	$ 505	$ 461	$ 458	$ 1,566	**$ 3,986**	$ 4,508

Financial Liabilities On November 24, 2020, the Company disposed of five retail properties to Choice Properties for total proceeds of $46 million. All five properties were leased back by the Company. These transactions did not meet the criteria for sales of assets in accordance with IFRS 15, "Revenue from Contracts with Customers" as the Company did not relinquish control of the properties under the terms of the leases. Instead, the proceeds were recognized as financial liabilities and as at January 2, 2021, $3 million was recorded in trade payables and other liabilities and $43 million was recorded in other liabilities. During 2020, a nominal amount of interest expense was recognized in net interest expense and other financing charges and a nominal amount of repayment was made on the financial liabilities to Choice Properties.

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 rates. The Company determines value in use by using estimates including projected future sales and earnings, capital investments consistent with strategic plans presented to the Board and discount rates 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 and Key Sources of Estimation 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 condition, namely the unemployment rate. Management uses unemployment rate forecasts published by major Canadian Chartered Banks and the Conference Board of Canada to establish the base case scenario and other representative ranges of possible forecast scenarios.

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 consolidated balance sheets and statements 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 New Significant Accounting Policies

Investment Accounted for Under the Equity Method Investment accounted for under the equity method is an investment in an entity ("investee") in which the Company has significant influence, but not control, over the financial and operating policies. The investment is initially recognized in the consolidated balance sheets at cost, which includes transaction costs. Subsequent to the initial recognition, the investment is adjusted to recognize the Company's share of the profit or loss and other comprehensive income of the investee, until the date on which significant influence ceases. The Company's share of the investee's profit or loss is recognized in SG&A. An investment is considered to be impaired if there are objective evidences of impairments, as a result of one or more events that occurred after the initial recognition, and those events have negative impacts on the future cash flows of the investee that can be reliably estimated. The investment is reviewed at each balance sheet date to determine whether there is any indication of impairment.

Demand Deposits from Customers Demand deposits from customers are comprised of balances in customers' debit accounts with *PC Money* Account and are measured at amortized cost.

15.2 Future Accounting Standard

IFRS 17 In 2017, the International Accounting Standards Board 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 reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. 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. Strategic Update and Outlook[3]

Strategic Update

In the transition from year one to year two of the COVID-19 pandemic, Loblaw's core businesses remain strong. The Company is well positioned to meet changing consumer trends brought about by the pandemic. Management is committed to growing the core business of food and drug retail and everyday banking by leveraging Loblaw's industry-leading assets and driving value through its process and efficiency and data insights programs. Loblaw's strategy positions it well to capitalize on the accelerating pace of change in global food retail and wellness by focusing on three strategic growth initiatives: Everyday Digital Retail; Payments & Loyalty Rewards; and Connected Healthcare.

Process & Efficiencies and Data Driven Insights A culture of continuous improvement underpins an ambitious program that has delivered more than $1 billion in savings over the past three years. Investments in Data Driven Insights have established a data asset that has long-term strategic value, creating opportunities to improve the customer experience, build new revenue streams, and lower operating costs. Going forward, these initiatives are targeted to offset normal inflationary headwinds, generating savings in excess of $200 million annually.

Everyday Digital Retail Loblaw continues to capitalize on its early investments and market leadership in digital retail, delivering $2.8 billion in sales, including $2.0 billion in grocery in 2020. The Company believes that in the long term, sustained leadership in digital retail will enhance customer value through a comprehensive omnichannel solution. The shift from in-store to online is expected to be a headwind to profitability over the medium term. The Company is focused on driving improvements in digital profitability over time through operational efficiencies and technology, sales and margin incrementally, and using its unique data set for more relevant and measurable promotion and advertising opportunities.

Connected Healthcare Network Over the long-term, Loblaw intends to leverage its unmatched network of pharmacies and healthcare professionals, building on an expanded scope of pharmacy practice and both on-site and virtual services to expand its presence in the $265 billion Canadian healthcare market. 2020 included encouraging trends and increases in healthcare services, providing evidence of the longer-term potential of the investments the Company has been making. In 2021, Loblaw expects to invest approximately $20 million in incremental operational expenses to continue to digitize its pharmacy operations, increase its pharmacy services and expand the functionality and user base of its new PC Health app, a consumer gateway for consumer healthcare products and services.

Payments and Rewards Three years after the launch of *PC Optimum,* the Company has continued to introduce more ways for customers to earn and redeem everyday rewards to strengthen the loyalty loop and increase share of wallet. In 2020, PC Financial® successfully launched its new *PC Money* Account, offering Canadians convenience and *PC Optimum* rewards for their everyday banking activities. Following a very successful initial launch, Loblaw will continue the roll-out of the *PC Money* app in 2021.

Outlook

The Company cannot predict the precise impacts of COVID-19 on 2021 financial results. However, Loblaw anticipates that grocery sales will remain elevated in the first half due to continued impact of the pandemic, including the impact of lockdown measures in many jurisdictions. As economies reopen, revenue growth will be challenged while lapping elevated 2020 sales. Costs are expected to improve, as the Company laps elevated COVID-19 related expenses, and as Process & Efficiencies and Data-Driven Insights programs continue to deliver benefits. Moderate levels of regulatory reform are anticipated.

The Company expects:

- its core Retail business to grow earnings faster than sales;
- growth in *PC Financial* profitability;
- EPS growth in the low double digits, excluding the impact of the 53rd week;
- to invest approximately $1.2 billion in capital expenditures, net of proceeds from property disposals; and
- to 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 rolling year retail adjusted EBITDA; rolling year adjusted return on equity; and rolling year 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.

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 periods 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.

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars)				**2020 (13 weeks)**				2019[4] (12 weeks)
	Retail	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$13,043**	**$ 320**	**$ (77)**	**$ 13,286**	$ 11,321	$ 337	$ (68)	$ 11,590
Cost of merchandise inventories sold	**9,211**	**67**	**—**	**9,278**	7,945	64	—	8,009
Gross profit	**$ 3,832**	**$ 253**	**$ (77)**	**$ 4,008**	$ 3,376	$ 273	$ (68)	$ 3,581
Adjusted gross profit	**$ 3,832**	**$ 253**	**$ (77)**	**$ 4,008**	$ 3,376	$ 273	$ (68)	$ 3,581

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars)				**2020 (53 weeks)**				2019[4] (52 weeks)
	Retail	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$51,859**	**$ 1,097**	**$ (242)**	**$ 52,714**	$ 47,099	$ 1,196	$ (258)	$ 48,037
Cost of merchandise inventories sold	**36,559**	**166**	**—**	**36,725**	33,101	181	—	33,282
Gross profit	**$15,300**	**$ 931**	**$ (242)**	**$ 15,989**	$ 13,998	$ 1,015	$ (258)	$ 14,755
Adjusted gross profit	**$15,300**	**$ 931**	**$ (242)**	**$ 15,989**	$ 13,998	$ 1,015	$ (258)	$ 14,755

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 periods 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.

			2020 (13 weeks)			2019[4] (12 weeks)
For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Consolidated**	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 348**			$ 257
Add impact of the following:						
Non-controlling interests			**46**			9
Net interest expense and other financing charges			**166**			176
Income taxes			**142**			99
Operating income	**$ 649**	**$ 53**	**$ 702**	$ 480	$ 61	$ 541
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 117**	**$ —**	**$ 117**	$ 116	$ —	$ 116
Fixed asset and other related impairments, net of recoveries	**17**	**—**	**17**	75	—	75
Restructuring and other related costs	**10**	**—**	**10**	23	1	24
Fair value adjustment on non-operating properties	**9**	**—**	**9**	(4)	—	(4)
Certain prior period items	**—**	**—**	**—**	(7)	—	(7)
Fair value adjustment on fuel and foreign currency contracts	**(7)**	**—**	**(7)**	(5)	—	(5)
Gain on sale of non-operating properties	**(8)**	**—**	**(8)**	(8)	—	(8)
Adjusting Items	**$ 138**	**$ —**	**$ 138**	$ 190	$ 1	$ 191
Adjusted operating income	**$ 787**	**$ 53**	**$ 840**	$ 670	$ 62	$ 732
Depreciation and amortization	**600**	**9**	**609**	581	8	589
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(117)**	**—**	**(117)**	(116)	—	(116)
Adjusted EBITDA	**$ 1,270**	**$ 62**	**$ 1,332**	$ 1,135	$ 70	$ 1,205

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars)	2020 (53 weeks) Retail	Financial Services	Consolidated	2019[4] (52 weeks) Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 1,108**			$ 1,081
Add impact of the following:						
Non-controlling interests			**84**			50
Net interest expense and other financing charges			**742**			747
Income taxes			**431**			392
Operating income	**$ 2,231**	**$ 134**	**$ 2,365**	$ 2,082	$ 188	$ 2,270
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 509**	**$ —**	**$ 509**	$ 508	$ —	$ 508
Restructuring and other related costs	**58**	**—**	**58**	72	2	74
Fixed asset and other related impairments, net of recoveries	**17**	**—**	**17**	75	—	75
Fair value adjustment on non-operating properties	**9**	**—**	**9**	(7)	—	(7)
Fair value adjustment on fuel and foreign currency contracts	**5**	**—**	**5**	—	—	—
Pension annuities and buy-outs	**—**	**—**	**—**	10	—	10
Certain prior period items	**—**	**—**	**—**	(22)	—	(22)
Gain on sale of non-operating properties	**(9)**	**—**	**(9)**	(12)	—	(12)
Adjusting Items	**$ 589**	**$ —**	**$ 589**	$ 624	$ 2	$ 626
Adjusted operating income	**$ 2,820**	**$ 134**	**$ 2,954**	$ 2,706	$ 190	$ 2,896
Depreciation and amortization	**2,571**	**25**	**2,596**	2,502	22	2,524
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(509)**	**—**	**(509)**	(508)	—	(508)
Adjusted EBITDA	**$ 4,882**	**$ 159**	**$ 5,041**	$ 4,700	$ 212	$ 4,912

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.

Fair value adjustment on non-operating properties The Company measures non-operating properties, which are investment properties and assets held for sale that were transferred from investment properties, at fair value. Under the fair value model, non-operating properties are initially measured at cost and subsequently measured at fair value. Fair value 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 terminal capitalization rates. Gains and losses arising from changes in the fair value are recognized in operating income in the period in which they arise.

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/loss on sale of non-operating properties In 2020, the Company disposed of non-operating properties to a third party and recorded a gain of $9 million related to the sale. In 2019, the Company disposed of non-operating properties to a third party and recorded a gain of $12 million related to the sale.

Pension annuities and buy-outs The Company has undertaken 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.

Certain prior period items In the second quarter of 2019, the Company revised its estimates 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 periods 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 January 2, 2021 and December 28, 2019 (millions of Canadian dollars)	**2020** **(13 weeks)**	2019 (12 weeks)	**2020** **(53 weeks)**	2019 (52 weeks)
Net interest expense and other financing charges	**$ 166**	$ 176	**$ 742**	$ 747
Adjusted net interest expense and other financing charges	**$ 166**	$ 176	**$ 742**	$ 747

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 periods 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 January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (13 weeks)**	2019 (12 weeks)	**2020 (53 weeks)**	2019 (52 weeks)
Adjusted operating income[(i)]	**$ 840**	$ 732	**$ 2,954**	$ 2,896
Adjusted net interest expense and other financing charges[(i)]	**166**	176	**742**	747
Adjusted earnings before taxes	**$ 674**	$ 556	**$ 2,212**	$ 2,149
Income taxes	**$ 142**	$ 99	**$ 431**	$ 392
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes[(ii)]	**38**	50	**158**	167
Reserve release related to 2014 tax audit	**—**	—	**—**	8
Statutory corporate income tax rate change	**—**	—	**—**	4
Adjusted income taxes	**$ 180**	$ 149	**$ 589**	$ 571
Effective tax rate	**26.5 %**	27.1 %	**26.6 %**	25.7 %
Adjusted effective tax rate	**26.7 %**	26.8 %	**26.6 %**	26.6 %

(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 announced and substantively enacted a gradual decrease in the provincial statutory corporate income tax rate from 12% to 8% by 2022. The Company recorded a tax recovery of $4 million in the second quarter of 2019 and year-to-date related to the remeasurement of its deferred income tax balances.

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 January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(13 weeks)**	2019 (12 weeks)	**2020** **(53 weeks)**	2019 (52 weeks)
Net earnings attributable to shareholders of the Company	**$ 348**	$ 257	**$ 1,108**	$ 1,081
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(12)
Net earnings available to common shareholders of the Company	**$ 345**	$ 254	**$ 1,096**	$ 1,069
Net earnings attributable to shareholders of the Company	**$ 348**	$ 257	**$ 1,108**	$ 1,081
Adjusting items (refer to the following table)	**100**	141	**431**	447
Adjusted net earnings attributable to shareholders of the Company	**$ 448**	$ 398	**$ 1,539**	$ 1,528
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(12)
Adjusted net earnings available to common shareholders of the Company	**$ 445**	$ 395	**$ 1,527**	$ 1,516
Diluted weighted average common shares outstanding (millions)	**353.8**	363.7	**358.2**	368.4

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.

