Financial Results

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, are 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 23, 2022

[signed]
Galen G. Weston
Chairman and President

[signed]
Richard Dufresne
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 1, 2022 and January 2, 2021
- the consolidated statements of earnings for the 52-week and 53-week years then ended
- the consolidated statements of comprehensive income for the 52-week and 53-week years then ended
- the consolidated statements of changes in equity for the 52-week and 53-week years then ended
- the consolidated statements of cash flows for the 52-week and 53-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 1, 2022 and January 2, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 1, 2022. 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 $5,447 million and $7,175 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 "2021 Annual Report - Financial Review".
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 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 "2021 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 "2021 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Independent Auditors' Report

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 23, 2022

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

Consolidated Statements of Earnings

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	2021	2020
Revenue	**$ 53,170**	$ 52,714
Cost of merchandise inventories sold	**36,436**	36,725
Selling, general and administrative expenses	**13,797**	13,624
Operating income	**$ 2,937**	$ 2,365
Net interest expense and other financing charges (note 6)	**495**	742
Earnings before income taxes	**$ 2,442**	$ 1,623
Income taxes (note 7)	**466**	431
Net earnings	**$ 1,976**	$ 1,192
Attributable to:		
Shareholders of the Company (note 8)	**$ 1,875**	$ 1,108
Non-controlling interests	**101**	84
Net earnings	**$ 1,976**	$ 1,192
Net earnings per common share ($) (note 8)		
Basic	**$ 5.49**	$ 3.08
Diluted	**$ 5.45**	$ 3.06
Weighted average common shares outstanding (millions) (note 8)		
Basic	**339.1**	355.5
Diluted	**341.8**	358.2

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	2021	2020
Net earnings	**$ 1,976**	$ 1,192
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
Gains (losses) on cash flow hedges (note 29)	**5**	(28)
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial gains (losses) (note 25)	**282**	(41)
Other comprehensive income (loss)	**$ 287**	$ (67)
Total comprehensive income	**$ 2,263**	$ 1,125
Attributable to:		
Shareholders of the Company	**$ 2,162**	$ 1,041
Non-controlling interests	**101**	84
Total comprehensive income	**$ 2,263**	$ 1,125

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 January 2, 2021	$ 6,824	$ 221	**$ 7,045**	**$ 3,813**	**$ 109**	$ 39	$ (34)	$ 16	**$ 21**	**$ 131**	**$ 11,119**
Net earnings	$ —	$ —	**$ —**	**$ 1,875**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 101**	**$ 1,976**
Other comprehensive income (loss)	—	—	**—**	**282**	**—**	—	5	—	**5**	**—**	**287**
Total comprehensive income (loss)	$ —	$ —	**$ —**	**$ 2,157**	**$ —**	$ —	$ 5	$ —	**$ 5**	**$ 101**	**$ 2,263**
Common shares purchased and cancelled (note 23)	(310)	—	**(310)**	**(890)**	**—**	—	—	—	**—**	**—**	**(1,200)**
Net effect of equity-based compensation (notes 23 and 26)	116	—	**116**	**—**	**7**	—	—	—	**—**	**—**	**123**
Shares purchased and held in trust (note 23)	(10)	—	**(10)**	**(40)**	**—**	—	—	—	**—**	**—**	**(50)**
Shares released from trust (notes 23 and 26)	11	—	**11**	**23**	**—**	—	—	—	**—**	**—**	**34**
Dividends declared per common share – $1.400 (note 23)	—	—	**—**	**(472)**	**—**	—	—	—	**—**	**—**	**(472)**
Dividends declared per preferred share – $1.325 (note 23)	—	—	**—**	**(12)**	**—**	—	—	—	**—**	**—**	**(12)**
Transfer of remeasurement gain on sale of investment properties	—	—	**—**	**12**	**—**	—	—	(12)	**(12)**	**—**	**—**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(68)**	**(68)**
	$ (193)	$ —	**$ (193)**	**$ 778**	**$ 7**	$ —	$ 5	$ (12)	**$ (7)**	**$ 33**	**$ 618**
Balance as at January 1, 2022	$ 6,631	$ 221	**$ 6,852**	**$ 4,591**	**$ 116**	$ 39	$ (29)	$ 4	**$ 14**	**$ 164**	**$ 11,737**

(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**

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	**As at January 1, 2022**	As at January 2, 2021[(i)]
Assets		
Current assets		
Cash and cash equivalents (note 9)	**$ 1,976**	$ 1,668
Short term investments (note 9)	**464**	269
Accounts receivable (note 10)	**947**	977
Credit card receivables (note 11)	**3,443**	3,109
Inventories (note 12)	**5,166**	5,195
Income tax recoverable (note 7)	**301**	—
Prepaid expenses and other assets	**249**	216
Assets held for sale (note 13)	**91**	108
Total current assets	**$ 12,637**	$ 11,542
Fixed assets (note 14)	**5,447**	5,540
Right-of-use assets (note 28)	**7,175**	7,207
Investment properties (note 15)	**111**	128
Intangible assets (note 16)	**6,402**	6,870
Goodwill (note 17)	**3,949**	3,948
Deferred income tax assets (note 7)	**91**	113
Other assets (note 18)	**802**	525
Total assets	**$ 36,614**	$ 35,873
Liabilities		
Current liabilities		
Bank indebtedness (note 32)	**$ 52**	$ 86
Trade payables and other liabilities	**5,433**	5,395
Loyalty liability (note 19)	**190**	194
Provisions (note 20)	**111**	81
Income taxes payable	**153**	83
Demand deposits from customers	**75**	24
Short term debt (note 11)	**450**	575
Long term debt due within one year (note 21)	**1,002**	597
Lease liabilities due within one year (note 28)	**1,297**	1,379
Associate interest	**433**	349
Total current liabilities	**$ 9,196**	$ 8,763
Provisions (note 20)	**114**	132
Long term debt (note 21)	**6,211**	6,449
Lease liabilities (note 28)	**7,542**	7,522
Deferred income tax liabilities (note 7)	**1,346**	1,380
Other liabilities (note 22)	**468**	508
Total liabilities	**$ 24,877**	$ 24,754
Equity		
Share capital (note 23)	**$ 6,852**	$ 7,045
Retained earnings	**4,591**	3,813
Contributed surplus (note 26)	**116**	109
Accumulated other comprehensive income	**14**	21
Total equity attributable to shareholders of the Company	**$ 11,573**	$ 10,988
Non-controlling interests	**164**	131
Total equity	**$ 11,737**	$ 11,119
Total liabilities and equity	**$ 36,614**	$ 35,873

(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 1, 2022 and January 2, 2021 (millions of Canadian dollars)	2021	2020
Operating activities		
Net earnings	**$ 1,976**	$ 1,192
Add (deduct):		
Income taxes (note 7)	**466**	431
Net interest expense and other financing charges (note 6)	**495**	742
Adjustments to investment properties (notes 13 and 15)	**(2)**	9
Depreciation and amortization	**2,664**	2,596
Asset impairments, net of recoveries	**54**	33
Change in allowance for credit card receivables (note 11)	**(32)**	41
Change in provisions (note 20)	**12**	4
	$ 5,633	$ 5,048
Change in non-cash working capital	**90**	76
Change in gross credit card receivables (note 11)	**(302)**	474
Income taxes paid	**(643)**	(452)
Interest received	**4**	7
Interest received from finance leases (note 28)	**4**	4
Other	**41**	34
Cash flows from operating activities	**$ 4,827**	$ 5,191
Investing activities		
Fixed asset purchases (note 14)	**$ (803)**	$ (820)
Intangible asset additions (note 16)	**(379)**	(338)
Cash assumed on initial consolidation of franchises (note 5)	**—**	14
Change in short term investments (note 9)	**(164)**	(212)
Proceeds from disposal of assets	**80**	76
Lease payments received from finance leases	**14**	9
Other	**(19)**	(105)
Cash flows used in investing activities	**$ (1,271)**	$ (1,376)
Financing activities		
Change in bank indebtedness	**$ (34)**	$ 68
Change in short term debt (note 11)	**(125)**	(150)
Change in demand deposits from customers	**51**	24
Long term debt (note 21)		
Issued	**772**	1,417
Repayments	**(603)**	(1,486)
Interest paid	**(339)**	(336)
Cash rent paid on lease liabilities - Interest (notes 6 and 28)	**(340)**	(369)
Cash rent paid on lease liabilities - Principal (note 28)	**(1,020)**	(1,024)
Dividends paid on common and preferred shares	**(484)**	(580)
Common share capital		
Issued (note 26)	**102**	30
Purchased and held in trust (note 23)	**(50)**	(10)
Purchased and cancelled (note 23)	**(1,200)**	(888)
Proceeds from other financing (note 33)	**12**	46
Other	**9**	(24)
Cash flows used in financing activities	**$ (3,249)**	$ (3,282)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 1**	$ 2
Change in cash and cash equivalents	**$ 308**	$ 535
Cash and cash equivalents, beginning of year	**1,668**	1,133
Cash and cash equivalents, end of year	**$ 1,976**	$ 1,668

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).

