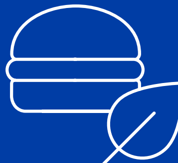
Live Life Well®

Loblaw Companies Limited

2021 Annual Report

~850

Private label food products launched



59

Private label plant-based products introduced for a total of 101 products

$1 billion +

Value of PC Optimum™ Points redeemed by customers

4.9 million

COVID vaccinations administered

3.4 million

COVID tests and screenings administered

~170%

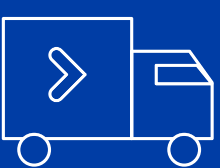
Growth in pharmacy services revenue

$3.1 billion

E-commerce revenue for the year

200%

Increase in number of products offered online



50%

PC Express™ Delivery coverage across the country

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Customers can depend on us

In 2021, our collective resolve was tested, as we coped with another year of pandemic-related complexities. In an unfamiliar and constantly-changing environment, our stores once again stepped up, providing familiarity, dependability, and comfort to so many across the country. We showed Canadians that they can depend on us to meet their most fundamental needs – for good food and good health – while also playing a meaningful role in getting Canadians through the pandemic, with added services like COVID testing and vaccinations. All this allowed us to deliver on our purpose, to help Canadians Live Life Well®, in new and unique ways. This took a lot of work. To our colleagues and employees across the country, thank you for all you have done to serve your communities. And to our customers, thank you for continuing to offer us your trust.

Our Stores
Our Colleagues
Our Strategy

As a purpose-driven organization, we exist to help Canadians Live Life Well®. This commitment factors into how we operate our stores and pharmacies day-to-day, and how we deliver on our long-term organizational strategy.

At the heart of our strategy is a passion for customers and the constant pursuit of true customer-centricity. This passion comes to life through our five operating divisions – Discount, Market, Shoppers Drug Mart®, PC Financial® and Joe Fresh® – and guides our three strategic priorities of Everyday Digital Retail, Connected Healthcare and Payments & Rewards. Delivering on these priorities requires outstanding talent and stable financial results, achieved through data-driven insights, process and efficiency excellence, and a commitment to being the best in food, health and beauty. All of our decisions are guided by a shared set of CORE values and culture principles, and a commitment to environmental sustainability, social responsibility and good corporate governance.

Everyday Digital Retail
We are an omni-channel retailer. We take great pride in operating many of the country's top store banners while providing Canadians with a best-in-class digital experience that they've now come to expect.

Payments & Rewards
Driven by the data from millions of weekly customer interactions, we offer a loyalty experience unlike any other in the country – delivered through personalized offers, financial services and rewards to our customers.

Connected Healthcare
We offer Canadians a seamless omni-channel health experience and strive to be the front door to health and wellness services, connecting patients to healthcare providers both in person through our network of more than 1,800 pharmacies, or online through the *PC Health* app.

Process and Efficiency Excellence
We have an ambitious strategy, which requires us to invest now in initiatives with a long-term horizon. To do so effectively, we are intently focused on tightly controlling our expenses and ensuring process discipline throughout our entire business.

Data-Driven Insights
We are evolving the way we capture, understand and action our data to help Canadians Live Life Well®. We treat data as a strategic advantage and use our insights to both know our customers and provide them with valuable products and services.

Best in Food, Health and Beauty
We offer a variety of grocery options to meet all tastes and budgets, operate the country's industry-leading pharmacy network, provide access to over 5,000 health and wellness professionals, and remain a top beauty destination for Canadians.

3

of the country's top 10 brands – President's Choice®, No Name®, Farmer's Market™

Paul Helps The Hard Of Hearing

Paul Anthraper, District Manager of Market Franchise in Northern Ontario, in partnership with the Canadian Hard of Hearing Association, installed new T-coil hearing aid technology in stores so that customers with hearing aids have an easier time communicating with staff. For more, visit loblaw.ca.

"This is a way to improve the in-store experience, and a way for us to connect better with customers with hearing aids. Inclusivity is so important."

PAUL ANTHRAPER

Beauty At Your Finger Tips

Rayelyn Izzo, a Beauty Specialist at a Shoppers Drug Mart® store in Calgary, AB loves the new Beauty NOW™ platform. She can connect with customers via live chat, email and text for consultations and product recommendations. This new platform has been especially helpful with pandemic restrictions. Thanks for connecting with customers in new ways Rayelyn! For more, visit loblaw.ca.

"Clients love it, because it's easy. And our vendors love it because we can share information on a daily or weekly basis, which is incredible."