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars/Canadian dollars)	**2020 (13 weeks)**		2019[4] (12 weeks)		**2020 (53 weeks)**		2019[4] (52 weeks)	
	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	**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
As reported	**$ 345**	**$ 0.98**	$ 254	$ 0.70	**$ 1,096**	**$ 3.06**	$ 1,069	$ 2.90
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 86**	**$ 0.23**	$ 86	$ 0.23	**$ 373**	**$ 1.03**	$ 373	$ 1.01
Fixed asset and other related impairments, net of recoveries	**13**	**0.04**	56	0.15	**13**	**0.04**	56	0.15
Restructuring and other related costs	**6**	**0.02**	18	0.05	**42**	**0.12**	54	0.15
Fair value adjustment on non-operating properties	**7**	**0.02**	(3)	—	**7**	**0.02**	(5)	(0.01)
Pension annuities and buy-outs	**—**	**—**	—	—	**—**	**—**	7	0.02
Certain prior period items	**—**	**—**	(5)	(0.01)	**—**	**—**	(16)	(0.04)
Reserve release related to 2014 tax audit	**—**	**—**	—	—	**—**	**—**	(8)	(0.02)
Statutory corporate income tax rate change	**—**	**—**	—	—	**—**	**—**	(4)	(0.01)
Fair value adjustment on fuel and foreign currency contracts	**(5)**	**(0.01)**	(4)	(0.01)	**4**	**0.01**	—	—
Gain on sale of non-operating properties	**(7)**	**(0.02)**	(7)	(0.02)	**(8)**	**(0.02)**	(10)	(0.03)
Adjusting items	**$ 100**	**$ 0.28**	$ 141	$ 0.39	**$ 431**	**$ 1.20**	$ 447	$ 1.22
Adjusted	**$ 445**	**$ 1.26**	$ 395	$ 1.09	**$ 1,527**	**$ 4.26**	$ 1,516	$ 4.12

Free Cash Flow[2] The following table reconciles free cash flow to cash flows from operating activities as reported in the consolidated statements of cash flows for the periods 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.

For the periods ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars)	**2020 (13 weeks)**	2019 (12 weeks)	**2020 (53 weeks)**	2019 (52 weeks)
Cash flows from operating activities	**$ 1,380**	$ 988	**$ 5,191**	$ 3,960
Less:				
Capital investments	**418**	426	**1,224**	1,206
Interest paid	**71**	74	**336**	349
Lease payments, net	**285**	216	**1,384**	1,195
Free cash flow[2](i)	**$ 606**	$ 272	**$ 2,247**	$ 1,210

(i) The consolidated free cash flow[2] includes $1,595 million (2019 – $1,467 million) of free cash flow[2] from the Retail segment and $652 million (2019 – used $257 million) of free cash flow[2] from the Financial Services segment on a year-to-date basis. The consolidated free cash flow[2] includes $655 million (2019 – $602 million) of free cash flow[2] from the Retail segment and $49 million (2019 – $330 million) of free cash flow[2] used in the Financial Services segment on a quarter-to-date basis.

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.

Non-GAAP Financial Measures Policy Change Commencing Fiscal 2021 In 2020, management undertook a review of historical adjusting items as part of an effort to reduce the number of items it excludes from its non-GAAP financial measures. Management concluded that, in order to present adjusting items in a manner more consistent with that of its Canadian and U.S. peers, the Company will no longer adjust for fixed asset and other related impairments (net of recoveries), certain restructuring and other related costs, pension settlement costs, statutory income tax rate changes or other items.

Starting in the first quarter of 2021, restructuring and other related costs will be considered an adjusting item only if significant and if part of a publicly announced restructuring plan. Other unusual items will be assessed on a case by case basis based on their nature, magnitude and propensity to re-occur. This change will take effect in the first quarter of 2021 with restatement of comparative periods at that time.

The below summary is presented for informational purposes and reconciles the non-GAAP financial measures as previously reported in 2020 to those which will be reported under the new policy beginning in 2021:

	12 weeks ended March 21, 2020			12 weeks ended June 13, 2020			16 weeks ended October 3, 2020			13 weeks ended January 2, 2021			**53 weeks ended January 2, 2021**		
(millions of Canadian dollars)	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	**Retail**	**Financial Services**	**Consolidated**
Adjusted Operating income - previously reported	$ 691	$ 3	$ 694	$ 502	$ 34	$ 536	$ 840	$ 44	$ 884	$ 787	$ 53	$ 840	**$2,820**	**$ 134**	**$2,954**
Add (deduct) impact of the following:															
Fixed asset and other related Impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	(17)	—	(17)	**$ (17)**	**$ —**	**$ (17)**
Restructuring and other related costs	(4)	—	(4)	(8)	—	(8)	(6)	—	(6)	—	—	—	**(18)**	**—**	**(18)**
Adjusting Items	$ (4)	$ —	$ (4)	$ (8)	$ —	$ (8)	$ (6)	$ —	$ (6)	$ (17)	$ —	$ (17)	**$ (35)**	**$ —**	**$ (35)**
Adjusted operating income - Restated	$ 687	$ 3	$ 690	$ 494	$ 34	$ 528	$ 834	$ 44	$ 878	$ 770	$ 53	$ 823	**$2,785**	**$ 134**	**$2,919**
Depreciation and amortization	589	5	594	593	5	598	789	6	795	600	9	609	**2,571**	**25**	**2,596**
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	(119)	(118)	—	(118)	(155)	—	(155)	(117)	—	(117)	**(509)**	**—**	**(509)**
Adjusted EBITDA - Restated	$1,157	$ 8	$1,165	$ 969	$ 39	$1,008	$1,468	$ 50	$1,518	$1,253	$ 62	$1,315	**$4,847**	**$ 159**	**$5,006**

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net earnings per Common Share are presented below:

	12 weeks ended March 21, 2020		12 weeks ended June 13, 2020		16 weeks ended October 3, 2020		13 weeks ended January 2, 2021		**53 weeks ended January 2, 2021**	
(millions of Canadian dollars/ Canadian dollars)	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	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	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**
Adjusted - As previously reported	$ 352	$ 0.97	$ 266	$ 0.74	$ 464	$ 1.30	$ 445	$ 1.26	**$ 1,527**	**$ 4.26**
Add (deduct) impact of the following:										
Fixed asset and other related impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ (13)	$ (0.04)	**$ (13)**	**$ (0.04)**
Restructuring and other related costs	(3)	(0.01)	(6)	(0.02)	(5)	(0.01)	—	—	**(14)**	**(0.04)**
Adjusting items	$ (3)	$ (0.01)	$ (6)	$ (0.02)	$ (5)	$ (0.01)	$ (13)	$ (0.04)	**$ (27)**	**$ (0.08)**
Adjusted - Restated	$ 349	$ 0.96	$ 260	$ 0.72	$ 459	$ 1.29	$ 432	$ 1.22	**$ 1,500**	**$ 4.18**

This change would not have impacted previously reported Retail segment gross profit, Retail segment adjusted gross profit and Retail segment adjusted gross profit percentage or adjusted net interest expense and other financing charges, as reported in the Company's 2020 annual and interim MD&A.

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 and with OSFI as the primary regulator for the Company's subsidiary, PC Bank.

February 24, 2021
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2020 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.
(5) Results are presented on a comparable number of week basis. Comparable number of weeks would be 12 weeks versus 12 weeks or 52 weeks versus 52 weeks.

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 24, 2021

[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 January 2, 2021 and December 28, 2019
- the consolidated statements of earnings for the 53 week and 52 week years then ended
- the consolidated statements of comprehensive income for the 53 week and 52 week years then ended
- the consolidated statements of changes in equity for the 53 week and 52 week years then ended
- the consolidated statements of cash flows for the 53 week and 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 January 2, 2021 and December 28, 2019, and its consolidated financial performance and its consolidated cash flows for the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended January 2, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of Impairment of Certain Non-Financial Assets for Food Retail Locations

Description of the matter

We draw attention to Notes 2, 3, 14 and 28 to the financial statements. At each balance sheet date, the Entity reviews the carrying amounts of its non-financial assets 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. Fixed assets and right-of-use assets are $5,540 million and $7,207 million, respectively. The Entity has determined that each retail location is a separate cash generating unit (CGU) for purposes of impairment testing. The recoverable amount of a CGU is the higher of its value-in-use and its fair value less costs to sell. In determining the recoverable amount, various estimates are employed. The Entity's estimates include:

- Discount rate, projected future sales and earnings for value-in-use
- Capitalization rates and market rental rates for fair value less costs to sell.

Why the matter is a key audit matter

We identified the evaluation of impairment of certain non-financial assets, specifically fixed assets and right-of-use assets, for food retail locations as a key audit matter. Food retail assets comprised the largest portion of the retail operating segment tested for impairment. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance and the high degree of estimation uncertainty in determining the recoverable amount. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence supporting the Entity's estimates due to the sensitivity of the recoverable amount to minor changes in those estimates.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness of the control over the Entity's review of the recoverable amount of the CGU. This control included the review of estimates used to determine the recoverable amount.

For a selection of food retail locations, we evaluated the appropriateness of the:

- Projected future sales and earnings estimates used in determining value-in-use by comparing to actual historical sales and earnings generated by the food retail location. We took into account changes in conditions and events affecting the retail location to assess the adjustments or lack of adjustments made in arriving at the projected future sales and earnings estimates
- Capitalization rates and market rental rates used in determining fair value less costs to sell by comparing to external information such as industry reports and commercial real estate property listings.

For a selection of food retail locations, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the discount rate used in determining value-in-use by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.

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 "2020 Annual Report – Financial Review".
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2020 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 "2020 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 "2020 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.

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.

Independent Auditors' Report

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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Toronto, Canada
February 24, 2021

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 January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2020	2019
Revenue	**$ 52,714**	$ 48,037
Cost of merchandise inventories sold	**36,725**	33,281
Selling, general and administrative expenses	**13,624**	12,486
Operating income	**$ 2,365**	$ 2,270
Net interest expense and other financing charges (note 6)	**742**	747
Earnings before income taxes	**$ 1,623**	$ 1,523
Income taxes (note 7)	**431**	392
Net earnings	**$ 1,192**	$ 1,131
Attributable to:		
Shareholders of the Company (note 8)	**$ 1,108**	$ 1,081
Non-controlling interests	**84**	50
Net earnings	**$ 1,192**	$ 1,131
Net earnings per common share ($) (note 8)		
Basic	**$ 3.08**	$ 2.93
Diluted	**$ 3.06**	$ 2.90
Weighted average common shares outstanding (millions) (note 8)		
Basic	**355.5**	365.4
Diluted	**358.2**	368.4

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars)	2020	2019
Net earnings	**$ 1,192**	$ 1,131
Other comprehensive income (loss), net of taxes		
Items that are or may be subsequently reclassified to profit or loss:		
Foreign currency translation adjustment gains (losses)	**$ 2**	$ 3
Gains (losses) on cash flow hedges (note 29)	**(28)**	(5)
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial gains (losses) (note 25)	**(41)**	(3)
Other comprehensive income (loss)	**$ (67)**	$ (5)
Total comprehensive income	**$ 1,125**	$ 1,126
Attributable to:		
Shareholders of the Company	**$ 1,041**	$ 1,076
Non-controlling interests	**84**	50
Total comprehensive income	**$ 1,125**	$ 1,126

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
Balance as at December 28, 2019	$7,044	$ 221	$7,265	$3,822	$ 100	$ 37	$ (6)	$ 16	$ 47	$ 87	$ 11,321
Net earnings	$ —	$ —	$ —	$1,108	$ —	$ —	$ —	$ —	$ —	$ 84	$ 1,192
Other comprehensive income (loss)	—	—	—	(41)	—	2	(28)	—	(26)	—	(67)
Total comprehensive income (loss)	$ —	$ —	$ —	$1,067	$ —	$ 2	$ (28)	$ —	$ (26)	$ 84	$ 1,125
Common shares purchased and cancelled (note 23)	(263)	—	(263)	(625)	—	—	—	—	—	—	(888)
Net effect of equity-based compensation (notes 23 and 26)	35	—	35	—	9	—	—	—	—	—	44
Shares purchased and held in trust (note 23)	(3)	—	(3)	(7)	—	—	—	—	—	—	(10)
Shares released from trust (notes 23 and 26)	11	—	11	21	—	—	—	—	—	—	32
Dividends declared per common share – $1.280 (note 23)	—	—	—	(453)	—	—	—	—	—	—	(453)
Dividends declared per preferred share – $1.325 (note 23)	—	—	—	(12)	—	—	—	—	—	—	(12)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(40)	(40)
	$ (220)	$ —	$ (220)	$ (9)	$ 9	$ 2	$ (28)	$ —	$ (26)	$ 44	$ (202)
Balance as at January 2, 2021	$6,824	$ 221	$7,045	$3,813	$ 109	$ 39	$ (34)	$ 16	$ 21	$ 131	$ 11,119