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 23, 2022.

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 1, 2022 contained 52 weeks and the year ended January 2, 2021 contained 53 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 the Company's 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 selling, general and administrative expenses ("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.

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 net 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, net 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.

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.

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.

Demand Deposits from Customers Demand deposits from customers are comprised of balances in customers' PC Money™ Account.

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
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.
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 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 Amendment Issued and Adopted in 2021

Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16

Interbank Offered Rates ("IBORs") reform is the market-wide reform of interest rate benchmarks in which some IBORs are replaced with alternative risk-free rates. The replacement was expected to be mostly completed by the end of 2021. Consistent with global efforts, in Canada, benchmark reform initiatives are being led by the Canadian Alternative Reference Rate Committee ("CARR"), a group of financial sector firms and public sector institutions. CARR is tasked with promoting the use of the Canadian Overnight Repo Rate Average as a key risk-free interest rate benchmark as well as analyzing the current status of the Canadian Dollar Offered Rate ("CDOR"). As of May 17, 2021, the 6-month and 12-month CDOR tenors were discontinued on account of their minimal use. The 1-month, 2-month and 3-month CDOR tenors will continue to be published, though their relevance may decline or may ultimately be discontinued as well.

To address the impact IBOR reform has on financial reporting, in August 2020, the IASB issued Interest Rate Benchmark Reform—Phase 2, which amends IFRS 9, "Financial Instruments", IAS 39, "Financial Instruments: Recognition and Measurement", IFRS 7, "Financial Instruments: Disclosures", IFRS 4, "Insurance Contracts" ("IFRS 4") and IFRS 16, "Leases". These amendments became effective for annual periods beginning on or after January 1, 2021.

Phase 2 amendments provide certain practical reliefs related to modifications of financial asset or liability and lease contracts:

- As a practical expedient, if the basis for determining the contractual cash flows of a financial asset or liability changes as a direct consequence of the IBOR reform and on an economically equivalent basis, the financial asset or liability shall be remeasured reflecting the updated effective interest rate prospectively with no immediate gain or loss recognized.
- As a practical expedient, the lessee can account for a lease modification that is required by the IBOR reform through revising the discount rate that reflects the change in interest rate and remeasure the lease liability prospectively with no immediate gain or loss recognized. The amount of the remeasurement is recognized as an adjustment to the right-of-use asset.

Additionally, phase 2 amendments provide a series of temporary exceptions from certain hedge accounting requirements when a change required by the IBOR reform occurs to a hedged item and/or hedging instrument that permits the hedging relationship to be continued without interruption.

The Company assessed the impacts of the IBOR reform on its financial instruments, leases, insurance contracts and hedges, and noted only certain financial instruments and the interest rate swap hedge are directly or indirectly dependent on the 1-month or 3-month CDOR tenors. As a result, the Company is not immediately impacted by the IBOR reform. The Company will continue to monitor future developments of CDOR and other applicable interest rate benchmarks, and will elect the practical reliefs relating to financial instruments, leases, insurances and hedges when applicable.

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 indefinite life 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. 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 accounted for the consolidation of existing franchises as business acquisitions and consolidated its franchises as of the date the franchisee entered into a Franchise Agreement with the Company. The assets acquired and liabilities assumed through the consolidation were valued at the acquisition date using fair values, which approximated the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises have been 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)	**2021**	2020
Net assets acquired:		
Cash and cash equivalents	**$ —**	$ 14
Inventories	**—**	42
Fixed assets (note 14)	**—**	44
Trade payables and other liabilities(i)	**—**	(54)
Other liabilities(i)	**—**	(30)
Non-controlling interests	**—**	(16)
Total net assets acquired	**$ —**	$ —

(i) On consolidation, trade payables and other liabilities and other liabilities eliminated 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)	**2021**	2020
Interest expense and other financing charges		
Lease liabilities (note 28)	**$ 340**	$ 369
Long term debt	**286**	309
Borrowings related to credit card receivables	**37**	48
Post-employment and other long term employee benefits (note 25)	**8**	8
Independent funding trusts	**13**	14
Financial liabilities (note 33)	**3**	—
Bank indebtedness	**4**	4
	$ 691	$ 752
Interest income		
Accretion income	**$ (4)**	$ (4)
Short term interest income	**(3)**	(6)
	$ (7)	$ (10)
Recovery related to Glenhuron Bank Limited (note 7)	**$ (189)**	$ —
Net interest expense and other financing charges	**$ 495**	$ 742

Note 7. Income Taxes

The components of income taxes recognized in the consolidated statements of earnings were as follows:

(millions of Canadian dollars)	2021	2020
Current income taxes		
Current period	**$ 692**	$ 521
Recovery related to Glenhuron Bank Limited	**(128)**	—
Adjustment in respect of prior periods	**8**	(11)
	$ 572	$ 510
Deferred income taxes		
Origination and reversal of temporary differences	**$ (100)**	$ (92)
Effect of change in income tax rates	**—**	(1)
Adjustment in respect of prior periods	**(6)**	14
	$ (106)	$ (79)
Income taxes	**$ 466**	$ 431

The Company had 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. 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 of Canada ("Supreme Court") granted the Crown leave to appeal. On May 13, 2021, the Crown's appeal was heard by the Supreme Court and on December 3, 2021, the Supreme Court dismissed the Crown's appeal. As a result, the Company has reversed $301 million of previously recorded charges, of which $173 million is recorded as interest income and $128 million is recorded as income tax recovery. In addition, interest of $16 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds (see note 31).

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

(millions of Canadian dollars)	2021	2020
Net defined benefit plan actuarial gains (losses) (note 25)	**$ 101**	$ (14)
Gains (losses) on cash flow hedges (note 29)	**1**	(10)
Total income tax expense (recoveries) recognized in other comprehensive income	**$ 102**	$ (24)

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:

	2021	2020
Weighted average basic Canadian federal and provincial statutory income tax rate	**26.5 %**	26.6 %
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	**(0.1)%**	— %
Recovery related to Glenhuron	**(5.2)%**	— %
Non-deductible and non-taxable items	**(1.7)%**	0.3 %
Impact of income tax rate changes on deferred income tax balances	**— %**	(0.1)%
Adjustments in respect of prior periods	**0.1 %**	0.2 %
Other	**(0.5)%**	(0.4)%
Effective income tax rate applicable to earnings before income taxes	**19.1 %**	26.6 %

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)	**2021**	2020
Deductible temporary differences	**$ 12**	$ 14
Non-capital loss carryforwards	**156**	153
Unrecognized deferred tax assets	**$ 168**	$ 167

The non-capital loss carryforwards expire in the years 2029 to 2041. 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 1, 2022**	As at January 2, 2021
Trade payables and accrued liabilities	**$ 78**	$ 66
Other liabilities	**131**	200
Lease liabilities	**2,307**	2,324
Fixed assets	**(626)**	(553)
Right-of-use assets	**(1,888)**	(1,899)
Goodwill and intangible assets	**(1,338)**	(1,510)
Non-capital loss carryforwards (expiring 2029 to 2041)	**48**	64
Other	**33**	41
Net deferred income tax liabilities	**$ (1,255)**	$ (1,267)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	**$ 91**	$ 113
Deferred income tax liabilities	**(1,346)**	(1,380)
Net deferred income tax liabilities	**$ (1,255)**	$ (1,267)

Note 8. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	2021	2020
Net earnings attributable to shareholders of the Company	**$ 1,875**	$ 1,108
Dividends on Preferred Shares in equity (note 23)	**(12)**	(12)
Net earnings available to common shareholders	**$ 1,863**	$ 1,096
Weighted average common shares outstanding (in millions) (note 23)	**339.1**	355.5
Dilutive effect of equity-based compensation (in millions)	**2.0**	1.6
Dilutive effect of certain other liabilities (in millions)	**0.7**	1.1
Diluted weighted average common shares outstanding (in millions)	**341.8**	358.2
Basic net earnings per common share ($)	**$ 5.49**	$ 3.08
Diluted net earnings per common share ($)	**$ 5.45**	$ 3.06

In 2021, 210,157 (2020 – 3,166,882) 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 1, 2022	As at January 2, 2021
Cash	**$ 849**	$ 872
Cash equivalents		
Government treasury bills	**560**	483
Bankers' acceptances	**543**	288
Corporate commercial paper	**3**	—
Guaranteed investment certificates	**21**	22
Other	**—**	3
Total cash and cash equivalents	**$ 1,976**	$ 1,668

Short Term Investments

(millions of Canadian dollars)	As at January 1, 2022	As at January 2, 2021
Government treasury bills	**$ 361**	$ 259
Bankers' acceptances	**97**	1
Corporate commercial paper	**1**	1
Guaranteed investment certificates	**5**	7
Other	**—**	1
Total short term investments	**$ 464**	$ 269

Note 10. Accounts Receivable

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

(millions of Canadian dollars)	**As at January 1, 2022**				As at January 2, 2021[i]			
	0-90 days	**91-180 days**	**> 180 days**	**Total**	0-90 days	91-180 days	> 180 days	Total
Accounts receivable, net	**$ 846**	**$ 60**	**$ 41**	**$ 947**	$ 871	$ 50	$ 56	$ 977

(i) Certain 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)	**2021**	2020
Allowances, beginning of year	**$ (20)**	$ (24)
Net (addition) write-off	**(3)**	4
Allowances, end of year	**$ (23)**	$ (20)

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 1, 2022**	As at January 2, 2021
Gross credit card receivables	**$ 3,648**	$ 3,346
Allowance for credit card receivables	**(205)**	(237)
Credit card receivables	**$ 3,443**	$ 3,109
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust*® (note 21)	**$ 1,350**	$ 1,050
Securitized to Other Independent Securitization Trusts	**450**	575
Total securitized to independent securitization trusts	**$ 1,800**	$ 1,625

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 2021, with their respective maturity dates extended to 2023 and with all other terms and conditions remaining substantially the same.