RAYELYN IZZO

Financial Highlights

+0.3%

FOOD RETAIL SAME STORE SALES

+5.0%

DRUG RETAIL SAME STORE SALES

+2.1%

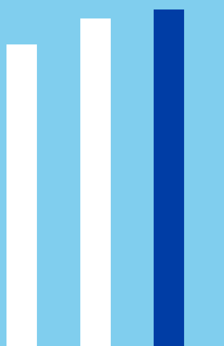
FRONT OF STORE

+8.4%

PHARMACY

+2.6%

REVENUE[3]
($ millions)



2019	2020	2021
48,037	51,836	53,170

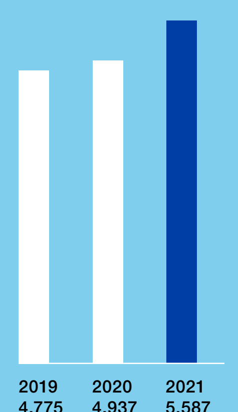
30.7%

ADJUSTED RETAIL SEGMENT GROSS PROFIT MARGIN[1,3]

2019	2020	2021
29.7%	29.5%	30.7%

+13.2%

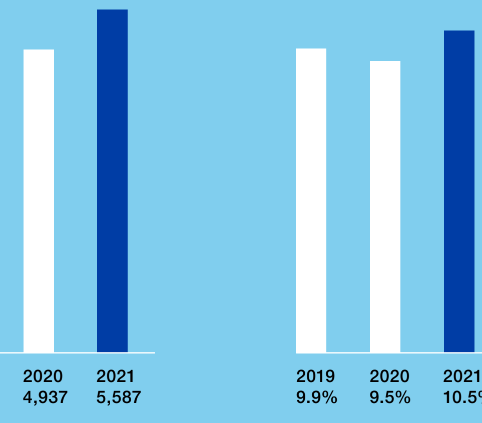
CONSOLIDATED ADJUSTED EBITDA[1,2,3]
($ millions)



2019	2020	2021
4,775	4,937	5,587

10.5%

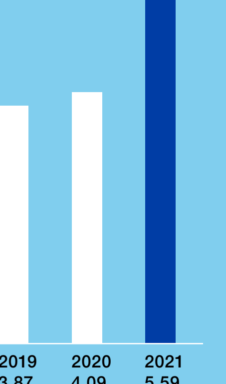
CONSOLIDATED ADJUSTED EBITDA MARGIN[1,2,3]



2019	2020	2021
9.9%	9.5%	10.5%

+36.7%

ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE[1,2,3]
($)



2019	2020	2021
3.87	4.09	5.59

+9.4%

DIVIDEND DECLARED PER COMMON SHARE
($)

2019	2020	2021
1.24	1.28	1.40

[1] See the Non-GAAP Financial Measures section of the 2021 Annual Report – Financial Review
[2] 2019 has been restated to conform with current year's new non-GAAP financial measures policy beginning in 2021
[3] Excluding the impact of the 53rd week in 2020

Chairman's Message

In 2021, amid a challenging operating environment, our stores, colleagues and employees demonstrated tremendous resilience. With every transaction, with each interaction, and with an eye on the future – we built momentum, continued to earn trust, and helped Canadians Live Life Well®.

Galen G. Weston
Chairman and President

Fellow Shareholders,

Canadians began 2021 with a sense of hope and optimism. Vaccines were on the horizon, pandemic-related restrictions seemed to be easing, and we collectively hoped for a return to some degree of normal. Instead, we faced recurring lockdowns and more uncertainty.

As a business, we never wavered. We worked tirelessly to ensure Canadians had access to the products and services they needed to remain fed, healthy and well – efforts that are reflected in our strong financial results for 2021. At the same time, we took strides to support our communities and our planet, both of which will pay off now and well into the future.

Retail Excellence

We have an incredible foundation, and in 2021, we tapped into our strengths – and an unrelenting focus on retail excellence – to offer Canadians more value, more service, more convenience, and more personalization than ever before.

Our brands, including President's Choice®, No Name® and Life Brand®, continued to deliver innovation that resonates with Canadians. Our 15 million active PC Optimum™ members redeemed more than $1 billion worth of points – a level of engagement that reaffirms the relevance of digitally-enabled, personalized offers. These elements, when combined across our grocery stores, pharmacies, distribution centres and workforce of approximately 200,000, are a powerful engine to drive us forward.

In 2021, that engine completed over 1 billion customer transactions, administered 3.4 million COVID tests and screenings and 4.9 million COVID vaccinations, and shipped over 1,300 truckloads across the country every single day.