(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
Balance as at December 29, 2018	$7,162	$ 221	$7,383	$4,580	$ 107	$ 34	$ (1)	$ 16	$ 49	$ 59	$ 12,178
Impact of adopting IFRS 16	—	—	—	(798)	—	—	—	—	—	—	(798)
Restated balance as at December 30, 2018	$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)
Total comprehensive income (loss)	$ —	$ —	$ —	$1,078	$ —	$ 3	$ (5)	$ —	$ (2)	$ 50	$ 1,126
Common shares purchased and cancelled (note 23)	(206)	—	(206)	(546)	—	—	—	—	—	—	(752)
Net effect of equity-based compensation (notes 23 and 26)	94	—	94	—	(7)	—	—	—	—	—	87
Shares purchased and held in trust (note 23)	(16)	—	(16)	(46)	—	—	—	—	—	—	(62)
Shares released from trust (notes 23 and 26)	10	—	10	19	—	—	—	—	—	—	29
Dividends declared per common share – $1.240 (note 23)	—	—	—	(453)	—	—	—	—	—	—	(453)
Dividends declared per preferred share – $1.325 (note 23)	—	—	—	(12)	—	—	—	—	—	—	(12)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(22)	(22)
	$ (118)	$ —	$ (118)	$ 40	$ (7)	$ 3	$ (5)	$ —	$ (2)	$ 28	$ (59)
Balance as at December 28, 2019	$7,044	$ 221	$7,265	$3,822	$ 100	$ 37	$ (6)	$ 16	$ 47	$ 87	$ 11,321

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	As at January 2, 2021	As at December 28, 2019[(i)]
Assets		
Current assets		
Cash and cash equivalents (note 9)	**$ 1,668**	$ 1,133
Short term investments (note 9)	**269**	57
Accounts receivable (note 10)	**986**	1,104
Credit card receivables (note 11)	**3,109**	3,624
Inventories (note 12)	**5,195**	5,076
Prepaid expenses and other assets	**216**	211
Assets held for sale (note 13)	**108**	105
Total current assets	**$ 11,551**	$ 11,310
Fixed assets (note 14)	**5,540**	5,490
Right-of-use assets (note 28)	**7,207**	7,362
Investment properties (note 15)	**128**	172
Intangible assets (note 16)	**6,870**	7,322
Goodwill (note 17)	**3,948**	3,946
Deferred income tax assets (note 7)	**113**	169
Franchise loans receivable (note 29)	**—**	19
Other assets (note 18)	**513**	519
Total assets	**$ 35,870**	$ 36,309
Liabilities		
Current liabilities		
Bank indebtedness (note 32)	**$ 86**	$ 18
Trade payables and other liabilities	**5,380**	5,321
Loyalty liability (note 19)	**194**	191
Provisions (note 20)	**92**	119
Income taxes payable	**83**	27
Demand deposits from customers	**24**	—
Short term debt (note 11)	**575**	725
Long term debt due within one year (note 21)	**597**	1,127
Lease liabilities due within one year (note 28)	**1,379**	1,419
Associate interest	**349**	280
Total current liabilities	**$ 8,759**	$ 9,227
Provisions (note 20)	**133**	102
Long term debt (note 21)	**6,449**	5,971
Lease liabilities (note 28)	**7,522**	7,691
Deferred income tax liabilities (note 7)	**1,380**	1,539
Other liabilities (note 22)	**508**	458
Total liabilities	**$ 24,751**	$ 24,988
Equity		
Share capital (note 23)	**$ 7,045**	$ 7,265
Retained earnings	**3,813**	3,822
Contributed surplus (note 26)	**109**	100
Accumulated other comprehensive income	**21**	47
Total equity attributable to shareholders of the Company	**$ 10,988**	$ 11,234
Non-controlling interests	**131**	87
Total equity	**$ 11,119**	$ 11,321
Total liabilities and equity	**$ 35,870**	$ 36,309

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

Contingent Liabilities (note 31).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended January 2, 2021 and December 28, 2019 (millions of Canadian dollars)		2020		2019[i]
Operating activities				
Net earnings	**$**	**1,192**	$	1,131
Add (Deduct):				
Income taxes (note 7)		**431**		392
Net interest expense and other financing charges (note 6)		**742**		747
Adjustment to fair value of investment properties (notes 13 and 15)		**9**		(7)
Depreciation and amortization		**2,596**		2,524
Asset impairments, net of recoveries		**33**		84
Change in allowance for credit card receivables (note 11)		**41**		29
Change in provisions (note 20)		**4**		(41)
	$	**5,048**	$	4,859
Change in non-cash working capital		**76**		21
Change in gross credit card receivables (note 11)		**474**		(344)
Income taxes paid		**(452)**		(630)
Interest received		**7**		16
Interest received from finance leases (note 28)		**4**		5
Other		**34**		33
Cash flows from operating activities	**$**	**5,191**	$	3,960
Investing activities				
Fixed asset purchases (note 14)	**$**	**(820)**	$	(817)
Intangible asset additions (note 16)		**(338)**		(376)
Cash assumed on initial consolidation of franchises (note 5)		**14**		20
Change in short term investments (note 9)		**(212)**		37
Change in security deposits		**—**		800
Proceeds from disposal of assets		**76**		113
Lease payments received from finance leases		**9**		9
Other		**(105)**		(75)
Cash flows used in investing activities	**$**	**(1,376)**	$	(289)
Financing activities				
Change in bank indebtedness	**$**	**68**	$	(38)
Change in short term debt (note 11)		**(150)**		(190)
Change in demand deposits from customers		**24**		—
Long term debt (note 21)				
Issued		**1,417**		672
Repayments		**(1,486)**		(1,083)
Interest paid		**(336)**		(349)
Cash rent paid on lease liabilities - Interest (note 6 and 28)		**(369)**		(387)
Cash rent paid on lease liabilities - Principal (note 28)		**(1,024)**		(822)
Dividends paid on common and preferred shares		**(580)**		(460)
Common share capital				
Issued (note 26)		**30**		82
Purchased and held in trust (note 23)		**(10)**		(62)
Purchased and cancelled (note 23)		**(888)**		(937)
Proceeds from other financing (note 33)		**46**		—
Other		**(24)**		(32)
Cash flows used in financing activities	**$**	**(3,282)**	$	(3,606)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$**	**2**	$	3
Change in cash and cash equivalents	**$**	**535**	$	68
Cash and cash equivalents, beginning of year		**1,133**		1,065
Cash and cash equivalents, end of year	**$**	**1,668**	$	1,133

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

See accompanying notes to the consolidated financial statements.

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, and 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 52.6% of the Company’s outstanding common shares. The Company’s ultimate parent is Wittington Investments, Limited (“Wittington”). The remaining common shares are widely held.

The Company has two reportable operating segments: Retail and Financial Services (see note 34).

Since the first quarter of 2020, the COVID-19 pandemic has had a significant impact on the Company. The Company’s financial results for the year ended January 2, 2021 show increased revenue, driven by increased demand for the Company’s products, as well as increased cost of merchandise inventories sold. In addition, selling, general and administrative expenses (“SG&A”) also increased as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers.

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 24, 2021.

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 15;
- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 25;
- liabilities for cash-settled equity-based compensation arrangements as described in note 26; and
- certain financial instruments as described in note 29.

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all years presented.

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 year ended January 2, 2021 contained 53 weeks and the year ended December 28, 2019 contained 52 weeks.

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 Associates as well as the franchisees of its food retail stores that are subject to a simplified franchise agreement implemented in 2015 ("Franchise Agreement"). 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 Corporation ("Shoppers Drug Mart") trademarks. The consolidation of Associates and 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 Inc. (or an affiliate thereof) 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.

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, 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.

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.

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 and reversals are recorded in SG&A in the consolidated statements of earnings with the carrying amount of the credit card receivables adjusted through the use of allowance accounts.

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® PC Bank participates in a single seller revolving co-ownership securitization program with *Eagle Credit Card Trust®* ("*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 are measured at weighted average cost.

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 statements 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 that were previously classified as investment properties are measured using the fair value model consistent with properties classified as investment properties.

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 SG&A.

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 relate 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[(i)]

(i) If it is reasonably certain that the Company will obtain ownership of the leased asset by the end of the lease term, the 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

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 in accordance with IFRS 15, 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. If the transfer of the asset is not a sale in accordance with IFRS 15, the Company will continue to account for the asset under IAS 16, "Property, Plant and Equipment" and recognize the proceeds received as financial liabilities.

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. Gains and losses arising from changes in the fair value are recognized in operating income in the period in which they arise. 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 operating income 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 operating income. All subsequent changes in fair value of the property are recognized in operating income. Upon sale of an investment property that was previously classified as fixed assets, amounts included in the revaluation reserve are transferred to retained earnings.

When an investment property carried at fair value changes to own use, the property is recognized in fixed assets at the fair value at the date of change in use. The property is subsequently accounted for under the significant accounting policies for fixed assets.

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.

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.

Impairment losses and reversals are recognized in SG&A.

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 at 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. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

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:

Asset / Liability	**Classification / Measurement**
Cash and cash equivalents	Amortized cost
Short term investments	Amortized cost
Accounts receivable	Amortized cost
Credit card receivables	Amortized cost
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
Demand deposits from customers	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 29 "Financial Instruments" and note 30 "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.

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, accounts receivable, credit card receivables, bank indebtedness, trade payables and other liabilities, demand deposits from customers 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: • Quoted market prices or dealer quotes for similar instruments; and • The fair values of other derivative instruments are determined based on observable market information as well as valuations determined by external valuators with experience in financial markets.
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 requires 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 and reversals are recorded in SG&A with the carrying amount of the financial asset or group of financial assets adjusted through the use of allowance accounts.

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

Transactions in foreign currencies are translated into the functional currency at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are transacted. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the balance sheet date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognized in operating income.

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 the functional currency at the foreign currency exchange rate in effect at the balance sheet date. 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. 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.

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 remeasured 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.

New Significant Accounting Policies

Investment Accounted for Under the Equity Method Investment accounted for under the equity method is an investment in an entity ("investee") in which the Company has significant influence, but not control, over the financial and operating policies. The investment is initially recognized in the consolidated balance sheets at cost, which includes transaction costs. Subsequent to the initial recognition, the investment is adjusted to recognize the Company's share of the profit or loss and other comprehensive income of the investee, until the date on which significant influence ceases. The Company's share of the investee's profit or loss is recognized in SG&A. An investment is considered to be impaired if there are objective evidences of impairments, as a result of one or more events that occurred after the initial recognition, and those events have negative impacts on the future cash flows of the investee that can be reliably estimated. The investment is reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy.

Demand Deposits from Customers Demand deposits from customers are comprised of balances in customers' debit accounts with PC Money™ Account and are measured at amortized cost.

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 rates. The Company determines value in use by using estimates including projected future sales and earnings, capital investments consistent with strategic plans presented to the Board and discount rates 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 and Key Sources of Estimation 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 condition, namely the unemployment rate. Management uses unemployment rate forecasts published by major Canadian Chartered Banks and the Conference Board of Canada to establish the base case scenario and other representative ranges of possible forecast scenarios.

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 information technology ("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 consolidated balance sheets and statements 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 reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. 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 Company has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2020, the Company consolidated all of its remaining franchisees for accounting purposes under the Franchise Agreement.

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)		**2020**		2019
Net assets acquired:				
Cash and cash equivalents	**$**	**14**	$	20
Inventories		**42**		51
Fixed assets (note 14)		**44**		67
Trade payables and other liabilities[(i)]		**(54)**		(48)
Other liabilities[(i)]		**(30)**		(73)
Non-controlling interests		**(16)**		(17)
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. Net Interest Expense and Other Financing Charges

The components of net interest expense and other financing charges were as follows:

(millions of Canadian dollars)		**2020**		2019
Interest expense and other financing charges				
Lease liabilities (note 28)	**$**	**369**	$	387
Long term debt		**309**		301
Borrowings related to credit card receivables		**48**		45
Post-employment and other long term employee benefits (note 25)		**8**		7
Independent funding trusts		**14**		19
Bank indebtedness		**4**		6
	$	**752**	$	765
Interest income				
Accretion income	**$**	**(4)**	$	(8)
Short term interest income		**(6)**		(10)
	$	**(10)**	$	(18)
Net interest expense and other financing charges	**$**	**742**	$	747

Note 7. Income Taxes

The components of income taxes were as follows:

(millions of Canadian dollars)	**2020**	2019
Current income taxes		
Current period	**$ 521**	$ 522
Adjustment in respect of prior periods	**(11)**	8
	$ 510	$ 530
Deferred income taxes		
Origination and reversal of temporary differences	**$ (92)**	$ (118)
Effect of change in income tax rates	**(1)**	(4)
Adjustment in respect of prior periods	**14**	(16)
	$ (79)	$ (138)
Income taxes	**$ 431**	$ 392

On April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron Bank Limited ("Glenhuron") case in favour of the Company and reversed the decision of the Tax Court of Canada ("Tax Court"). On October 29, 2020, the Supreme Court of Canada ("Supreme Court") granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. The Company has not reversed any portion of the $367 million charges recorded during the third quarter of 2018, of which $176 million was recorded in interest and $191 million was recorded in income taxes (see note 31).