On a year-to-date basis in 2021, PC Bank recorded a $125 million net decrease of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts as a result of issuance of *Eagle* notes in 2021.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at January 1, 2022 were $250 million (January 2, 2021 – $400 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 1, 2022 and throughout 2021.

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

(millions of Canadian dollars)	**As at January 1, 2022**				As at January 2, 2021			
	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	**$ 3,477**	**$ 146**	**$ 25**	**$ 3,648**	$ 3,169	$ 150	$ 27	$ 3,346

The following are continuities of the Company's allowance for credit card receivables for the years ended January 1, 2022 and January 2, 2021:

(millions of Canadian dollars)				**As at January 1, 2022**
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance, beginning of year	**$ 90**	**$ 116**	**$ 31**	**$ 237**
Increase / (decrease) during the year:				
Transfers[(i)]				
To Stage 1	**44**	**(44)**	**—**	**—**
To Stage 2	**(5)**	**7**	**(2)**	**—**
To Stage 3	**(1)**	**(18)**	**19**	**—**
New loans originated[(ii)]	**7**	**14**	**2**	**23**
Net remeasurements[(iii)]	**(60)**	**23**	**65**	**28**
Write-offs	**—**	**—**	**(108)**	**(108)**
Recoveries	**—**	**—**	**25**	**25**
Balance, end of year	**$ 75**	**$ 98**	**$ 32**	**$ 205**

(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 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.

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 1, 2022, the Company recorded an inventory provision of $67 million (January 2, 2021 – $34 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 2021 and 2020.

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 2021, the Company recorded a net gain of $12 million (2020 – net gain of $9 million) from the sale of these assets. Net fair value gain of $1 million (2020 – fair value write-down of $20 million) was recognized on investment properties held for sale in 2021.

Note 14. Fixed Assets

The following are continuities of the cost and the accumulated depreciation of fixed assets for the years ended January 1, 2022 and January 2, 2021:

	2021					
(millions of Canadian dollars)	Land	Buildings and building improvements	Equipment and fixtures	Leasehold improvements	Assets under construction	Total
Cost						
Balance, beginning of year	**$ 225**	**$ 1,779**	**$ 8,805**	**$ 4,044**	**$ 415**	**$15,268**
Additions[i]	**—**	**—**	**26**	**16**	**762**	**804**
Disposals	**(12)**	**(10)**	**(63)**	**(14)**	**—**	**(99)**
Net transfer to assets held for sale	**(7)**	**(5)**	**—**	**—**	**—**	**(12)**
Transfer from assets under construction	**13**	**70**	**575**	**158**	**(816)**	**—**
Balance, end of year	**$ 219**	**$ 1,834**	**$ 9,343**	**$ 4,204**	**$ 361**	**$15,961**
Accumulated depreciation						
Balance, beginning of year	**$ 1**	**$ 883**	**$ 6,603**	**$ 2,239**	**$ 2**	**$ 9,728**
Depreciation	**—**	**51**	**507**	**284**	**—**	**842**
Impairment losses	**—**	**—**	**25**	**16**	**—**	**41**
Reversal of impairment losses	**—**	**(2)**	**(4)**	**(10)**	**—**	**(16)**
Disposals	**—**	**(6)**	**(61)**	**(14)**	**—**	**(81)**
Balance, end of year	**$ 1**	**$ 926**	**$ 7,070**	**$ 2,515**	**$ 2**	**$10,514**
Carrying amount as at: January 1, 2022	**$ 218**	**$ 908**	**$ 2,273**	**$ 1,689**	**$ 359**	**$ 5,447**

(i) Additions to fixed assets include $1 million prepayment that was made in 2020. The balance was transferred from other assets in 2021.

	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.

Assets under Construction The cost of additions to properties under construction for the year ended January 1, 2022 was $762 million (January 2, 2021 – $728 million). No borrowing costs (2020 – nominal) were capitalized to assets under construction.

Fixed Asset Commitments As at January 1, 2022, the Company had entered into commitments of $744 million (January 2, 2021 – $68 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 1, 2022, the Company recorded $26 million (2020 – $18 million) of impairment losses on fixed assets and $28 million (2020 – $25 million) of impairment losses on right-of-use assets (see note 28) in respect of 16 CGUs (2020 – 27 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. No CGUs (2020 – 7%) were impaired on the basis of their carrying values exceeding their fair value less costs to sell (2020 – $2 million). All (2020 – 93%) of the impaired CGUs had carrying values which were $54 million (2020 – $41 million) greater than their value in use.

For the year ended January 1, 2022, the Company recorded $16 million (2020 – $16 million) of impairment reversals on fixed assets and $12 million (2020 – $11 million) of impairment reversals on right-of-use assets (see note 28) in respect of 14 CGUs (2020 – 13 CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying values. No CGUs (2020 – 8%) with impairment reversals had fair value less costs to sell greater than their carrying values (2020 – $1 million). All (2020 – 92%) of the CGUs with impairment reversals had value in use of $28 million (2020 – $26 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 7.9% to 8.4% at January 1, 2022 (January 2, 2021 – 8.0% to 8.5%).

Additional impairment losses on fixed assets of $15 million (2020 – $8 million) were incurred related to store closures, renovations, conversions of retail locations and restructuring activities. No impairment losses (2020 – $3 million) were recognized on right-of-use assets related to restructuring activities (see note 28).

Note 15. Investment Properties

The following are continuities of investment properties for the years ended January 1, 2022 and January 2, 2021:

(millions of Canadian dollars)	**2021**	2020
Balance, beginning of year	**$ 128**	$ 172
Adjustment to fair value of investment properties	**1**	11
Net transfer to fixed assets (note 14)	**—**	(30)
Net transfer to assets held for sale	**(18)**	(25)
Balance, end of year	**$ 111**	$ 128

During 2021, the Company recognized $1 million of rental income (2020 – nominal) and incurred nominal direct operating costs (2020 – nominal) related to its investment properties. In addition, the Company recognized direct operating costs of $2 million (2020 – $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 1, 2022, the pre-tax discount rates used in the valuations for investment properties ranged from 6.5% to 8.5% (January 2, 2021 – 7.0% to 9.0%) and the terminal capitalization rates ranged from 5.0% to 7.0% (January 2, 2021 – 5.5% to 8.5%).

Note 16. Intangible Assets

The following are continuities of the cost and the accumulated amortization of intangible assets for the years ended January 1, 2022 and January 2, 2021:

			2021		
(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	**$ 3,491**	**$ 20**	**$ 3,442**	**$ 5,871**	**$ 12,824**
Additions	**—**	**—**	**379**	**—**	**379**
Business acquisitions	**—**	**—**	**—**	**1**	**1**
Balance, end of year	**$ 3,491**	**$ 20**	**$ 3,821**	**$ 5,872**	**$ 13,204**
Accumulated amortization					
Balance, beginning of year	**$ —**	**$ 20**	**$ 2,414**	**$ 3,520**	**$ 5,954**
Amortization	**—**	**—**	**338**	**497**	**835**
Impairment losses	**—**	**—**	**13**	**—**	**13**
Balance, end of year	**$ —**	**$ 20**	**$ 2,765**	**$ 4,017**	**$ 6,802**
Carrying amount as at: January 1, 2022	**$ 3,491**	**$ —**	**$ 1,056**	**$ 1,855**	**$ 6,402**

			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

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 Corporation ("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 2021 and 2020.