Together, it helped us deliver on our purpose in unique and impactful ways, and allowed us to achieve strong topline growth, margin expansion, and cost control through retail excellence in 2021. On a continuing operations basis (and adjusted for 52 weeks), we achieved same store sales growth of +0.3 per cent in food retail and +5.0 per cent in drug retail, with revenue of $53.2 billion, growing +2.6 per cent. Consolidated adjusted EBITDA was $5.59 billion, or +13.2 per cent. Adjusted diluted net earnings per share were $5.59 or +36.7 per cent. We generated over $2.0 billion in free cash flow and continued to return capital to shareholders by increasing our dividend 9 per cent and repurchasing 15.6 million shares under a common share repurchase program.

The notion of retail excellence demands continuous improvement, and despite our success, there's more work ahead of us. We must be the best buyers in Canada, deliver effective promotional strategies that sell and drive margin, and leverage our innovative products and services to engage Canadians every day.

Driving Growth

At the same time as our renewed commitment to retail fundamentals has proven effective, we have also continued our ongoing investments in strategic areas to drive growth. We remain focused on Everyday Digital Retail solutions, Payment and Reward offerings, and Connected Healthcare options for Canadians. In each, the lasting impact of the pandemic has reshaped our industry and consumer expectations.

We worked tirelessly to ensure Canadians had access to the products and services they needed to remain fed, healthy and well – efforts that are reflected in our strong financial results for 2021.

Our online businesses – led by PC Express™, and complemented by Shoppers Drug Mart®, BeautyBOUTIQUE™ and Joe Fresh® online – continue to engage customers well-above pre-pandemic levels. We enhanced their omni-channel shopping experience, while optimizing operational efficiencies, deploying new technology, refining our delivery offering, and seeking new promotional and advertising opportunities through Loblaw Media™. With the rollout of our e-commerce network largely completed, we generated more than $3.1 billion in online sales, representing growth of roughly 14 per cent over 2020.

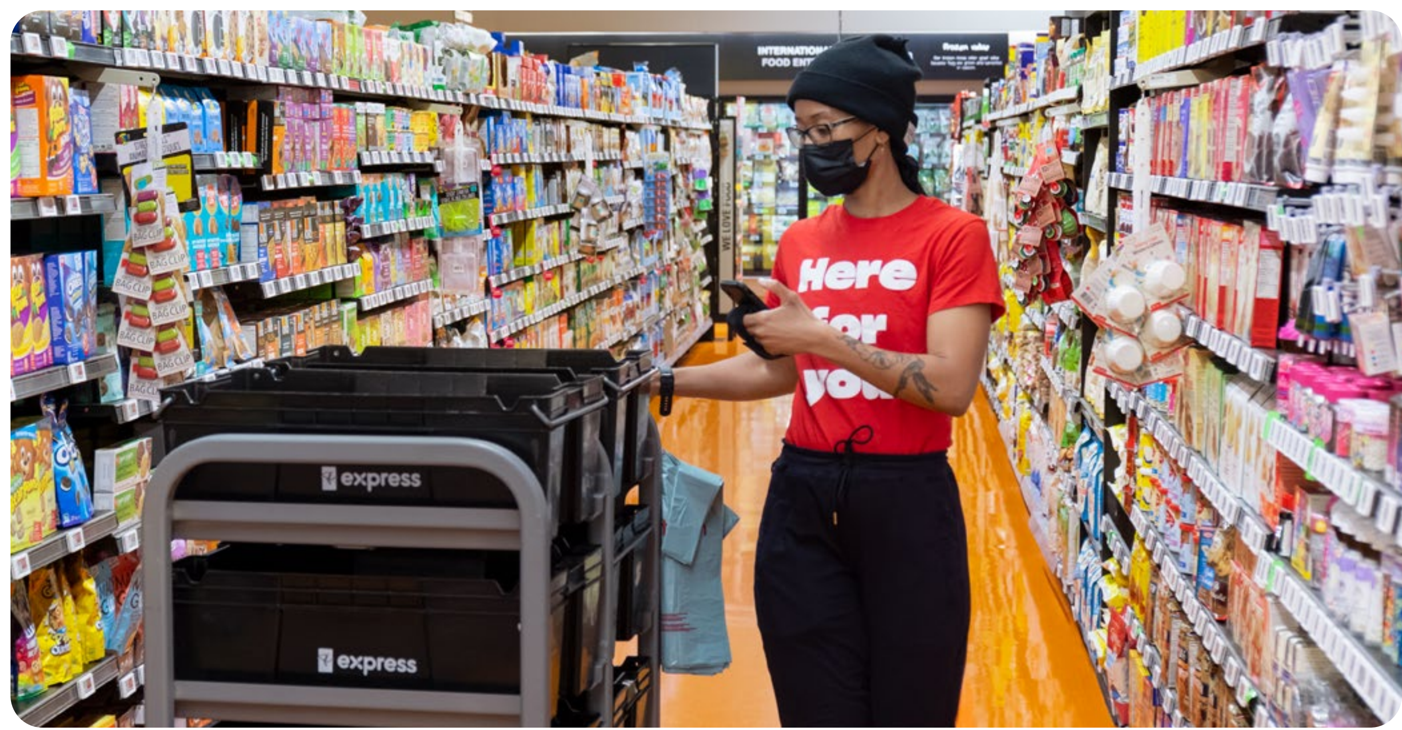
Both online, and in-store, we continued to see strong customer engagement in 2021 among our over 150,000 PC Money™ Account cardholders. This, combined with more than 2 million PC® Mastercard® users, allows us to turn everyday banking activities into rewards – and in 2021 we did just that, issuing over 300 billion PC Optimum™ points to PC Financial® customers.