Income tax recoveries recognized in other comprehensive income were as follows:

(millions of Canadian dollars)	**2020**	2019
Net defined benefit plan actuarial losses (note 25)	**$ (14)**	$ (1)
Losses on cash flow hedges (note 29)	**(10)**	—
Total income tax recoveries recognized in other comprehensive income	**$ (24)**	$ (1)

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:

	2020	2019
Weighted average basic Canadian federal and provincial statutory income tax rate	**26.6 %**	26.7 %
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	**— %**	(0.1)%
Non-deductible and non-taxable items	**0.3 %**	— %
Impact of income tax rate changes on deferred income tax balances	**(0.1)%**	(0.3)%
Adjustments in respect of prior periods	**0.2 %**	(0.5)%
Other	**(0.4)%**	(0.1)%
Effective income tax rate applicable to earnings before income taxes	**26.6 %**	25.7 %

Unrecognized deferred income tax assets Deferred income tax assets were not recognized on the consolidated balance sheets in respect of the following items:

(millions of Canadian dollars)	2020	2019
Deductible temporary differences	**$ 14**	$ 14
Non-capital loss carryforwards	**153**	167
Unrecognized deferred tax assets	**$ 167**	$ 181

The non-capital loss carryforwards expire in the years 2029 to 2040. 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 income tax assets and liabilities Deferred income tax assets and liabilities were attributable to the following:

(millions of Canadian dollars)	As at January 2, 2021	As at December 28, 2019
Trade payables and accrued liabilities	**$ 66**	$ 76
Other liabilities	**200**	35
Lease liabilities	**2,324**	2,211
Fixed assets	**(553)**	(463)
Right-of-use assets	**(1,899)**	(1,772)
Goodwill and intangible assets	**(1,510)**	(1,630)
Non-capital loss carryforwards (expiring 2033 to 2040)	**64**	84
Other	**41**	89
Net deferred income tax liabilities	**$ (1,267)**	$ (1,370)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	**$ 113**	$ 169
Deferred income tax liabilities	**(1,380)**	(1,539)
Net deferred income tax liabilities	**$ (1,267)**	$ (1,370)

Note 8. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	2020	2019
Net earnings attributable to shareholders of the Company	**$ 1,108**	$ 1,081
Dividends on Preferred Shares in equity (note 23)	**(12)**	(12)
Net earnings available to common shareholders	**$ 1,096**	$ 1,069
Weighted average common shares outstanding (in millions) (note 23)	**355.5**	365.4
Dilutive effect of equity-based compensation (in millions)	**1.6**	2.1
Dilutive effect of certain other liabilities (in millions)	**1.1**	0.9
Diluted weighted average common shares outstanding (in millions)	**358.2**	368.4
Basic net earnings per common share ($)	**$ 3.08**	$ 2.93
Diluted net earnings per common share ($)	**$ 3.06**	$ 2.90

In 2020, 3,166,882 (2019 – 1,514,400) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 9. Cash and Cash Equivalents and Short Term Investments

The components of cash and cash equivalents and short term investments were as follows:

Cash and Cash Equivalents

(millions of Canadian dollars)	As at January 2, 2021	As at December 28, 2019
Cash	$ 872	$ 549
Cash equivalents		
Government treasury bills	483	161
Bankers' acceptances	288	348
Corporate commercial paper	—	75
Guaranteed investment certificates	22	—
Other	3	—
Total cash and cash equivalents	$ 1,668	$ 1,133

Short Term Investments

(millions of Canadian dollars)	As at January 2, 2021	As at December 28, 2019
Government treasury bills	$ 259	$ 44
Bankers' acceptances	1	10
Corporate commercial paper	1	3
Guaranteed investment certificates	7	—
Other	1	—
Total short term investments	$ 269	$ 57

Note 10. Accounts Receivable

The following is an aging of the Company's accounts receivable:

(millions of Canadian dollars)	As at January 2, 2021				As at December 28, 2019[(i)]			
	0-90 days	91-180 days	> 180 days	Total	0-90 days	91-180 days	> 180 days	Total
Accounts receivable	$ 834	$ 105	$ 47	$ 986	$ 991	$ 36	$ 77	$ 1,104

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

The following are continuities of the Company's allowances for uncollectible accounts receivable:

(millions of Canadian dollars)	2020	2019
Allowances, beginning of year	$ (24)	$ (30)
Net write-off	4	6
Allowances, end of year	$ (20)	$ (24)

Credit risk associated with accounts receivable is discussed in note 30.

Note 11. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Gross credit card receivables	**$ 3,346**	$ 3,820
Allowance for credit card receivables	**(237)**	(196)
Credit card receivables	**$ 3,109**	$ 3,624
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust*® (note 21)	**$ 1,050**	$ 1,000
Securitized to Other Independent Securitization Trusts	**575**	725
Total securitized to independent securitization trusts	**$ 1,625**	$ 1,725

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 21). 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 2020, with their respective maturity dates extended to 2022 and with all other terms and conditions remaining substantially the same.

On a year-to-date basis in 2020, PC Bank recorded a $150 million net decrease of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts as a result of a decline in the volume of credit card receivables.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at January 2, 2021 were $400 million (December 28, 2019 – $175 million).

The Company has arranged letters of credit on behalf of PC Bank for the benefit of the independent securitization trusts (see note 32).

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 January 2, 2021 and throughout 2020.

The following is an aging of the Company's gross credit card receivables:

(millions of Canadian dollars)				**As at January 2, 2021**				As at December 28, 2019
	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	**$ 3,169**	**$ 150**	**$ 27**	**$ 3,346**	$ 3,610	$ 176	$ 34	$ 3,820

The following are continuities of the Company's allowance for credit card receivables for the years ended January 2, 2021 and December 28, 2019:

(millions of Canadian dollars)				**As at January 2, 2021**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance, beginning of year	**$ 72**	**$ 92**	**$ 32**	**$ 196**
Increase / (Decrease) during the year:				
Transfers(i)				
To Stage 1	**33**	**(33)**	**—**	**—**
To Stage 2	**(5)**	**7**	**(2)**	**—**
To Stage 3	**(1)**	**(18)**	**19**	**—**
New loans originated(ii)	**7**	**16**	**1**	**24**
Net remeasurements(iii)	**(16)**	**52**	**93**	**129**
Write-offs	**—**	**—**	**(138)**	**(138)**
Recoveries	**—**	**—**	**26**	**26**
Balance, end of year	**$ 90**	**$ 116**	**$ 31**	**$ 237**

(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 28, 2019
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	$ 62	$ 80	$ 25	$ 167
Increase / (Decrease) during the year:				
Transfers(i)				
To Stage 1	31	(31)	—	—
To Stage 2	(7)	8	(1)	—
To Stage 3	(1)	(16)	17	—
New loans originated(ii)	9	13	3	25
Net remeasurements(iii)	(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.

The allowances for credit card receivables recorded in the consolidated balance sheets are maintained at a level which is considered adequate to endure credit-related losses on credit card receivables.

Note 12. Inventories

For inventories recorded as at January 2, 2021, the Company recorded an inventory provision of $34 million (December 28, 2019 – $33 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 2020 and 2019.

Note 13. 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 either originally used in the Company's retail business segment or held in investment properties. In 2020, the Company recorded a net gain of $9 million (2019 – net gain of $12 million) from the sale of these assets. Net fair value write-down of $20 million (2019 – $8 million) was recognized on assets held for sale in 2020.

Note 14. Fixed Assets

The following are continuities of the cost and the accumulated depreciation of fixed assets for the years ended January 2, 2021 and December 28, 2019:

			2020			
(millions of Canadian dollars)	Land	Buildings and building improvements	Equipment and fixtures	Leasehold improvements	Assets under construction	Total
Cost						
Balance, beginning of year	$ 219	$ 1,785	$ 8,207	$ 3,873	$ 389	$ 14,473
Additions[(i)]	—	—	132	26	728	886
Business acquisitions (note 5)	—	—	44	—	—	44
Disposals	(6)	(45)	(60)	(25)	—	(136)
Net transfer to assets held for sale	(29)	—	—	—	—	(29)
Net transfer from investment properties (note 15)	16	14	—	—	—	30
Transfer from assets under construction	25	25	482	170	(702)	—
Balance, end of year	$ 225	$ 1,779	$ 8,805	$ 4,044	$ 415	$ 15,268
Accumulated depreciation						
Balance, beginning of year	$ —	$ 853	$ 6,148	$ 1,980	$ 2	$ 8,983
Depreciation	—	52	506	281	—	839
Impairment losses	1	1	15	9	—	26
Reversal of impairment losses	—	(3)	(6)	(7)	—	(16)
Disposals	—	(20)	(60)	(24)	—	(104)
Balance, end of year	$ 1	$ 883	$ 6,603	$ 2,239	$ 2	$ 9,728
Carrying amount as at: January 2, 2021	$ 224	$ 896	$ 2,202	$ 1,805	$ 413	$ 5,540

(i) Additions to fixed assets include $66 million prepayment that was made in 2019. The balance was transferred from other assets in 2020.

				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
Cost							
Balance, beginning of year	$ 230	$ 1,772	$ 7,635	$ 3,715	$ 950	$ 404	$ 14,706
IFRS 16 adjustments	—	—	(42)	—	(950)	—	(992)
Restated balance, beginning of year	$ 230	$ 1,772	$ 7,593	$ 3,715	$ —	$ 404	$ 13,714
Additions[(i)]	—	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
Accumulated depreciation							
Balance, beginning of year	$ —	$ 814	$ 5,726	$ 1,694	$ 539	$ 2	$ 8,775
IFRS 16 adjustments	—	—	(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
Carrying amount as at: December 28, 2019	$ 219	$ 932	$ 2,059	$ 1,893	$ —	$ 387	$ 5,490

(i) Additions to fixed assets include $13 million prepayment that was made in 2018. The balance was transferred from other assets in 2019.

Assets under Construction The cost of additions to properties under construction for the year ended January 2, 2021 was $728 million (December 28, 2019 – $601 million). There is a nominal amount of capitalized borrowing costs (2019 – nil) at a weighted average capitalization rate of 6.19% included in this balance.

Fixed Asset Commitments As at January 2, 2021, the Company had entered into commitments of $68 million (December 28, 2019 – $128 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 January 2, 2021, the Company recorded $18 million (2019 – $52 million) of impairment losses on fixed assets and $25 million (2019 – $28 million) of impairment losses on right-of-use assets (see note 28) in respect of 27 CGUs (2019 – 43 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 7% (2019 – 2%) of impaired CGUs had carrying values which were $2 million (2019 – $1 million) greater than their fair value less costs to sell. The remaining 93% (2019 – 98%) of impaired CGUs had carrying values which were $41 million (2019 – $79 million) greater than their value in use.

For the year ended January 2, 2021, the Company recorded $16 million (2019 – $11 million) of impairment reversals on fixed assets and $11 million (2019 – $1 million) of impairment reversals on right-of-use assets (see note 28) in respect of 13 CGUs (2019 – 7 CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying values. Approximately 8% (2019 – 14%) of CGUs with impairment reversals had fair value less costs to sell of $1 million greater than their carrying values (2019 – $4 million). The remaining 92% (2019 – 86%) of CGUs with impairment reversals had value in use of $26 million (2019 – $8 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. Projected future sales and earnings 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 8.0% to 8.5% at January 2, 2021 (December 28, 2019 – 8.5%).

Additional impairment losses on fixed assets of $8 million (2019 – $4 million) were incurred related to store closures, renovations, conversions of retail locations and restructuring activities. Additional impairment losses on right-of-use assets (see note 28) of $3 million (2019 – nil) were incurred related to restructuring activities.

Note 15. Investment Properties

The following are continuities of investment properties for the years ended January 2, 2021 and December 28, 2019:

(millions of Canadian dollars)		**2020**		2019
Balance, beginning of year	**$**	**172**	$	234
Adjustment to fair value of investment properties		**11**		15
Disposals		**—**		(1)
Net transfer to fixed assets (note 14)		**(30)**		—
Net transfer to assets held for sale		**(25)**		(76)
Balance, end of year	**$**	**128**	$	172

During 2020, the Company recognized nominal rental income (2019 – $2 million) and incurred nominal direct operating costs (2019 – $1 million) related to its investment properties. In addition, the Company recognized direct operating costs of $2 million (2019 – $2 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 terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. As at January 2, 2021, the pre-tax discount rates used in the valuations for investment properties ranged from 7.00% to 9.00% (December 28, 2019 – 9.75% to 10.25%) and the terminal capitalization rates ranged from 5.50% to 8.50% (December 28, 2019 – 6.00% to 9.00%).