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 1, 2022 and January 2, 2021:

(millions of Canadian dollars)		**2021**		2020
Cost				
Balance, beginning of year	**$**	**4,942**	$	4,940
Business acquisitions		**1**		2
Balance, end of year	**$**	**4,943**	$	4,942
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	**$**	**3,949**	$	3,948

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

(millions of Canadian dollars)		**As at January 1, 2022**		As at January 2, 2021
Shoppers Drug Mart	**$**	**2,976**	$	2,976
Market		**376**		375
Discount		**461**		461
T&T Supermarket Inc.		**129**		129
All other		**7**		7
Carrying amount as at the end of the year	**$**	**3,949**	$	3,948

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 7.9% (January 2, 2021 – 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 1, 2022, the after-tax discount rate used in the recoverable amount calculations was 7.1% to 7.9% (January 2, 2021 – 7.1% to 9.3%). The pre-tax discount rate was 9.7% to 10.8% (January 2, 2021 – 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% (January 2, 2021 – 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 1, 2022**	As at January 2, 2021[ii]
Sundry investments and other receivables	**$ 54**	$ 69
Accrued benefit plan asset (note 25)	**463**	165
Finance lease receivable (note 28)	**78**	93
Investment accounted for under the equity method	**73**	61
Other[i]	**134**	137
Total other assets	**$ 802**	$ 525

(i) Includes $29 million related to the Venture Fund as at January 1, 2022 (January 2, 2021 – $6 million) (see note 33).
(ii) Certain comparative figures have been restated to conform with current year presentation.

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.

During 2021, the Company executed the remaining investment of $14 million. As at January 1, 2022, the Company had invested a total of $75 million in exchange for approximately 30% of the ownership interest in Maple.

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 1, 2022**	As at January 2, 2021
Loyalty liability	**$ 190**	$ 194

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 1, 2022 and January 2, 2021:

(millions of Canadian dollars)		2021		2020[i]
Balance, beginning of year	**$**	**213**	$	221
Additions		**72**		95
Payments		**(53)**		(73)
Reversals		**(6)**		(18)
Reclasses		**(1)**		(12)
Balance, end of year	**$**	**225**	$	213

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

(millions of Canadian dollars)		**As at January 1, 2022**		As at January 2, 2021[i]
Recorded on the consolidated balance sheets as follows:				
Current portion of provisions	**$**	**111**	$	81
Non-current portion of provisions		**114**		132
Total provisions	**$**	**225**	$	213

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

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 1, 2022, the Loblaw Card Program liability was $15 million (January 2, 2021 – $15 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 1, 2022, the provision related to restructuring and other related costs was $54 million (January 2, 2021 – $51 million).

Note 21. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	**As at January 1, 2022**	As at January 2, 2021
Debentures		
Loblaw Companies Limited Notes		
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**	350
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**32**	33
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		
0.10% – 3.78%, due 2022 – 2026	**996**	1,185
Independent Securitization Trust		
2.71%, due 2022	**250**	250
3.10%, due 2023	**250**	250
2.28%, due 2024	**250**	250
1.34%, due 2025	**300**	300
1.61%, due 2026	**300**	—
Independent Funding Trusts	**570**	512
Transaction costs and other	**(16)**	(15)
Total long term debt	**$ 7,213**	$ 7,046
Less amount due within one year	**1,002**	597
Long Term Debt	**$ 6,211**	$ 6,449

Significant long term debt transactions are described below.

Debentures The following table summarizes the debentures issued in 2020. There were no debentures issued in 2021.

(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 consolidated 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. There were no debentures repaid in 2021.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2020**
Loblaw Companies Limited Notes	5.22%	June 18, 2020	**$ 350**
Total debentures repaid			**$ 350**

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2021 and 2020:

(millions of Canadian dollars)	**2021**	2020
Balance, beginning of year	**$ 1,185**	$ 1,311
GICs issued	**414**	410
GICs matured	**(603)**	(536)
Balance, end of year	**$ 996**	$ 1,185

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

During 2021, *Eagle* issued $300 million (2020 – $300 million) of senior and subordinated term notes with a maturity date of June 17, 2026 (2020 – July 17, 2025) at a weighted average interest rate of 1.61% (2020 – 1.34%). In connection with this issuance, $175 million (2020 – $200 million) of bond forward agreements were settled, resulting in a realized fair value loss of $1 million (2020 – loss of $11 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the consolidated statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 1.65% (2020 – 2.07%) 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. There were no repayments of notes issued by *Eagle* in 2021.

Independent Funding Trusts As at January 1, 2022, the independent funding trusts had drawn $570 million (January 2, 2021 – $512 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. There were no withdrawals during 2021. As at January 1, 2022 and January 2, 2021, there were no amounts drawn under this facility.

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

(millions of Canadian dollars)	**As at January 1, 2022**	As at January 2, 2021
Guaranteed investment certificates	**182**	597
Independent securitization trust	**250**	—
Independent funding trust	**570**	—
Long term debt due within one year	**$ 1,002**	$ 597

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

(millions of Canadian dollars)	**As at January 1, 2022**
2022	**$ 1,002**
2023	**1,333**
2024	**846**
2025	**523**
2026	**413**
Thereafter	**3,112**
Total long term debt (excludes transaction costs)	**$ 7,229**

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 (used in) financing activities for long term debt:

(millions of Canadian dollars)	**2021**	2020
Long term debt, beginning of year	**$ 7,046**	$ 7,098
Long term debt issuances(i)	**$ 772**	$ 1,417
Long term debt repayments	**(603)**	(1,486)
Total cash flow from (used in) long term debt financing activities	**$ 169**	$ (69)
Other non-cash changes	**$ (2)**	$ 17
Total non-cash long term debt activities	**$ (2)**	$ 17
Long term debt, end of year	**$ 7,213**	$ 7,046

(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 1, 2022**		As at January 2, 2021
Net defined benefit plan obligation (note 25)	**$**	**289**	$	329
Other long term employee benefit obligation		**115**		119
Financial liabilities (note 33)		**54**		43
Equity-based compensation liabilities (note 26)		**3**		3
Other		**7**		14
Total other liabilities	**$**	**468**	$	508

Note 23. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at January 1, 2022 and January 2, 2021.

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:

			2021			2020
(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	**347,361,480**	**$**	**6,837**	360,064,475	$	7,065
Issued for settlement of stock options (note 26)	**1,829,170**		**116**	601,756		35
Purchased and cancelled[(i)]	**(15,663,281)**		**(310)**	(13,304,751)		(263)
Issued and outstanding, end of year	**333,527,369**	**$**	**6,643**	347,361,480	$	6,837
Shares held in trust, beginning of year	**(672,784)**	**$**	**(13)**	(1,113,302)	$	(21)
Purchased for future settlement of RSUs and PSUs	**(510,000)**		**(10)**	(145,000)		(3)
Released for settlement of RSUs and PSUs (note 26)	**587,289**		**11**	585,518		11
Shares held in trust, end of year	**(595,495)**	**$**	**(12)**	(672,784)	$	(13)
Issued and outstanding, net of shares held in trust, end of year	**332,931,874**	**$**	**6,631**	346,688,696	$	6,824
Weighted average outstanding, net of shares held in trust (note 8)	**339,097,833**			355,484,682		

(i) Includes 15,395 shares cancelled during the third quarter of 2021 in a private transaction and are excluded from the Company's Normal Course Issuer Bid.

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 third quarter of 2021 and in the fourth quarter of 2020, the Board raised the quarterly dividend by $0.03 to $0.365 and by $0.02 to $0.335 per common share, respectively.

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

	2021[(i)]	2020
Dividends declared per share ($)		
Common Share	**$ 1.400**	$ 1.280
Second Preferred Share, Series B	**$ 1.325**	$ 1.325

(i) The fourth quarter dividends for 2021 of $0.365 per share declared on Common Shares had a payment date of December 30, 2021. The fourth quarter dividends for 2021 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of December 31, 2021.

(millions of Canadian dollars)	2021	2020
Dividends declared		
Common Share	**$ 472**	$ 453
Second Preferred Share, Series B (note 8)	**12**	12
Total dividends declared	**$ 484**	$ 465

Subsequent to the end of the year, the Board declared a quarterly dividend of $0.365 per common share, payable on April 1, 2022 to shareholders of record on March 15, 2022 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on March 31, 2022 to shareholders of record on March 15, 2022.

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)	2021	2020
Common shares repurchased under the NCIB for cancellation (number of shares)	**15,647,886**	13,304,751
Cash consideration paid	**$ 1,200**	$ 888
Premium charged to retained earnings	**890**	625
Reduction in common share capital	**310**	263
Common shares repurchased under the NCIB and held in trust (number of shares)	**510,000**	145,000
Cash consideration paid	**$ 50**	$ 10
Premium charged to retained earnings	**40**	7
Reduction in common share capital	**10**	3

In the second quarter of 2021, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 17,106,459 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. During 2020, the 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. The maximum number of common shares that may be purchased pursuant to the NCIB will be reduced by the number of common shares purchased from Weston. As at January 1, 2022, the Company had purchased 10,276,022 common shares for cancellation under its current NCIB.