Note 16. Intangible Assets

The following are continuities of the cost and the accumulated amortization of intangible assets for the years ended January 2, 2021 and December 28, 2019:

	2020				
(millions of Canadian dollars)	**Indefinite life intangible assets**	**Definite life internally generated intangible assets**	**Software**	**Other definite life intangible assets**	**Total**
Cost					
Balance, beginning of year	**$ 3,490**	**$ 20**	**$ 3,111**	**$ 5,862**	**$ 12,483**
Additions	**—**	**—**	**331**	**7**	**338**
Business acquisitions	**1**	**—**	**—**	**2**	**3**
Balance, end of year	**$ 3,491**	**$ 20**	**$ 3,442**	**$ 5,871**	**$ 12,824**
Accumulated amortization					
Balance, beginning of year	**$ —**	**$ 20**	**$ 2,124**	**$ 3,017**	**$ 5,161**
Amortization	**—**	**—**	**290**	**502**	**792**
Impairment losses	**—**	**—**	**—**	**1**	**1**
Balance, end of year	**$ —**	**$ 20**	**$ 2,414**	**$ 3,520**	**$ 5,954**
Carrying amount as at: January 2, 2021	**$ 3,491**	**$ —**	**$ 1,028**	**$ 2,351**	**$ 6,870**

	2019				
(millions of Canadian dollars)	Indefinite life intangible assets	Definite life internally generated intangible assets	Software	Other definite life intangible assets	Total
Cost					
Balance, beginning of year	$ 3,489	$ 20	$ 2,741	$ 6,042	$ 12,292
IFRS 16 adjustment	—	—	—	(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
Disposal	—	—	—	(1)	(1)
Balance, end of year	$ 3,490	$ 20	$ 3,111	$ 5,862	$ 12,483
Accumulated amortization					
Balance, beginning of year	$ —	$ 20	$ 1,845	$ 2,629	$ 4,494
IFRS 16 adjustment	—	—	—	(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
Carrying amount as at: December 28, 2019	$ 3,490	$ —	$ 987	$ 2,845	$ 7,322

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 cash flow forecasts, growth rates, discount rates, and terminal rate. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 17).

Software Software is comprised of software purchases and development costs. There were no capitalized borrowing costs included in 2020 and 2019.

Other Definite Life Intangible Assets Other definite life intangible assets primarily consist of prescription files, the customer loyalty awards program and customer relationships.

Note 17. Goodwill

The following are continuities of the cost and the accumulated impairment of goodwill for the years ended January 2, 2021 and December 28, 2019:

(millions of Canadian dollars)	**2020**	2019
Cost		
Balance, beginning of year	**$ 4,940**	$ 4,936
Business acquisitions	**2**	4
Balance, end of year	**$ 4,942**	$ 4,940
Accumulated impairment losses		
Balance, beginning of year	**$ 994**	$ 994
Impairment losses	**—**	—
Balance, end of year	**$ 994**	$ 994
Carrying amount as at the end of the year	**$ 3,948**	$ 3,946

The carrying amount of goodwill attributed to each CGU grouping was as follows:

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Shoppers Drug Mart	**$ 2,976**	$ 2,974
Market	**375**	375
Discount	**461**	461
T&T Supermarket Inc.	**129**	129
All other	**7**	7
Carrying amount as at the end of the year	**$ 3,948**	$ 3,946

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are cash flow forecasts, growth rates, discount rate, and terminal rate. 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 28, 2019 – 7.1% 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 an after-tax weighted average cost of capital. At January 2, 2021, the after-tax discount rate used in the recoverable amount calculations was 7.1% to 9.3% (December 28, 2019 – 7.1% to 9.3%). The pre-tax discount rate was 9.7% to 12.7% (December 28, 2019 – 9.7% 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 28, 2019 – 2.0%). The budgeted EBITDA growth was based on the Company's three year strategic plan approved by the Board.

Note 18. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Sundry investments and other receivables	**$ 57**	$ 22
Accrued benefit plan asset (note 25)	**165**	229
Finance lease receivable (note 28)	**93**	114
Investment accounted for under the equity method	**61**	—
Other	**137**	154
Total other assets	**$ 513**	$ 519

Investment Accounted for Under the Equity Method In 2020, Shoppers Drug Mart Inc. agreed to invest a total of $75 million in Maple Corporation ("Maple"), the leading virtual care provider in Canada, in exchange for a significant minority stake. This investment is an important step as Shoppers Drug Mart looks to make virtual care services more accessible, with a goal to provide a seamless experience for patients as they move between virtual and in-person care.

The investment will be made in two tranches. As at January 2, 2021, tranche one had been executed and the Company invested $61 million in exchange for approximately 24% of the ownership interest in Maple. The tranche two investment is expected to be executed in the third quarter of 2021.

Note 19. 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 January 2, 2021**	As at December 28, 2019
Loyalty liability	**$ 194**	$ 191

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 20. Provisions

The following are continuities of provisions for the years ended January 2, 2021 and December 28, 2019:

(millions of Canadian dollars)	**2020**	2019
Balance, beginning of year	**$ 221**	$ 317
IFRS 16 adjustment	**—**	(55)
Restated balance, beginning of year	**$ 221**	$ 262
Additions	**95**	93
Payments	**(73)**	(118)
Reversals	**(18)**	(16)
Balance, end of year	**$ 225**	$ 221

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Recorded on the consolidated balance sheets as follows:		
Current portion of provisions	**$ 92**	$ 119
Non-current portion of provisions	**133**	102
Total provisions	**$ 225**	$ 221

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 January 2, 2021, the Loblaw Card Program liability was $15 million (December 28, 2019 – $17 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 31).

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. As at January 2, 2021, the provision related to restructuring and other related costs was $63 million (December 28, 2019 – $65 million).

Note 21. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Debentures		
Loblaw Companies Limited Notes		
5.22%, due 2020	**$ —**	$ 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
2.28%, due 2030	**350**	—
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**33**	15
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
Guaranteed Investment Certificates		
0.20% – 3.78%, due 2021 – 2025	**1,185**	1,311
Independent Securitization Trust		
2.23%, due 2020	**—**	250
2.71%, due 2022	**250**	250
3.10%, due 2023	**250**	250
2.28%, due 2024	**250**	250
1.34%, due 2025	**300**	—
Independent Funding Trusts	**512**	505
Transaction costs and other	**(15)**	(14)
Total long term debt	**$ 7,046**	$ 7,098
Less amount due within one year	**597**	1,127
Long Term Debt	**$ 6,449**	$ 5,971

Significant long term debt transactions are described below.

Debentures The following table summarizes the debentures issued in 2020. There were no debentures issued in 2019.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2020**
Loblaw Companies Limited Notes[(i)]	2.28%	May 7, 2030	**$ 350**
Total debentures issued			**$ 350**

(i) In connection with this issuance, during 2020, $350 million of bond forward agreements were settled, resulting in a realized fair value loss of $34 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the May 7, 2030 notes. This settlement also resulted in a net effective interest rate of 3.34% on the May 7, 2030 notes issued.

The following table summarizes the debentures repaid in 2020 and 2019:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2020**	Principal Amount 2019
Loblaw Companies Limited Notes[(i)]	3.75%	March 12, 2019	**$ —**	$ 800
Loblaw Companies Limited Notes	5.22%	June 18, 2020	**350**	—
Total debentures repaid			**$ 350**	$ 800

(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.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2020 and 2019:

(millions of Canadian dollars)	**2020**	2019
Balance, beginning of year	**$ 1,311**	$ 1,141
GICs issued	**410**	453
GICs matured	**(536)**	(283)
Balance, end of year	**$ 1,185**	$ 1,311

Independent Securitization Trust The notes issued by *Eagle* are debentures, which are collateralized by PC Bank's credit card receivables (see note 11).

During 2020, *Eagle* issued $300 million (2019 – $250 million) of senior and subordinated term notes with a maturity date of July 17, 2025 (2019 – July 17, 2024) at a weighted average interest rate of 1.34% (2019 – 2.28%). In connection with this issuance, $200 million (2019 – $250 million) of bond forward agreements were settled, resulting in a realized fair value loss of $11 million (2019 – loss of $8 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.07% (2019 – 2.94%) on the *Eagle* notes issued (see note 29).

During 2020, $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23%, previously issued by *Eagle*, matured and were repaid on September 17, 2020. As a result, during 2020, there was a net change in the balances related to *Eagle* notes of $50 million. There were no repayments of notes issued by *Eagle* in 2019.

Independent Funding Trusts As at January 2, 2021, the independent funding trusts had drawn $512 million (December 28, 2019 – $505 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

The revolving committed credit facility relating to the independent funding trusts has a maturity date of May 27, 2022.

Committed Credit Facility The Company has a $1.0 billion committed credit facility, with a maturity date of October 7, 2023, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants (see note 24). During 2020, the Company withdrew and repaid $350 million under this facility. As at January 2, 2021 and December 28, 2019, there were no amounts drawn under this facility. In 2020, the Company amended its committed credit facility and extended the maturity date from June 10, 2021 to October 7, 2023.

Long Term Debt Due Within One Year The following table summarizes long term debt due within one year:

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Loblaw Companies Limited notes	**$ —**	$ 350
Guaranteed investment certificates	**597**	527
Independent securitization trust	**—**	250
Long term debt due within one year	**$ 597**	$ 1,127

Schedule of Repayments The schedule of repayments of long term debt, based on maturity, is as follows:

(millions of Canadian dollars)	**As at January 2, 2021**
2021	**$ 597**
2022	**919**
2023	**1,186**
2024	**782**
2025	**463**
Thereafter	**3,114**
Total long term debt (excludes transaction costs)	**$ 7,061**

See note 29 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)	**2020**	2019
Long term debt, beginning of year	**$ 7,098**	$ 8,026
Reclassification of finance lease obligations due to IFRS 16	**—**	(535)
Long term debt after reclassification, beginning of year	**$ 7,098**	$ 7,491
Long term debt issuances(i)	**$ 1,417**	$ 672
Long term debt repayments	**(1,486)**	(1,083)
Total cash flow used in long term debt financing activities	**$ (69)**	$ (411)
Other non-cash changes	**$ 17**	$ 18
Total non-cash long term debt activities	**$ 17**	$ 18
Long term debt, end of year	**$ 7,046**	$ 7,098

(i) Includes net movements from the Independent Funding Trust, which are revolving debt instruments.

Note 22. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)		**As at January 2, 2021**		As at December 28, 2019
Net defined benefit plan obligation (note 25)	**$**	**329**	$	320
Other long term employee benefit obligation		**119**		119
Financial liabilities (note 33)		**43**		—
Equity-based compensation liabilities (note 26)		**3**		3
Other		**14**		16
Total other liabilities	**$**	**508**	$	458

Note 23. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at January 2, 2021 and December 28, 2019.

Second Preferred Shares (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 activities in the common shares issued and outstanding during the years were as follows:

			2020			2019
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**		**Common Share Capital**	Number of Common Shares		Common Share Capital
Issued and outstanding, beginning of year	**360,064,475**	**$**	**7,065**	371,790,967	$	7,177
Issued for settlement of stock options (note 26)	**601,756**		**35**	1,886,733		94
Purchased and cancelled	**(13,304,751)**		**(263)**	(13,613,225)		(206)
Issued and outstanding, end of year	**347,361,480**	**$**	**6,837**	360,064,475	$	7,065
Shares held in trust, beginning of year	**(1,113,302)**	**$**	**(21)**	(734,727)	$	(15)
Purchased for future settlement of RSUs and PSUs	**(145,000)**		**(3)**	(900,000)		(16)
Released for settlement of RSUs and PSUs (note 26)	**585,518**		**11**	521,425		10
Shares held in trust, end of year	**(672,784)**	**$**	**(13)**	(1,113,302)	$	(21)
Issued and outstanding, net of shares held in trust, end of year	**346,688,696**	**$**	**6,824**	358,951,173	$	7,044
Weighted average outstanding, net of shares held in trust (note 8)	**355,484,682**			365,360,161		

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 fourth quarter of 2020 and in the second quarter of 2019, the Board raised the quarterly dividend by $0.02 to $0.335 and by $0.02 to $0.315 per common share, respectively.

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

	2020[(i)]	2019
Dividends declared per share ($)		
Common Share	**$ 1.280**	$ 1.240
Second Preferred Share, Series B	**$ 1.325**	$ 1.325

(i) The fourth quarter dividends for 2020 of $0.335 per share declared on Common Shares were paid on December 30, 2020. The fourth quarter dividends for 2020 of $0.33125 per share declared on Second Preferred Shares, Series B were paid on December 31, 2020.

(millions of Canadian dollars)	2020	2019
Dividends declared		
Common Share	**$ 453**	$ 453
Second Preferred Share, Series B (note 8)	**12**	12
Total dividends declared	**$ 465**	$ 465

Subsequent to the end of the year, the Board declared a quarterly dividend of $0.335 per common share, payable on April 1, 2021 to shareholders of record on March 15, 2021 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on March 31, 2021 to shareholders of record on March 15, 2021.

Normal Course Issuer Bid Activities under the Company's Normal Course Issuer Bid ("NCIB") during the years were as follows:

(millions of Canadian dollars except where otherwise indicated)	2020	2019
Common shares repurchased under the NCIB for cancellation (number of shares)	**13,304,751**	13,613,225
Cash consideration paid[(i)]	**$ 888**	$ 937
Premium charged to retained earnings	**625**	546
Reduction in common share capital	**263**	206
Common shares repurchased under the NCIB and held in trust (number of shares)	**145,000**	900,000
Cash consideration paid	**$ 10**	$ 62
Premium charged to retained earnings	**7**	46
Reduction in common share capital	**3**	16

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

During 2020, the Toronto Stock Exchange ("TSX") accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from Weston under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company.

Pursuant to an exemption order granted by the Ontario Securities Commission ("OSC"), on December 21, 2020, the Company purchased, for cancellation, 3,269,208 common shares from an entity controlled by Mr. W. Galen Weston ("Mr. Weston"), the then controlling shareholder of Weston (see note 33). The common shares were purchased at a price approved by the OSC and count towards the common shares the Company is entitled to purchase under its NCIB.

During 2020, 13,304,751 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $888 million, including 4,940,680 common shares purchased from Weston and 3,269,208 common shares purchased from an entity controlled by Mr. Weston, for aggregate cash consideration of $336 million and $205 million, respectively.

In the second quarter of 2020, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 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 at January 2, 2021, the Company had purchased 10,547,174 common shares for cancellation under its current NCIB.

During 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.

Note 24. Capital Management

In order to manage its capital structure, the Company may, among other activities, 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 January 2, 2021**	As at December 28, 2019
Bank indebtedness	**$ 86**	$ 18
Demand deposits from customers	**24**	—
Short term debt	**575**	725
Long term debt due within one year	**597**	1,127
Long term debt	**6,449**	5,971
Certain other liabilities[(i)]	**117**	65
Total debt excluding lease liabilities	**$ 7,848**	$ 7,906
Lease liabilities due within one year	**1,379**	1,419
Lease liabilities	**7,522**	7,691
Total debt including lease liabilities	**$ 16,749**	$ 17,016
Equity attributable to shareholders of the Company	**10,988**	11,234
Total capital under management	**$ 27,737**	$ 28,250

(i) Includes financial liabilities of $46 million related to the sale of five retail properties to Choice Properties (see note 33).

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 January 2, 2021 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 7.0%, a Tier 1 capital ratio of 8.5% and a total capital ratio of 10.5%. 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 January 2, 2021 and throughout the year, PC Bank has met all applicable regulatory requirements.

Note 25. 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 2021 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:

(millions of Canadian dollars)	2020 Defined Benefit Pension Plans	2020 Other Defined Benefit Plans	2019 Defined Benefit Pension Plans	2019 Other Defined Benefit Plans
Present value of funded obligations	**$ (1,900)**	**$ —**	$ (1,560)	$ —
Present value of unfunded obligations	**(158)**	**(163)**	(147)	(151)
Total present value of defined benefit obligation	**$ (2,058)**	**$ (163)**	$ (1,707)	$ (151)
Fair value of plan assets	**2,060**	**—**	1,770	—
Total funded status of surpluses (obligations)	**$ 2**	**$ (163)**	$ 63	$ (151)
Assets not recognized due to asset ceiling	**(3)**	**—**	(3)	—
Total net defined benefit plan (obligations) surpluses	**$ (1)**	**$ (163)**	$ 60	$ (151)
Recorded on the consolidated balance sheets as follows:				
Other assets (note 18)	**$ 165**	**$ —**	$ 229	$ —
Other liabilities (note 22)	**$ (166)**	**$ (163)**	$ (169)	$ (151)

The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligations:

(millions of Canadian dollars)	2020 Defined Benefit Pension Plans	2020 Other Defined Benefit Plans	2020 Total	2019 Defined Benefit Pension Plans	2019 Other Defined Benefit Plans	2019 Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$ 1,770**	**$ —**	**$ 1,770**	$ 1,694	$ —	$ 1,694
Employer contributions	**45**	**—**	**45**	47	—	47
Employee contributions	**3**	**—**	**3**	2	—	2
Benefits paid	**(48)**	**—**	**(48)**	(56)	—	(56)
Interest income	**58**	**—**	**58**	60	—	60
Actuarial gains in other comprehensive income	**237**	**—**	**237**	213	—	213
Settlements[(i)]	**(1)**	**—**	**(1)**	(187)	—	(187)
Other	**(4)**	**—**	**(4)**	(3)	—	(3)
Fair value, end of year	**$ 2,060**	**$ —**	**$ 2,060**	$ 1,770	$ —	$ 1,770
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 1,707**	**$ 151**	**$ 1,858**	$ 1,605	$ 148	$ 1,753
Current service cost	**65**	**4**	**69**	60	5	65
Interest cost	**57**	**5**	**62**	59	5	64
Benefits paid	**(56)**	**(6)**	**(62)**	(66)	(7)	(73)
Employee contributions	**3**	**—**	**3**	2	—	2
Actuarial losses in other comprehensive income	**283**	**9**	**292**	224	—	224
Settlements[(i)]	**(1)**	**—**	**(1)**	(177)	—	(177)
Balance, end of year	**$ 2,058**	**$ 163**	**$ 2,221**	$ 1,707	$ 151	$ 1,858

(i) Settlements relate to annuity purchases.

In 2020 and 2019, the Company completed 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 $1 million (2019 – $187 million) from the impacted plans' assets to settle $1 million (2019 – $177 million) of pension obligations and recorded nominal settlement charge (2019 – $10 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 2020, the actual return on plan assets was $295 million (2019 – $273 million).

The net defined benefit obligation can be allocated to the plans' participants as follows:

- Active plan participants 63% (2019 – 64%);
- Deferred plan participants 13% (2019 – 14%); and
- Retirees 24% (2019 – 22%).

During 2021, the Company expects to contribute approximately $43 million (2020 – 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:

	2020			2019		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Current service cost	**$ 65**	**$ 4**	**$ 69**	$ 60	$ 5	$ 65
Interest cost on net defined benefit plan obligations	**(1)**	**5**	**4**	(1)	5	4
Settlement charges[(i)]	**—**	**—**	**—**	10	—	10
Other	**4**	**—**	**4**	3	—	3
Net post-employment defined benefit cost	**$ 68**	**$ 9**	**$ 77**	$ 72	$ 10	$ 82

(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:

	2020			2019		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Return on plan assets, excluding amounts included in net interest expense and other financing charges	**$ (237)**	**$ —**	**$ (237)**	$ (213)	$ —	$ (213)
Experience adjustments	**1**	**(3)**	**(2)**	(2)	(22)	(24)
Actuarial losses (gains) from change in financial assumptions	**282**	**12**	**294**	226	22	248
Change in liability arising from asset ceiling	**—**	**—**	**—**	(7)	—	(7)
Total net actuarial losses (gains) recognized in other comprehensive income (loss) before income taxes	**$ 46**	**$ 9**	**$ 55**	$ 4	$ —	$ 4
Income tax (recoveries) expenses on actuarial losses (gains) (note 7)	**(12)**	**(2)**	**(14)**	(1)	—	(1)
Actuarial losses (gains) net of income tax (recoveries) expenses	**$ 34**	**$ 7**	**$ 41**	$ 3	$ —	$ 3

The cumulative actuarial (gains) losses before income taxes recognized in equity for the Company's defined benefit plans were as follows:

	2020			2019		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Cumulative amount, beginning of year	**$ (93)**	**$ (87)**	**$ (180)**	$ (97)	$ (87)	$ (184)
Net actuarial losses (gains) recognized in the year before income taxes	**46**	**9**	**55**	4	—	4
Cumulative amount, end of year	**$ (47)**	**$ (78)**	**$ (125)**	$ (93)	$ (87)	$ (180)

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)	**2020**		2019	
Equity securities				
Canadian - pooled funds	**$ 12**	**1 %**	$ 61	3 %
Foreign - pooled funds	**1,144**	**55 %**	546	31 %
Total equity securities	**$ 1,156**	**56 %**	$ 607	34 %
Debt securities				
Fixed income securities:				
- government	**$ 691**	**34 %**	$ 794	45 %
- corporate	**42**	**2 %**	184	10 %
Fixed income pooled funds[(i)]:				
- government	**—**	**— %**	32	2 %
- corporate	**—**	**— %**	12	1 %
Total debt securities	**$ 733**	**36 %**	$ 1,022	58 %
Other investments	**123**	**6 %**	125	7 %
Cash and cash equivalents	**48**	**2 %**	16	1 %
Total	**$ 2,060**	**100 %**	$ 1,770	100 %

(i) Both government and corporate securities may be included within the same fixed income pooled fund.

As at January 2, 2021 and December 28, 2019, 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):

	2020		2019	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	**2.50 %**	**2.50 %**	3.25 %	3.00 %
Rate of compensation increase	**3.00 %**	**n/a**	3.00 %	n/a
Mortality table[(i)]	**CPM-RPP2014 Pub/ Priv Generational**	**CPM-RPP2014 Pub/ Priv Generational**	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational
Net Defined Benefit Plan Cost				
Discount rate	**3.25 %**	**3.00 %**	4.00 %	4.00 %
Rate of compensation increase	**3.00 %**	**n/a**	3.00 %	n/a
Mortality table[(i)]	**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 January 2, 2021 is 19.5 years (December 28, 2019 – 18.9 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 2021.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2020 (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.

	Defined Benefit Pension Plans		**Other Defined Benefit Plans**	
Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	**Defined Benefit Plan Obligations**	**Net Defined Benefit Plan Cost[(i)]**	**Defined Benefit Plan Obligations**	**Net Defined Benefit Plan Cost[(i)]**
Discount rate	**2.50 %**	**3.25 %**	**2.50 %**	**3.00 %**
Impact of:				
1% increase	**$ (367)**	**$ (26)**	**$ (22)**	**$ —**
1% decrease	**$ 448**	**$ 25**	**$ 28**	**$ —**
Expected growth rate of health care costs			**4.50 %**	**4.50 %**
Impact of:				
1% increase	**n/a**	**n/a**	**$ 15**	**$ 1**
1% decrease	**n/a**	**n/a**	**$ (13)**	**$ (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 2020, the Company recognized an expense of $74 million (2019 – $65 million) in operating income, which represents the contributions made in connection with MEPPs. During 2021, 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 60,000 (2019 – 55,000) employees as members. Included in the 2020 expense described above are contributions of $73 million (2019 – $64 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)	**2020**	2019
Net post-employment defined benefit cost[(i)]	**$ 77**	$ 82
Defined contribution costs[(ii)]	**27**	24
Multi-employer pension plan costs[(iii)]	**74**	65
Total net post-employment benefit costs	**$ 178**	$ 171
Other long term employee benefit costs[(iv)]	**30**	39
Net post-employment and other long term employee benefit costs	**$ 208**	$ 210
Recorded on the consolidated statement of earnings as follows:		
Selling, general and administrative expenses (note 27)	**$ 200**	$ 203
Net interest expense and other financing charges (note 6)	**8**	7
Net post-employment and other long term employee benefit costs	**$ 208**	$ 210

(i) Includes nominal settlement charge (2019 – $10 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 $4 million (2019 – $3 million) of net interest expense and other financing charges.

Note 26. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Stock Option, RSU, PSU, DSU and EDSU plans, was $49 million during 2020 (2019 – $45 million). The expense was recognized in operating income.

The carrying amounts of the Company's equity-based compensation arrangements, which include Stock Option, RSU, PSU, DSU and EDSU plans, were recorded on the consolidated balance sheets as follows:

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Other liabilities (note 22)	**$ 3**	$ 3
Contributed surplus	**109**	100

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:

	2020		2019	
	Options (number of shares)	**Weighted Average Exercise Price / Share**	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	**6,317,922**	**$ 57.57**	7,509,631	$ 51.60
Granted	**1,851,415**	**$ 70.03**	1,552,458	$ 65.66
Exercised[(i)] (note 23)	**(601,756)**	**$ 50.32**	(2,345,820)	$ 43.82
Forfeited/cancelled	**(307,936)**	**$ 61.28**	(398,347)	$ 57.88
Outstanding options, end of year	**7,259,645**	**$ 61.19**	6,317,922	$ 57.57
Options exercisable, end of year	**2,758,738**	**$ 55.99**	2,117,144	$ 52.79

(i) 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 January 2, 2021:

	2020 Outstanding Options			2020 Exercisable Options	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$39.97 – $57.83	**2,352,828**	**3.0**	**$ 53.66**	**1,415,505**	**$ 52.27**
$57.84 – $65.57	**2,998,885**	**3.8**	**$ 61.55**	**1,325,775**	**$ 59.82**
$65.58 – $70.19	**1,907,932**	**6.1**	**$ 69.91**	**17,458**	**$ 67.46**
	7,259,645		**$ 61.19**	**2,758,738**	**$ 55.99**

During 2020, the Company issued common shares on the exercise of stock options with a weighted average market share price of $68.22 (2019 – $69.21). The Company received cash consideration of $30 million (2019 – $82 million) related to the exercise of these options.

The fair value of stock options granted during 2020 was $13 million (2019 – $12 million). The assumptions used to measure the fair value of options granted during 2020 and 2019 under the Black-Scholes valuation model at date of grant were as follows:

	2020	2019
Expected dividend yield	**1.9 %**	1.8 %
Expected share price volatility	**13.5% – 20.1%**	13.7% – 15.7%
Risk-free interest rate	**0.3% – 1.2%**	1.4% – 1.8%
Expected life of options	**3.7 – 6.2 years**	3.7 – 6.2 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at January 2, 2021 was 9.0% (December 28, 2019 – 9.0%).

Restricted Share Unit Plan The following is a summary of the Company's RSU plan activity:

(number of awards)	2020	2019
Restricted share units, beginning of year	**1,032,832**	1,024,275
Granted	**242,797**	355,311
Reinvested	**23,666**	17,125
Settled	**(367,020)**	(274,335)
Forfeited	**(38,003)**	(89,544)
Restricted share units, end of year	**894,272**	1,032,832

The fair value of RSUs granted during 2020 was $17 million (2019 – $24 million).