During 2021, 15,647,886 common shares (2020 – 13,304,751) were purchased under the NCIB program for cancellation, for aggregate consideration of $1,200 million (2020 – $888 million), including 7,399,437 common shares (2020 – 4,940,680) purchased from Weston, for aggregate consideration of $563 million (2020 – $336 million).

During 2020, pursuant to an exemption granted by the Ontario Securities Commission ("OSC"), the Company purchased, for cancellation, 3,269,208 common shares from an entity controlled by Mr. W. Galen Weston, the then controlling shareholder of Weston. Total aggregate cash consideration paid was $205 million. The common shares were purchased at a price approved by the OSC and counted towards the common shares the Company was entitled to purchase under its NCIB.

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 1, 2022	As at January 2, 2021
Bank indebtedness	**$ 52**	$ 86
Demand deposits from customers	**75**	24
Short term debt	**450**	575
Long term debt due within one year	**1,002**	597
Long term debt	**6,211**	6,449
Certain other liabilities(i)	**131**	117
Total debt excluding lease liabilities	**$ 7,921**	$ 7,848
Lease liabilities due within one year	**1,297**	1,379
Lease liabilities	**7,542**	7,522
Total debt including lease liabilities	**$ 16,760**	$ 16,749
Equity attributable to shareholders of the Company	**11,573**	10,988
Total capital under management	**$ 28,333**	$ 27,737

(i) Includes financial liabilities of $57 million (2020 – $46 million) related to the sale of properties to Choice Properties Real Estate Investment Trust (see note 33).

Covenants and Regulatory Requirements The Company is subject to certain key financial and non-financial covenants under its existing committed 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 1, 2022 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 target 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 1, 2022 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 2022 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:

	2021		2020	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	**$ (1,668)**	**$ —**	$ (1,900)	$ —
Present value of unfunded obligations	**(142)**	**(145)**	(158)	(163)
Total present value of defined benefit obligation	**$ (1,810)**	**$ (145)**	$ (2,058)	$ (163)
Fair value of plan assets	**2,130**	**—**	2,060	—
Total funded status of surpluses (obligations)	**$ 320**	**$ (145)**	$ 2	$ (163)
Assets not recognized due to asset ceiling	**(1)**	**—**	(3)	—
Total net defined benefit plan surpluses (obligations)	**$ 319**	**$ (145)**	$ (1)	$ (163)
Recorded on the consolidated balance sheets as follows:				
Other assets (note 18)	**$ 463**	**$ —**	$ 165	$ —
Other liabilities (note 22)	**$ (144)**	**$ (145)**	$ (166)	$ (163)

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

	2021			2020		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$2,060**	**$ —**	**$2,060**	$ 1,770	$ —	$ 1,770
Employer contributions	**26**	**—**	**26**	45	—	45
Employee contributions	**2**	**—**	**2**	3	—	3
Benefits paid	**(47)**	**—**	**(47)**	(48)	—	(48)
Interest income	**52**	**—**	**52**	58	—	58
Actuarial gains in other comprehensive income	**41**	**—**	**41**	237	—	237
Settlements(i)	**—**	**—**	**—**	(1)	—	(1)
Other	**(4)**	**—**	**(4)**	(4)	—	(4)
Fair value, end of year	**$2,130**	**$ —**	**$2,130**	$2,060	$ —	$2,060
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$2,058**	**$ 163**	**$2,221**	$ 1,707	$ 151	$ 1,858
Current service cost	**70**	**5**	**75**	65	4	69
Interest cost	**53**	**4**	**57**	57	5	62
Benefits paid	**(55)**	**(5)**	**(60)**	(56)	(6)	(62)
Employee contributions	**2**	**—**	**2**	3	—	3
Actuarial (gains) losses in other comprehensive income	**(318)**	**(22)**	**(340)**	283	9	292
Settlements(i)	**—**	**—**	**—**	(1)	—	(1)
Balance, end of year	**$ 1,810**	**$ 145**	**$1,955**	$2,058	$ 163	$ 2,221

(i) Settlements relate to annuity purchases in 2020.

In 2021, no annuity purchases were made. In 2020, 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. In 2020, the Company paid $1 million from the impacted plans' assets to settle $1 million of pension obligations and recorded nominal settlement charge 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 2021, the actual return on plan assets was $93 million (2020 – $295 million).

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

- Active plan participants 61% (2020 – 63%);
- Deferred plan participants 12% (2020 – 13%); and
- Retirees 27% (2020 – 24%).

During 2022, the Company expects to contribute approximately $2 million (2021 – contributed $26 million) to its registered defined benefit pension plans. The actual amount of contributions may vary from the estimate depending on the funded positions of the plans, filing of any actuarial valuations, any new regulatory requirements or 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:

	2021			2020		
(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	**$ 70**	**$ 5**	**$ 75**	$ 65	$ 4	$ 69
Interest cost on net defined benefit plan obligations	**1**	**4**	**5**	(1)	5	4
Other	**4**	**—**	**4**	4	—	4
Net post-employment defined benefit cost	**$ 75**	**$ 9**	**$ 84**	$ 68	$ 9	$ 77

The actuarial (gains) losses recognized in other comprehensive income (loss) net of taxes for defined benefit plans were as follows:

	2021			2020		
(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	**$ (41)**	**$ —**	**$ (41)**	$ (237)	$ —	$ (237)
Experience adjustments	**(38)**	**(7)**	**(45)**	1	(3)	(2)
Actuarial (gains) losses from change in financial assumptions	**(280)**	**(15)**	**(295)**	282	12	294
Change in liability arising from asset ceiling	**(2)**	**—**	**(2)**	—	—	—
Total net actuarial (gains) losses recognized in other comprehensive income (loss) before income taxes	**$ (361)**	**$ (22)**	**$ (383)**	$ 46	$ 9	$ 55
Income tax expenses (recoveries) on actuarial (gains) losses (note 7)	**95**	**6**	**101**	(12)	(2)	(14)
Actuarial (gains) losses net of income tax expenses (recoveries)	**$ (266)**	**$ (16)**	**$ (282)**	$ 34	$ 7	$ 41

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

	2021			2020		
(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	**$ (47)**	**$ (78)**	**$ (125)**	$ (93)	$ (87)	$ (180)
Net actuarial (gains) losses recognized in the year before income taxes	**(361)**	**(22)**	**(383)**	46	9	55
Cumulative amount, end of year	**$ (408)**	**$ (100)**	**$ (508)**	$ (47)	$ (78)	$ (125)

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)	2021		2020	
Equity securities				
Canadian - pooled funds	**$ 45**	**2 %**	$ 12	1 %
Foreign - pooled funds	**1,144**	**54 %**	1,144	55 %
Total equity securities	**$ 1,189**	**56 %**	$ 1,156	56 %
Debt securities				
Fixed income securities:				
- government	**$ 687**	**32 %**	$ 691	34 %
- corporate	**58**	**3 %**	42	2 %
Total debt securities	**$ 745**	**35 %**	$ 733	36 %
Other investments	**156**	**7 %**	123	6 %
Cash and cash equivalents	**40**	**2 %**	48	2 %
Total	**$ 2,130**	**100 %**	$ 2,060	100 %

As at January 1, 2022 and January 2, 2021, 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):

	2021		2020	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	**3.30 %**	**3.20 %**	2.50 %	2.50 %
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	**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

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 1, 2022 is 17.3 years (January 2, 2021 – 19.5 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 increase to 4.60% as at year end 2022.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2021 (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	**3.30 %**	**2.50 %**	**3.20 %**	**2.50 %**
Impact of:				
1% increase	**$ (279)**	**$ (27)**	**$ (18)**	**$ —**
1% decrease	**$ 360**	**$ 28**	**$ 22**	**$ —**
Expected growth rate of health care costs			**4.50 %**	**4.50 %**
Impact of:				
1% increase	**n/a**	**n/a**	**$ 13**	**$ 1**
1% decrease	**n/a**	**n/a**	**$ (11)**	**$ (1)**

n/a – not applicable

(i) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

Multi-Employer Pension Plans During 2021, the Company recognized an expense of $73 million (2020 – $74 million) in operating income, which represents the contributions made in connection with MEPPs. During 2022, 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 56,000 (2020 – 60,000) employees as members. Included in the 2021 expense described above are contributions of $72 million (2020 – $73 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)	**2021**	2020
Net post-employment defined benefit cost(i)	**$ 84**	$ 77
Defined contribution costs(ii)	**28**	27
Multi-employer pension plan costs(iii)	**73**	74
Total net post-employment benefit costs	**$ 185**	$ 178
Other long term employee benefit costs(iv)	**31**	30
Net post-employment and other long term employee benefit costs	**$ 216**	$ 208
Recorded on the consolidated statement of earnings as follows:		
Selling, general and administrative expenses (note 27)	**$ 208**	$ 200
Net interest expense and other financing charges (note 6)	**8**	8
Net post-employment and other long term employee benefit costs	**$ 216**	$ 208

(i) Includes nominal settlement charge in 2020 related to annuity purchases.