Performance Share Unit Plan The following is a summary of the Company's PSU plan activity:

(number of awards)	2020	2019
Performance share units, beginning of year	**662,695**	674,945
Granted	**237,391**	258,261
Reinvested	**16,301**	11,264
Settled	**(218,955)**	(235,881)
Forfeited	**(31,032)**	(45,894)
Performance share units, end of year	**666,400**	662,695

The fair value of PSUs granted during 2020 was $17 million (2019 – $16 million).

Settlement of Awards from Shares Held in Trust During 2020, the Company settled RSUs and PSUs totaling 585,975 (2019 – 521,425), of which 585,518 (2019 – 510,216) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 23). The settlements resulted in a $11 million (2019 – $10 million) increase to share capital and a net increase of $21 million (2019 – $19 million) to retained earnings.

Director Deferred Share Unit Plan The following is a summary of the Company's DSU plan activity:

(number of awards)	2020	2019
Director deferred share units, beginning of year	**336,897**	296,329
Granted	**35,008**	34,895
Reinvested	**8,576**	5,673
Director deferred share units, end of year	**380,481**	336,897

The fair value of DSUs granted during 2020 was $2 million (2019 – $2 million).

Executive Deferred Share Unit Plan The following is a summary of the Company's EDSU plan activity:

(number of awards)	2020	2019
Executive deferred share units, beginning of year	**45,258**	45,473
Granted	**10,310**	4,796
Reinvested	**1,288**	846
Settled	**—**	(5,857)
Executive deferred share units, end of year	**56,856**	45,258

The fair value of EDSUs granted during 2020 was $1 million (2019 – nominal).

Note 27. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2020	2019
Wages, salaries and other short term employment benefits	**$ 6,874**	$ 6,040
Post-employment benefits (note 25)	**174**	166
Other long term employee benefits (note 25)	**26**	37
Equity-based compensation	**46**	42
Capitalized to fixed assets and intangible assets	**(69)**	(56)
Total employee costs	**$ 7,051**	$ 6,229

Note 28. 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 medical centers and ancillary tenants within stores.

As a Lessee

Right-of-Use Assets The following are continuities of the cost and accumulated depreciation of right-of-use assets for the years ended January 2, 2021 and December 28, 2019:

		2020	
(millions of Canadian dollars)	**Property**	**Other**	**Total**
Cost			
Balance, beginning of year	**$ 8,273**	**$ 68**	**$ 8,341**
Lease additions, net of lease terminations	**186**	**—**	**186**
Lease extensions and other items	**624**	**17**	**641**
Balance, end of year	**$ 9,083**	**$ 85**	**$ 9,168**
Accumulated depreciation			
Balance, beginning of year	**$ 955**	**$ 24**	**$ 979**
Depreciation	**943**	**22**	**965**
Impairment losses, net of reversals (note 14)	**17**	**—**	**17**
Balance, end of year	**$ 1,915**	**$ 46**	**$ 1,961**
Carrying amount as at: January 2, 2021	**$ 7,168**	**$ 39**	**$ 7,207**

		2019	
(millions of Canadian dollars)	Property	Other	Total
Cost			
Balance, beginning of year	$ 7,536	$ 66	$ 7,602
Lease additions, net of lease terminations	238	2	240
Lease extensions and other items	499	—	499
Balance, end of year	$ 8,273	$ 68	$ 8,341
Accumulated depreciation			
Balance, beginning of year	$ —	$ —	$ —
Depreciation	928	24	952
Impairment losses, net of reversals (note 14)	27	—	27
Balance, end of year	$ 955	$ 24	$ 979
Carrying amount as at: December 28, 2019	$ 7,318	$ 44	$ 7,362

Lease Liabilities The following are continuities of lease liabilities for the years ended January 2, 2021 and December 28, 2019:

(millions of Canadian dollars)	**2020**	2019
Balance, beginning of year	**$ 9,110**	$ 9,177
Lease additions, net of lease terminations	**184**	258
Lease extensions and other items	**631**	497
Lease payments	**(1,393)**	(1,209)
Interest expense on lease liabilities (note 6)	**369**	387
Balance, end of year	**$ 8,901**	$ 9,110
Lease liabilities due within one year	**$ 1,379**	$ 1,419
Lease liabilities	**7,522**	7,691
Total lease liabilities	**$ 8,901**	$ 9,110

Liquidity The future undiscounted contractual lease payments are as follows:

	Payments due by year						**As at January 2, 2021**	As at December 28, 2019
(millions of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	**Total**	Total
Lease payments	$ 1,355	$ 1,197	$ 1,204	$ 1,063	$ 992	$ 3,653	**$ 9,464**	$ 10,144

As at January 2, 2021, the Company had a future undiscounted cash flow of $270 million (December 28, 2019 – $208 million) related to leases not yet commenced but committed to.

Short-Term Leases The Company has short-term leases that are primarily related to trailer rentals and certain properties. During 2020, $25 million (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 2020, $389 million (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 January 2, 2021, approximately 10% (December 28, 2019 – 8%) of the lease liabilities are related to extension options that were deemed reasonably certain to be exercised.

As at January 2, 2021, approximately $15 billion (December 28, 2019 – $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 2020, the Company disposed of and leased back one office property, and recognized a loss of $1 million (2019 – gain of $7 million) in SG&A. The Company also disposed of and leased back five retail properties. However, these transactions did not meet the criteria for sales of assets in accordance with IFRS 15 as the Company did not relinquish control of the properties under the terms of the leases (see note 33).

As a Lessor

Finance Leases Finance lease receivable is included in other assets on the Company's consolidated balance sheet (see note 18). During 2020, the Company recognized finance interest income of $4 million (2019 – $5 million) and impairment losses of $5 million (2019 – nil). The future finance lease payments to be received by the Company relating to properties that are subleased to third parties are as follows:

	Payments to be received by year						**As at January 2, 2021**	As at December 28, 2019
(millions of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	**Total**	Total
Finance lease payments to be received	$ 19	$ 18	$ 19	$ 13	$ 10	$ 30	**$ 109**	$ 136
Less: unearned finance interest income	(4)	(3)	(3)	(2)	(1)	(3)	**(16)**	(22)
Total finance lease receivable (note 18)	$ 15	$ 15	$ 16	$ 11	$ 9	$ 27	**$ 93**	$ 114

Operating Leases During 2020, the Company recognized operating lease income of $25 million (2019 – $27 million), of which $20 million (2019 – $23 million) was 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:

	Payments to be received by year						**As at January 2, 2021**	As at December 28, 2019
(millions of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	**Total**	Total
Operating lease income	$ 14	$ 10	$ 10	$ 9	$ 8	$ 24	**$ 75**	$ 74

Note 29. Financial Instruments

The following table presents the fair value and 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.

				As at January 2, 2021				As at December 28, 2019
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets								
Amortized cost:								
Franchise loans receivable	**$ —**	**$ —**	**$ —**	**$ —**	$ —	$ —	$ 19	$ 19
Certain other assets[(i)]	**—**	**—**	**—**	**—**	—	—	14	14
Fair value through other comprehensive income:								
Certain long term investments and other assets[(i)]	**117**	**—**	**—**	**117**	50	—	—	50
Fair value through profit and loss:								
Certain other assets[(i)]	**—**	**—**	**6**	**6**	—	—	—	—
Derivatives included in prepaid expenses and other assets	**—**	**—**	**3**	**3**	5	—	1	6
Financial liabilities								
Amortized cost:								
Long term debt	**$ —**	**$8,292**	**$ —**	**$8,292**	$ —	$8,079	$ —	$8,079
Certain other liabilities[(i)]	**—**	**—**	**48**	**48**	—	—	9	9
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	**—**	**—**	**—**	**—**	—	2	—	2
Fair value through profit and loss:								
Derivatives included in trade payables and other liabilities	**4**	**7**	**—**	**11**	—	5	—	5

(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 years presented.

During 2020, the Company recognized a loss of $2 million (2019 – loss of $3 million) in operating income on financial instruments designated as amortized cost. In addition, during 2020, a net loss of $24 million (2019 – net loss of $1 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Franchise Loans Receivable As at January 2, 2021, the value of Loblaw franchise loans receivable is nil (December 28, 2019 – $19 million). In 2020, the Company recorded nil (2019 – gain of $1 million) in operating income related to these loans receivable.

Embedded Derivatives The Company's level 3 financial instruments classified as fair value through profit or loss 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 2020, a gain of $2 million (2019 – gain of $4 million) was recorded in operating income related to these derivatives. In addition, a corresponding $3 million asset was included in prepaid expense and other assets as at January 2, 2021 (December 28, 2019 – $1 million asset). As at January 2, 2021, 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 January 2, 2021, the fair value through other comprehensive income securities of $117 million (December 28, 2019 – $50 million) was included in other assets. During 2020, PC Bank recorded an unrealized fair value gain of $1 million (2019 – 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:

			January 2, 2021
(millions of Canadian dollars)	Net asset/(liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges			
Bond Forwards[(i)]	**$ —**	**$ (40)**	**$ (5)**
Interest Rate Swaps[(ii)]	**—**	**1**	**(4)**
Total derivatives designated as cash flow hedges	**$ —**	**$ (39)**	**$ (9)**
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	**$ (7)**	**$ —**	**$ (3)**
Other Non-Financial Derivatives	**(4)**	**—**	**(23)**
Total derivatives not designated in a formal hedging relationship	**$ (11)**	**$ —**	**$ (26)**
Total derivatives	**$ (11)**	**$ (39)**	**$ (35)**

(i) PC Bank uses bond forwards, with a notional value of $25 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. During 2020, PC Bank settled $200 million of bond forward and the Company issued and settled $350 million of bond forward (see note 21). The Company has concluded that these hedges were effective as at their respective settlement date.

(ii) PC Bank uses interest rate swaps, with a notional value of $225 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 28, 2019
(millions of Canadian dollars)	Net asset/(liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges			
Foreign Exchange Forwards[(i)]	$ —	$ (1)	$ 1
Bond Forwards[(ii)]	—	(6)	—
Interest Rate Swaps[(iii)]	(1)	—	(1)
Total derivatives designated as cash flow hedges	$ (1)	$ (7)	$ —
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	$ (5)	$ —	$ (16)
Other Non-Financial Derivatives	5	—	12
Total derivatives not designated in a formal hedging relationship	$ —	$ —	$ (4)
Total derivatives	$ (1)	$ (7)	$ (4)

(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.

Note 30. 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, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs, demand deposits from customers 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.

The following are the undiscounted contractual maturities of significant financial liabilities as at January 2, 2021:

	2021	2022	2023	2024	2025	Thereafter	Total(i)
Derivative financial liabilities							
Foreign exchange forward contracts	$ 315	$ 28	$ —	$ —	$ —	$ —	$ 343
Non-derivative financial liabilities							
Bank indebtedness	86	—	—	—	—	—	86
Demand deposits from customers	24	—	—	—	—	—	24
Short term debt(ii)	575	—	—	—	—	—	575
Financial liabilities(iii)	3	2	2	2	3	27	39
Long term debt including interest payments(iv)	900	1,216	1,459	997	664	4,527	9,763
Other liabilities	3	—	—	—	—	—	3
Total	$ 1,906	$ 1,246	$ 1,461	$ 999	$ 667	$ 4,554	$ 10,833

(i) The Company excluded trade payables and other liabilities, which are due within the next 12 months.

(ii) These are obligations owed to Other Independent Securitization Trusts which are collateralized by the Company's credit card receivables (see note 32).

(iii) These are the contractual payments that the Company is committed to related to the sale of five retail properties to Choice Properties (see note 33).

(iv) 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 January 2, 2021.

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, 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 and short term investments 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 and accounts receivable, including amounts due from 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.

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 $8 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 January 2, 2021, 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 31. 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 2020 or prior 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. In February 2020, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and the Company. The allegations in the Ontario, Quebec and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and February 2020 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 matter was heard by the Federal Court of Appeal, and on April 23, 2020, the Federal Court of Appeal released its decision and reversed the decision of the Tax Court. On October 29, 2020, the Supreme Court granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. The Company has not reversed any portion of the $367 million of charges recorded during the third quarter of 2018, of which $176 million was recorded in interest and $191 million was recorded in income taxes.

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 32. 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 $327 million as at January 2, 2021 (December 28, 2019 – $316 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 January 2, 2021, the Company's maximum obligation in respect of such guarantees was $580 million (December 28, 2019 – $580 million) with an aggregate amount of $470 million (December 28, 2019 – $468 million) in available lines of credit allocated to the Associates by the various banks. As at January 2, 2021, Associates had drawn an aggregate amount of $86 million (December 28, 2019 – $18 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 sheets of the Company (see note 21). As at January 2, 2021 the Company has agreed to provide a credit enhancement of $64 million (December 28, 2019 – $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 28, 2019 – not less than 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 28, 2019 – $12 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of $3 million (December 28, 2019 – $2 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 31), 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 $52 million (December 28, 2019 – $49 million).

Cash Collateralization As at January 2, 2021, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $102 million (December 28, 2019 – $103 million), of which a nominal amount (December 28, 2019 – $1 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 January 2, 2021, the guarantee on behalf of PC Bank to MasterCard® was USD $190 million (December 28, 2019 – 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 28, 2019 – $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 $52 million (December 28, 2019 – $70 million), which represented approximately 9% (December 28, 2019 – 10%) of the securitized credit card receivables amount (see note 11).

Note 33. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 182,874,456 of the Company's common shares, representing approximately 52.6% of the Company's outstanding common shares. Galen G. Weston beneficially owns or controls, directly and indirectly, including through Wittington, a total of 78,647,040 of Weston's common shares, representing approximately 51.6% of Weston's outstanding common shares. Galen G. Weston also beneficially owns 467,035 of the Company's common shares, representing approximately 0.1% of the Company's outstanding common shares.

Weston is also the controlling shareholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). As at January 2, 2021, Weston's ownership interest in Choice Properties was approximately 61.8% (December 28, 2019 – 62.9%). The Company is Choice Properties' largest tenant, representing approximately 57% (December 28, 2019 – 58%) of Choice Properties' rental revenue and 55% (December 28, 2019 – 56%) of its gross leasable area as at January 2, 2021. The Company also executes various agreements and transactions with Choice Properties.

In the ordinary course of business, the Company enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Transactions with Related Parties

	Transaction Value	
(millions of Canadian dollars)	**2020**	2019[vii]
Included in cost of merchandise inventories sold		
Inventory purchases from a subsidiary of Weston	**$ 624**	$ 631
Inventory sold to a subsidiary of Weston	**1**	4
Inventory purchases from a related party[i]	**41**	27
Operating income		
Transactions with Weston and Wittington		
Cost sharing agreements with Weston[ii]	**$ 47**	$ 44
Net administrative services provided by Weston[iii]	**18**	16
Lease of office space from a subsidiary of Wittington	**3**	4
Transactions with Choice Properties		
Lease payments to Choice Properties[iv]	**$ 733**	$ 736
Property management and other administration fees paid to Choice Properties	**1**	1
Lease surrender payments paid to Choice Properties	**—**	3
Site intensification payments received from Choice Properties[v]	**(1)**	(5)
Gain on sale of properties to Choice Properties[vi]	**—**	(7)

(i) Associated British Foods plc is a related party by virtue of a common director of such entity's parent company and Wittington. Total balance outstanding owing to Associated British Foods plc as at January 2, 2021 was $2 million (December 28, 2019 – $2 million).

(ii) The Company and Weston 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) During 2020, lease payments paid to Choice Properties included base rent of $515 million (2019 – $526 million) and operating expenses of $218 million (2019 – $210 million).

(v) During 2020, the Company received site intensification payments from Choice Properties of $1 million (2019 – $5 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.

(vi) During 2020, the Company disposed of one development property to Choice Properties for proceeds of $8 million (2019 – $59 million).The proceeds were equivalent to the carrying amount of the property (2019 – gain of $7 million).

(vii) Comparative figures have been restated to conform with current year presentation.

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

(millions of Canadian dollars)	**As at January 2, 2021**	As at December 28, 2019
Weston[(i)]	**$ 55**	$ 33
Choice Properties[(ii)]	**(8)**	(12)

(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 2020, 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)	**2020**	2019
Salaries, director fees and other short term employee benefits	**$ 6**	$ 6
Equity-based compensation	**9**	9
Total compensation	**$ 15**	$ 15

Venture Fund During 2020, Loblaw, Weston and a wholly owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("Venture Fund"). The wholly owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee the Venture Fund. The purpose of the Venture Fund is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have 33% interest in the Venture Fund. The Company has a total capital commitment of $33 million over a 10-year period. During 2020, the Company invested $6 million in the Venture Fund, which was recorded in other assets. Subsequent to the end of 2020, the Company invested an additional $3 million in the Venture Fund.

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.

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. The property management agreement was terminated effective December 31, 2020.

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. The sublease administration agreement was terminated effective December 31, 2020.

Letters of Credit As at January 2, 2021, 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 28, 2019 – $2 million).

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

	Payments due by year						As at January 2, 2021	As at December 28, 2019
(millions of Canadian dollars)	2021	2022	2023	2024	2025	Thereafter	**Total**	Total
Lease payments	$ 517	$ 479	$ 505	$ 461	$ 458	$ 1,566	**$ 3,986**	$ 4,508

Financial Liabilities On November 24, 2020, the Company disposed of five retail properties to Choice Properties for total proceeds of $46 million. All five properties were leased back by the Company. These transactions did not meet the criteria for sales of assets in accordance with IFRS 15 as the Company did not relinquish control of the properties under the terms of the leases. Instead, the proceeds were recognized as financial liabilities and as at January 2, 2021, $3 million was recorded in trade payables and other liabilities and $43 million was recorded in other liabilities. During 2020, a nominal amount of interest expense was recognized in net interest expense and other financing charges and a nominal amount of repayment was made on the financial liabilities to Choice Properties.

Note 34. 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 and everyday banking 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[(2)] and adjusted operating income[(2)], as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	2020				2019			
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations[(i)]**	**Total**	Retail	Financial Services	Eliminations[(i)]	Total
Revenue[(ii)]	**$ 51,859**	**$ 1,097**	**$ (242)**	**$ 52,714**	$ 47,099	$ 1,196	$ (258)	$ 48,037
Operating income	$ 2,231	$ 134	$ —	$ 2,365	$ 2,082	$ 188	$ —	$ 2,270
Net interest expense and other financing charges	655	87	—	742	666	81	—	747
Earnings before income taxes	**$ 1,576**	**$ 47**	**$ —**	**$ 1,623**	$ 1,416	$ 107	$ —	$ 1,523
Operating income	**$ 2,231**	**$ 134**	**$ —**	**$ 2,365**	$ 2,082	$ 188	$ —	$ 2,270
Depreciation and amortization	2,571	25	—	2,596	2,502	22	—	2,524
Adjusting items[(iii)]	589	—	—	589	624	2	—	626
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(509)	—	—	(509)	(508)	—	—	(508)
Adjusted EBITDA[(iii)]	$ 4,882	$ 159	$ —	$ 5,041	$ 4,700	$ 212	$ —	$ 4,912
Depreciation and amortization[(iv)]	2,062	25	—	2,087	1,994	22	—	2,016
Adjusted operating income	**$ 2,820**	**$ 134**	**$ —**	**$ 2,954**	$ 2,706	$ 190	$ —	$ 2,896

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

(ii) Included in Financial Services revenue is $460 million (2019 – $478 million) of interest income.

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

(iv) Depreciation and amortization for the calculation of adjusted EBITDA[(2)] excludes $509 million (2019 – $508 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)	2020	2019
Food retail	**$ 37,596**	$ 33,756
Drug retail		
Pharmacy	**$ 6,758**	$ 6,307
Front store	**7,505**	7,036
	$ 14,263	$ 13,343
Retail total	**$ 51,859**	$ 47,099
Financial Services	**1,097**	1,196
Eliminations[(i)]	**(242)**	(258)
Total	**$ 52,714**	$ 48,037

(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 January 2, 2021	As at December 28, 2019
Total assets		
Retail	**$ 31,297**	$ 31,661
Financial Services	**4,573**	4,648
	$ 35,870	$ 36,309

(millions of Canadian dollars)	2020	2019
Additions to fixed assets and intangible assets		
Retail[(i)]	**$ 1,193**	$ 1,150
Financial Services	**31**	56
	$ 1,224	$ 1,206

(i) During 2020, additions to fixed assets in the retail segment included prepayments that were made in 2019 and transferred from other assets in 2020 of $66 million. During 2019, additions to fixed assets in the retail segment included prepayments that were made in 2018 and transferred from other assets in 2019 of $13 million.

Three Year Summary[1]

As at or for the years ended January 2, 2021, December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2020	2019	2018
Consolidated Results of Operations			
Revenue	**$ 52,714**	$ 48,037	$ 46,693
Revenue growth	**9.7 %**	2.9 %	0.2 %
Operating income	**$ 2,365**	$ 2,270	$ 1,923
Adjusted EBITDA[2]	**5,041**	4,912	3,528
Adjusted EBITDA margin[2]	**9.6 %**	10.2 %	7.6 %
Net interest expense and other financing charges	**$ 742**	$ 747	$ 564
Adjusted net interest expense and other financing charges[2]	**742**	747	387
Net earnings	**1,192**	1,131	800
Continuing Operations	**1,192**	1,131	753
Discontinued Operations	**—**	—	47
Net earnings attributable to shareholders of the Company from Continuing Operations	**1,108**	1,081	719
Net earnings available to common shareholders of the Company	**1,096**	1,069	754
Continuing Operations	**1,096**	1,069	707
Discontinued Operations	**—**	—	47
Adjusted net earnings available to common shareholders of the Company[2]	**1,527**	1,516	1,746
Continuing Operations	**1,527**	1,516	1,539
Discontinued Operations	**—**	—	207
Consolidated Per Common Share ($)			
Diluted net earnings	**$ 3.06**	$ 2.90	$ 1.99
Continuing Operations	**$ 3.06**	$ 2.90	$ 1.87
Discontinued Operations	**$ —**	$ —	$ 0.12
Adjusted diluted net earnings[2]	**$ 4.26**	$ 4.12	$ 4.60
Continuing Operations	**$ 4.26**	$ 4.12	$ 4.06
Discontinued Operations	**$ —**	$ —	$ 0.54
Consolidated Financial Position and Cash Flows			
Cash and cash equivalents and short term investments	**$ 1,937**	$ 1,190	$ 1,159
Cash flows from operating activities from Total Company	**5,191**	3,960	2,501
Capital investments from Total Company	**1,224**	1,206	1,334
Free cash flow[2] from Total Company	**2,247**	1,210	366
Financial Measures			
Retail debt to retail adjusted EBITDA[2]	**2.8 x**	3.0 x	1.9 x
Adjusted return on equity[2]	**14.0 %**	13.7 %	12.6 %
Adjusted return on capital[2]	**8.2 %**	7.8 %	9.8 %

Three Year Summary[1]

As at or for the years ended January 2, 2021, December 28, 2019 and December 29, 2018 (millions of Canadian dollars except where otherwise indicated)	2020	2019[3]	2018
Retail Results of Operations			
Sales	**$ 51,859**	$ 47,099	$ 45,836
Operating income	**2,231**	2,082	1,717
Adjusted gross profit[2]	**15,300**	13,998	13,497
Adjusted gross profit %[2]	**29.5 %**	29.7 %	29.4 %
Adjusted EBITDA[2]	**$ 4,882**	$ 4,700	$ 3,332
Adjusted EBITDA margin[2]	**9.4 %**	10.0 %	7.3 %
Depreciation and amortization	**$ 2,571**	$ 2,502	$ 1,487
Retail Operating Statistics			
Food retail same-store sales growth	**8.6 %**	1.1 %	1.1 %
Drug retail same-store sales growth	**4.9 %**	3.6 %	2.4 %
Drug retail same-store pharmacy sales growth	**5.3 %**	4.4 %	1.2 %
Drug retail same-store front store sales growth	**4.5 %**	2.9 %	3.5 %
Total retail square footage (in millions)	**71.0**	70.8	70.4
Number of corporate stores	**550**	548	550
Number of franchise stores	**542**	540	535
Number of Associate-owned drug stores	**1,347**	1,343	1,337
Financial Services Results of Operations			
Revenue	**$ 1,097**	$ 1,196	$ 1,082
Earnings before income taxes	**47**	107	137
Financial Services Operating Measures and Statistics			
Average quarterly net credit card receivables	**$ 3,165**	$ 3,298	$ 3,040
Credit card receivables	**3,109**	3,624	3,309
Allowance for credit card receivables	**237**	196	167
Annualized yield on average quarterly gross credit card receivables	**13.3 %**	13.5 %	13.2 %
Annualized credit loss rate on average quarterly gross credit card receivables	**3.4 %**	3.4 %	3.2 %

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2020 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 year over year growth in Food retail revenue over the average number of articles sold in the Company's stores in the quarter. AAP is calculated by dividing Sales in Scope by Article Count for the timeframe chosen.
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 14 and 16 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 2020, Galen G. Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 52.7% of the Company's common shares.

At year-end 2020, there were 347,361,480 common shares issued and outstanding.
The average daily trading volume of the Company's common shares for 2020 was 712,325.

Preferred Shares

At year-end 2020, 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 2020 was 4,313.

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.

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.

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 2021 Annual Meeting of Shareholders of Loblaw Companies Limited will be held virtually via a live webcast on Thursday, May 6, 2021 at 11:00 a.m. (EDT).

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).

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 2021 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
September 15	October 1
December 15	December 30

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 2021 are:

Record Date	Payment Date
March 15	March 31
June 15	June 30
September 15	September 30
December 15	December 31

Ce rapport est disponible en français.

loblaw.ca

pcexpress.ca

shoppersdrugmart.ca

pharmaprix.ca

pcfinancial.ca

presidentschoice.ca

pcoptimum.ca

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noname.ca

wellwise.ca

Apps

PC Express™

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Shoppers Drug Mart®

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Joe Fresh®

Loblaw Companies Limited