(ii) Amounts represent the Company's contributions made in connection with defined contribution plans.

(iii) Amounts represent the Company's contributions made in connection with MEPPs.

(iv) Other long term employee benefit costs include $3 million (2020 – $4 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 $59 million during 2021 (2020 – $49 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 1, 2022**	As at January 2, 2021
Other liabilities (note 22)	**$ 3**	$ 3
Contributed surplus	**116**	109

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:

	2021		2020	
	Options (number of shares)	**Weighted Average Exercise Price / Share**	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	**7,259,645**	**$ 61.19**	6,317,922	$ 57.57
Granted	**1,926,951**	**$ 64.27**	1,851,415	$ 70.03
Exercised (note 23)	**(1,829,170)**	**$ 56.02**	(601,756)	$ 50.32
Forfeited/cancelled	**(925,977)**	**$ 64.22**	(307,936)	$ 61.28
Outstanding options, end of year	**6,431,449**	**$ 63.15**	7,259,645	$ 61.19
Options exercisable, end of year	**2,285,608**	**$ 59.79**	2,758,738	$ 55.99

The following is the weighted average remaining contractual life and exercise price of outstanding and exercisable stock options as at January 1, 2022:

	2021 Outstanding Options			**2021 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**
$53.41 – $60.40	**2,392,382**	**2.2**	**$ 56.92**	**1,674,267**	**$ 57.03**
$60.41 – $65.57	**2,352,559**	**5.3**	**$ 63.93**	**360,807**	**$ 65.52**
$65.58 – $97.44	**1,686,508**	**5.3**	**$ 70.90**	**250,534**	**$ 69.98**
	6,431,449		**$ 63.15**	**2,285,608**	**$ 59.79**

During 2021, the Company issued common shares on the exercise of stock options with a weighted average market share price of $81.97 (2020 – $68.22). The Company received cash consideration of $102 million (2020 – $30 million) related to the exercise of these options.

The fair value of stock options granted during 2021 was $17 million (2020 – $13 million). The assumptions used to measure the fair value of options granted during 2021 and 2020 under the Black-Scholes valuation model at date of grant were as follows:

	2021	2020
Expected dividend yield	**1.7 %**	1.9 %
Expected share price volatility	**18.3% – 20.6%**	13.5% – 20.1%
Risk-free interest rate	**0.6% – 1.6%**	0.3% – 1.2%
Expected life of options	**3.8 – 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 1, 2022 was 9.0% (January 2, 2021 – 9.0%).

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

(number of awards)	**2021**	2020
Restricted share units, beginning of year	**894,272**	1,032,832
Granted	**372,015**	242,797
Reinvested	**14,835**	23,666
Settled	**(371,474)**	(367,020)
Forfeited	**(110,303)**	(38,003)
Restricted share units, end of year	**799,345**	894,272

The fair value of RSUs granted during 2021 was $25 million (2020 – $17 million).

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

(number of awards)	**2021**	2020
Performance share units, beginning of year	**666,400**	662,695
Granted	**281,099**	237,391
Reinvested	**11,177**	16,301
Settled	**(231,952)**	(218,955)
Forfeited	**(110,307)**	(31,032)
Performance share units, end of year	**616,417**	666,400

The fair value of PSUs granted during 2021 was $18 million (2020 – $17 million).

Settlement of Awards from Shares Held in Trust During 2021, the Company settled RSUs and PSUs totaling 603,426 (2020 – 585,975), of which 587,289 (2020 – 585,518) 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 (2020 – $11 million) increase to share capital and a net increase of $23 million (2020 – $21 million) to retained earnings.

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

(number of awards)	**2021**	2020
Director deferred share units, beginning of year	**380,481**	336,897
Granted	**32,829**	35,008
Reinvested	**6,162**	8,576
Settled	**(58,156)**	—
Director deferred share units, end of year	**361,316**	380,481

The fair value of DSUs granted during 2021 was $2 million (2020 – $2 million).

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

(number of awards)	**2021**	2020
Executive deferred share units, beginning of year	**56,856**	45,258
Granted	**5,399**	10,310
Reinvested	**1,066**	1,288
Settled	**(848)**	—
Executive deferred share units, end of year	**62,473**	56,856

The fair value of EDSUs granted during 2021 was nominal (2020 – $1 million).

Note 27. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	**2021**	2020(i)
Wages, salaries and other short term employment benefits	**$ 6,983**	$ 6,848
Post-employment benefits (note 25)	**180**	174
Other long term employee benefits (note 25)	**28**	26
Equity-based compensation	**55**	46
Capitalized to fixed assets and intangible assets	**(112)**	(69)
Total employee costs	**$ 7,134**	$ 7,025

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

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 1, 2022 and January 2, 2021:

	2021		
(millions of Canadian dollars)	**Property**	**Other**	**Total**
Cost			
Balance, beginning of year	**$ 9,083**	**$ 85**	**$ 9,168**
Lease additions, net of lease terminations	**128**	**—**	**128**
Lease extensions and other items	**830**	**13**	**843**
Balance, end of year	**$ 10,041**	**$ 98**	**$ 10,139**
Accumulated depreciation			
Balance, beginning of year	**$ 1,915**	**$ 46**	**$ 1,961**
Depreciation	**969**	**18**	**987**
Impairment losses, net of reversals (note 14)	**16**	**—**	**16**
Balance, end of year	**$ 2,900**	**$ 64**	**$ 2,964**
Carrying amount as at: January 1, 2022	**$ 7,141**	**$ 34**	**$ 7,175**

	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

Lease Liabilities The following are continuities of lease liabilities for the years ended January 1, 2022 and January 2, 2021:

(millions of Canadian dollars)	**2021**	2020
Balance, beginning of year	**$ 8,901**	$ 9,110
Lease additions, net of lease terminations	**125**	184
Lease extensions and other items	**833**	631
Lease payments	**(1,360)**	(1,393)
Interest expense on lease liabilities (note 6)	**340**	369
Balance, end of year	**$ 8,839**	$ 8,901
Lease liabilities due within one year	**$ 1,297**	$ 1,379
Lease liabilities	**7,542**	7,522
Total lease liabilities	**$ 8,839**	$ 8,901

Liquidity The future undiscounted contractual lease payments are as follows:

	Payments due by year						**As at January 1, 2022**	As at January 2, 2021
(millions of Canadian dollars)	2022	2023	2024	2025	2026	Thereafter	**Total**	Total
Lease payments	$ 1,268	$ 1,321	$ 1,168	$ 1,108	$ 889	$ 3,219	**$ 8,973**	$ 9,464

As at January 1, 2022, the Company also had commitments of $842 million (January 2, 2021 – $270 million) related to leases not yet commenced.

Short-Term Leases The Company has short-term leases that are primarily related to trailer rentals and certain properties. During 2021, $26 million (2020 – $25 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 2021, $393 million (2020 – $389 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 1, 2022, approximately 13% (January 2, 2021 – 10%) of the lease liabilities are related to extension options that were deemed reasonably certain to be exercised.

As at January 1, 2022, approximately $16 billion (January 2, 2021 – $15 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 2021, the Company disposed of and leased back two retail properties (2020 – one office property), and recognized a gain of $1 million (2020 – loss of $1 million) in SG&A. The Company also disposed of and leased back one additional retail property in 2021 (2020 – five additional retail properties) that 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 2021, the Company recognized finance interest income of $4 million (2020 – $4 million) and nil impairment losses (2020 – $5 million).

The future finance lease payments to be received by the Company relating to properties that are subleased to third parties are as follows:

	Payments to be received by year						**As at January 1, 2022**	As at January 2, 2021
(millions of Canadian dollars)	2022	2023	2024	2025	2026	Thereafter	**Total**	Total
Finance lease payments to be received	$ 18	$ 19	$ 13	$ 10	$ 9	$ 21	**$ 90**	$ 109
Less: unearned finance interest income	(3)	(3)	(2)	(1)	(1)	(2)	**(12)**	(16)
Total finance lease receivable (note 18)	$ 15	$ 16	$ 11	$ 9	$ 8	$ 19	**$ 78**	$ 93

Operating Leases During 2021, the Company recognized operating lease income of $26 million (2020 – $25 million), of which $20 million (2020 – $20 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 1, 2022**	As at January 2, 2021
(millions of Canadian dollars)	2022	2023	2024	2025	2026	Thereafter	**Total**	Total
Operating lease income	$ 14	$ 12	$ 10	$ 9	$ 6	$ 12	**$ 63**	$ 75

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 1, 2022				As at January 2, 2021
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets								
Fair value through other comprehensive income:								
Certain long term investments and other assets(i)	**$ 96**	**$ —**	**$ —**	**$ 96**	$ 117	$ —	$ —	$ 117
Derivatives included in prepaid expenses and other assets	**—**	**1**	**—**	**1**	—	—	—	—
Fair value through profit and loss:								
Certain other assets(i)	**—**	**—**	**29**	**29**	—	—	6	6
Derivatives included in prepaid expenses and other assets	**3**	**2**	**—**	**5**	—	—	3	3
Financial liabilities								
Amortized cost:								
Long term debt	**$ —**	**$ 8,106**	**$ —**	**$ 8,106**	$ —	$8,292	$ —	$8,292
Certain other liabilities(i)	**—**	**—**	**57**	**57**	—	—	48	48
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	**—**	**1**	**—**	**1**	—	—	—	—
Fair value through profit and loss:								
Derivatives included in trade payables and other liabilities	**—**	**—**	**1**	**1**	4	7	—	11

(i) Certain other assets, certain 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 2021, the Company recognized a loss of $1 million (2020 – loss of $2 million) in operating income on financial instruments designated as amortized cost. In addition, during 2021, a net gain of $16 million (2020 – net loss of $24 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

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 2021, a loss of $3 million (2020 – gain of $2 million) was recorded in operating income related to these derivatives. In addition, a corresponding $1 million liability was included in trade payables and other liabilities as at January 1, 2022 (January 2, 2021 – $3 million asset). As at January 1, 2022, 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 1, 2022, the fair value through other comprehensive income securities of $96 million (January 2, 2021 – $117 million) was included in short term investments and other assets on the consolidated balance sheets. During 2021, PC Bank recorded an unrealized fair value loss of $1 million (2020 – unrealized fair value gain of $1 million) 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 on the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's other derivatives:

			January 1, 2022
(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)**
Bond Forwards(ii)	**(1)**	**6**	**(7)**
Interest Rate Swaps(iii)	**1**	**1**	**—**
Total derivatives designated as cash flow hedges	**$ —**	**$ 7**	**$ (8)**
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	**$ 2**	**$ —**	**$ 1**
Other Non-Financial Derivatives	**3**	**—**	**18**
Total derivatives not designated in a formal hedging relationship	**$ 5**	**$ —**	**$ 19**
Total derivatives	**$ 5**	**$ 7**	**$ 11**

(i) PC Bank uses foreign exchange forwards, with a notional value of $19 million USD, to manage its foreign exchange 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 $120 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 2021, PC Bank settled $175 million of bond forward (see note 21).

(iii) PC Bank uses interest rate swaps, with notional value of $225 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in prepaid expenses and other assets.

			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.

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 guaranteed investment certificate 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, is unable to access sources of funding or 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 1, 2022:

	2022	2023	2024	2025	2026	Thereafter	Total(i)
Derivative financial liabilities							
Foreign exchange forward contracts	$ 321	$ —	$ —	$ —	$ —	$ —	$ 321
Non-derivative financial liabilities							
Bank indebtedness	52	—	—	—	—	—	52
Demand deposits from customers	75	—	—	—	—	—	75
Short term debt(ii)	450	—	—	—	—	—	450
Financial liabilities(iii)	3	3	3	4	4	35	52
Long term debt including interest payments(iv)	1,295	1,607	1,071	733	613	4,299	9,618
Other liabilities	3	—	—	—	—	—	3
Total	$2,199	$ 1,610	$1,074	$ 737	$ 617	$ 4,334	$ 10,571

(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 six retail properties to Choice Properties Real Estate Investment Trust (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 1, 2022.

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, including amounts due from non-consolidated franchisees, government and third-party drug plans arising from prescription drug sales, independent accounts and amounts owed from vendors. 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 non-consolidated franchisees, governments and third-party drug plans arising from prescription drug sales, independent accounts and amounts owed from vendors and tenants, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Market Market risk is the loss that may arise from changes in factors such as interest rates, foreign currency exchange rates, commodity prices, common share price and the impact these factors may have on other counterparties.

Interest Rates The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. An increase in interest rates could adversely affect the operations or financial performance of the Company. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 1% increase (decrease) in short term interest rates, with all other variables held constant, would result in an increase (decrease) of $14 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. 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 1, 2022, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a loss of $4 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 2021 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 unquantified damages for the expenses incurred by the federal government, provinces, and territories of Canada in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in Canada. During the second quarter of 2021, the claim against Loblaw Companies Limited was discontinued. 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 December 2019, 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 December 2019 claims seek recovery of damages on behalf of opioid users directly. In April 2021, the Company, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with another opioid-related class action that was started in Alberta against multiple defendants. The claim seeks damages on behalf of municipalities and local governments in relation to public safety, social service, and criminal justice costs allegedly incurred due to the opioid crisis. In September 2021, the Company, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with a class action started by Peter Ballantyne Cree Nation and Lac La Ronge Indian Band on behalf of all Indigenous, Metis, First Nation and Inuit communities and governments in Canada to recover costs they have incurred as a result of the opioid crisis, including healthcare costs, policing costs and societal costs. 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 had 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. On May 13, 2021, the Crown's appeal was heard by the Supreme Court and on December 3, 2021, the Supreme Court dismissed the Crown's appeal. As a result, the Company has reversed $301 million of previously recorded charges, of which $173 million is recorded as interest income and $128 million is recorded as income tax recovery.

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 $331 million as at January 1, 2022 (January 2, 2021 – $339 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 1, 2022, the Company's maximum obligation in respect of such guarantees was $580 million (January 2, 2021 – $580 million) with an aggregate amount of $469 million (January 2, 2021 – $470 million) in available lines of credit allocated to the Associates by the various banks. As at January 1, 2022, Associates had drawn an aggregate amount of $52 million (January 2, 2021 – $86 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 1, 2022 the Company has agreed to provide a credit enhancement of $64 million (January 2, 2021 – $64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (January 2, 2021 – 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 Company has guaranteed lease obligations of a third party distributor in the amount of $2 million (January 2, 2021 – $3 million).

Glenhuron Bank Limited Surety Bond In connection with the Canada Revenue Agency's reassessment of the Company on certain income earned by Glenhuron (see note 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 $56 million (January 2, 2021 – $52 million). The Company expects the surety bond to be released in 2022 as a result of the favourable decision of the Supreme Court (see note 31).

Cash Collateralization As at January 1, 2022, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $93 million (January 2, 2021 – $102 million), of which a nominal amount (January 2, 2021 – nominal) 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 1, 2022, the guarantee on behalf of PC Bank to MasterCard was USD $190 million (January 2, 2021 – 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 (January 2, 2021 – $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 $41 million (January 2, 2021 – $52 million), which represented approximately 9% (January 2, 2021 – 9%) 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, 175,475,019 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 78,650,662 of Weston's common shares, representing approximately 53.6% of Weston's outstanding common shares. Galen G. Weston also beneficially owns 473,636 of the Company's common shares, representing approximately 0.1% of the Company's outstanding common shares.

Weston is the controlling shareholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Therefore Choice Properties is a related party by virtue of common control. As at January 1, 2022, Weston's ownership interest in Choice Properties was approximately 61.7% (January 2, 2021 – 61.8%). The Company is Choice Properties' largest tenant, representing approximately 55.9% (January 2, 2021 – 57.0%) of Choice Properties' rental revenue and 56.0% (January 2, 2021 – 55.3%) of its gross leasable area as at January 1, 2022. The Company also executes various agreements and transactions with Choice Properties.

The Company also made related party purchases from Weston Foods, a former subsidiary of Weston. In 2021, Weston completed the sale of the Weston Foods business comprised of the fresh, frozen and ambient bakery businesses. The sale of the fresh and frozen business was completed on December 10, 2021 and the ambient business on December 29, 2021, at which time Weston Foods no longer met the criteria for a related party. As a result, the Company has reflected all transactions with Weston Foods below until the dates of sale. In addition, upon closing of each of these sales, the Company entered into a supply agreement with the purchasers of each of those businesses.

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

(millions of Canadian dollars)	Transaction Value 2021	2020
Included in cost of merchandise inventories sold		
Inventory purchases from a subsidiary of Weston(vi)	**$ 541**	$ 624
Inventory sold to a subsidiary of Weston	**1**	1
Inventory purchases from a related party(i)	**32**	41
Operating income		
Transactions with Weston and Wittington		
Cost sharing agreements with Weston(ii)	**$ 54**	$ 47
Net administrative services provided by Weston(iii)	**19**	18
Lease of office space from a subsidiary of Wittington	**—**	3
Transactions with Choice Properties		
Lease payments to Choice Properties(iv)	**$ 751**	$ 733
Property management and other administration fees paid to Choice Properties	**—**	1
Lease surrender payments paid to Choice Properties	**2**	—
Site intensification payments received from Choice Properties(v)	**(2)**	(1)

(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 1, 2022 was $1 million (January 2, 2021 – $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, information systems, risk management, treasury, certain accounting 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 2021, lease payments paid to Choice Properties included base rent of $528 million (2020 – $515 million) and operating expenses of $223 million (2020 – $218 million).

(v) During 2021, the Company received site intensification payments from Choice Properties of $2 million (2020 – $1 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) In 2021, Weston completed the sale of the Weston Foods business comprised of the fresh, frozen and ambient bakery businesses. The sale of the fresh and frozen business was completed on December 10, 2021 and the ambient business on December 29, 2021, at which time Weston Foods no longer met the criteria for a related party. As a result, the Company has reflected all transactions with Weston Foods until the dates of sale. In addition, upon closing of each of these sales, the Company entered into a supply agreement with the purchasers of each of those businesses.

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

(millions of Canadian dollars)	**As at January 1, 2022**	As at January 2, 2021
Weston(i)	**$ 10**	$ 55
Choice Properties(ii)	**3**	(8)

(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. The Company is also 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 to the group plan. In 2021 and 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)	**2021**	2020
Salaries, director fees and other short term employee benefits	**$ 9**	$ 6
Equity-based compensation	**9**	9
Total compensation	**$ 18**	$ 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"). A 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. To date, the Company has invested $15 million in the Venture Fund, of which $9 million was invested in 2021 (2020 – $6 million) (see note 18).

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 1, 2022, no letters of credit 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 (January 2, 2021 – $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 1, 2022**	As at January 2, 2021
(millions of Canadian dollars)	2022	2023	2024	2025	2026	Thereafter	**Total**	Total
Lease payments	$ 478	$ 507	$ 474	$ 478	$ 407	$ 1,778	**$ 4,122**	$ 3,986

Financial Liabilities During 2021, the Company disposed of one retail property (2020 – five retail properties) to Choice Properties for total proceeds of $12 million (2020 – $46 million). The property was leased back by the Company. This transaction did not meet the criteria for sale of asset in accordance with IFRS 15 as the Company did not relinquish control of the property under the terms of the leases. Total proceeds were recognized as financial liabilities and as at January 1, 2022, $3 million (January 2, 2021 – $3 million) was recorded in trade payables and other liabilities and $54 million (January 2, 2021 – $43 million) was recorded in other liabilities (see note 22). During 2021, $3 million (2020 – nominal) of interest expense was recognized in net interest expense and other financing charges (see note 6) and $4 million (2020 – nominal) 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:

(millions of Canadian dollars)	**2021** Retail	Financial Services	Eliminations(i)	Total	2020 Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$ 52,269**	**$1,182**	**$ (281)**	**$ 53,170**	$ 51,859	$1,097	$ (242)	$ 52,714
Operating income	$ 2,713	$ 224	$ —	$ 2,937	$ 2,231	$ 134	$ —	$ 2,365
Net interest expense and other financing charges	431	64	—	495	655	87	—	742
Earnings before income taxes	**$ 2,282**	**$ 160**	**$ —**	**$ 2,442**	$ 1,576	$ 47	$ —	$ 1,623
Operating income	**$ 2,713**	**$ 224**	**$ —**	**$ 2,937**	$ 2,231	$ 134	$ —	$ 2,365
Depreciation and amortization	2,623	41	—	2,664	2,571	25	—	2,596
Adjusting items(iii)	492	—	—	492	552	—	—	552
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(506)	—	—	(506)	(509)	—	—	(509)
Adjusted EBITDA(iii)	$ 5,322	$ 265	$ —	$ 5,587	$ 4,845	$ 159	$ —	$ 5,004
Depreciation and amortization(iv)	2,117	41	—	2,158	2,062	25	—	2,087
Adjusted operating income	**$ 3,205**	**$ 224**	**$ —**	**$ 3,429**	$ 2,783	$ 134	$ —	$ 2,917

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

(ii) Included in Financial Services revenue is $427 million (2020 – $460 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. The comparative figures have been restated to conform with current year's new non-GAAP financial measures policy beginning in 2021. Under the new policy, the Company no longer adjusts 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. For non-GAAP financial measures policy change, see section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $506 million (2020 – $509 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)	2021	2020
Food retail	**$ 37,481**	$ 37,596
Drug retail		
Pharmacy	**$ 7,224**	$ 6,758
Front store	**7,564**	7,505
	14,788	$ 14,263
Retail total	**$ 52,269**	$ 51,859
Financial Services	**1,182**	1,097
Eliminations(i)	**(281)**	(242)
Total	**$ 53,170**	$ 52,714

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

(millions of Canadian dollars)	As at January 1, 2022	As at January 2, 2021(i)
Total assets		
Retail	**$ 31,613**	$ 31,300
Financial Services	**5,001**	4,573
	$ 36,614	$ 35,873

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

(millions of Canadian dollars)	2021	2020
Additions to fixed assets and intangible assets		
Retail(i)	**$ 1,154**	$ 1,193
Financial Services	**29**	31
	$ 1,183	$ 1,224

(i) During 2021, additions to fixed assets in the retail segment included prepayments that were made in 2020 and transferred from other assets of $1 million. During 2020, additions to fixed assets in the retail segment included prepayments that were made in 2019 and transferred from other assets of $66 million.

Three Year Summary[1]

As at or for the years ended January 1, 2022, January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2021**	2020[3]	2019[3]
Consolidated Results of Operations			
Revenue	**$ 53,170**	$ 52,714	$ 48,037
Revenue growth	**0.9 %**	9.7 %	2.9 %
Operating income	**$ 2,937**	$ 2,365	$ 2,270
Adjusted EBITDA[2]	**5,587**	5,004	4,775
Adjusted EBITDA margin[2]	**10.5 %**	9.5 %	9.9 %
Net interest expense and other financing charges	**$ 495**	$ 742	$ 747
Adjusted net interest expense and other financing charges[2]	**684**	742	747
Net earnings	**1,976**	1,192	1,131
Net earnings attributable to shareholders of the Company	**1,875**	1,108	1,081
Net earnings available to common shareholders of the Company	**1,863**	1,096	1,069
Adjusted net earnings available to common shareholders of the Company[2]	**1,911**	1,499	1,427
Consolidated Per Common Share ($)			
Diluted net earnings	**$ 5.45**	$ 3.06	$ 2.90
Adjusted diluted net earnings[2]	**$ 5.59**	$ 4.18	$ 3.87
Consolidated Financial Position and Cash Flows			
Cash and cash equivalents and short term investments	**$ 2,440**	$ 1,937	$ 1,190
Cash flows from operating activities	**4,827**	5,191	3,960
Capital investments	**1,183**	1,224	1,206
Free cash flow[2]	**1,959**	2,247	1,210
Financial Measures			
Retail debt to retail adjusted EBITDA[2]	**2.6 x**	2.9 x	3.1 x
Adjusted return on equity[2]	**17.3 %**	13.8 %	12.9 %
Adjusted return on capital[2]	**9.8 %**	8.1 %	7.5 %

Three Year Summary[1]

As at or for the years ended January 1, 2022, January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	2021	2020[3]	2019[3]
Retail Results of Operations			
Sales	**$ 52,269**	$ 51,859	$ 47,099
Operating income	**2,713**	2,231	2,082
Adjusted gross profit[2]	**16,041**	15,300	13,998
Adjusted gross profit %[2]	**30.7 %**	29.5 %	29.7 %
Adjusted EBITDA[2]	**$ 5,322**	$ 4,845	$ 4,565
Adjusted EBITDA margin[2]	**10.2 %**	9.3 %	9.7 %
Depreciation and amortization	**$ 2,623**	$ 2,571	$ 2,502
Retail Operating Statistics			
Food retail same-store sales growth[4]	**0.3 %**	8.6 %	1.1 %
Drug retail same-store sales growth[4]	**5.0 %**	4.9 %	3.6 %
Drug retail same-store pharmacy sales growth	**8.4 %**	5.3 %	4.4 %
Drug retail same-store front store sales growth	**2.1 %**	4.5 %	2.9 %
Total retail square footage (in millions)	**71.2**	71.0	70.8
Number of corporate stores	**545**	550	548
Number of franchise stores	**551**	542	540
Number of Associate-owned drug stores	**1,342**	1,347	1,343
Financial Services Results of Operations			
Revenue	**$ 1,182**	$ 1,097	$ 1,196
Earnings before income taxes	**160**	47	105
Financial Services Operating Measures and Statistics			
Average quarterly net credit card receivables	**$ 3,128**	$ 3,165	$ 3,298
Credit card receivables	**3,443**	3,109	3,624
Allowance for credit card receivables	**205**	237	196
Annualized yield on average quarterly gross credit card receivables	**12.7 %**	13.3 %	13.5 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.5 %**	3.4 %	3.4 %

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 147 of the Company's 2021 Annual Report - Financial Review.

(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.

(4) 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.