In 2021, we also helped give Canadians more control over their wellbeing, through our network of thousands of established healthcare professionals and a national infrastructure to support a wide range of healthcare services. Simply put, we are going beyond the traditional pharmacy experience to deliver care and wellness to millions of Canadians weekly – both in-store and virtually – making healthcare more accessible, convenient and seamless. In many ways, PC Health is the cornerstone of this strategy, and in 2021, we reached nearly 1 million app downloads, proving that Canadians are looking for new ways to access care, how and where they need it.

Fighting Climate Change and Advancing Social Equity

Delivering on our purpose, and earning the trust of Canadians, are ambitions that go well beyond our efforts to pursue retail excellence and drive growth.

As Canada's largest private-sector employer, we are also one of its most influential. With such a large workforce, serving so many Canadians, supporting thousands of smaller businesses, and investing billions into the economy every year, we have a responsibility to the communities we serve, and to the environment we impact.



We see two significant areas of opportunity: fighting climate change and advancing social equity. Both of these are generational challenges that will require individual and corporate action to solve.

As we see it, that reach comes with a unique ability to improve things when we focus our efforts. And today we see two significant areas of opportunity: fighting climate change and advancing social equity. Both of these are generational challenges that will require individual and corporate action to solve. And, as a family business, we take a long-term perspective on both, and believe that doing the right thing for our communities will also lead to positive financial outcomes.

When it comes to fighting climate change, Loblaw has been playing a leading role for years. After we surpassed our targets for reducing our carbon emissions and managing food waste, we set newer and more ambitious objectives: achieve net-zero carbon emissions for our own enterprise footprint by 2040, and achieve net-zero for Scope 3 emissions, including those generated by suppliers, by 2050.

We have a number of initiatives underway already. We will send zero food waste to landfill by the end of the decade, move our transport fleet to zero carbon, and improve the recyclability of our control brand plastic packaging while helping to set new plastics standards globally. It's hard, but important work.

Similarly, the effects of social exclusion are evident in every community from coast to coast, which is why we have several priorities to help advance social equity. We have set representation goals at various levels of our organization, created a plan to train our nationwide workforce on allyship, accommodation, respect in the workplace, and more. We continue to support women's health through the LOVE YOU by Shoppers Drug Mart™ community investment program, and we remain committed to fighting childhood hunger through the President's Choice Children's Charity. Each of these are areas where our influence and engagement will make a difference, both internally and externally, immediately and for years to come.

As we look towards that future, we reflect on the momentum with which we exited 2021. We have a relentless focus on our core business, a measured approach to scaling-up areas of strategic growth, and a firm commitment to the communities we serve. Canadians continue to trust us and expect us to come through for them when they need it most. And as we see it, they deserve nothing less.

Galen G. Weston
Chairman and President

Environmental, Social and Governance

We are driven by our purpose and our goal of creating long-term value for our business and communities. As the largest retailer and private-sector employer in the country, Loblaw is uniquely positioned to make an impact on the issues that matter most to Canadians.

800,000 +

Children supported by President's Choice Children's Charity in 2021

$8.5 million +

Raised and granted to support women's health initiatives in 2021

This perspective has been fundamental to **Loblaw's purpose-led approach** to addressing environmental, social and governance (ESG) priorities, with a focus on two areas where we can have the biggest impact: fighting climate change and advancing social equity.

Fighting Climate Change

Loblaw has been an industry leader on environmental action for decades, and we are extending this focus with an emphasis on further reducing our green-house gas (GHG) emissions and eliminating waste from our business. We will:

- Achieve Net-Zero for our enterprise operations by 2040, and Scope 3 emissions by 2050.
- Adopt a science-based approach to reducing emissions across our operations by 50% by 2030.
- Operate a zero emissions fleet by 2030.
- Reduce plastic waste by making our control brand and in store packaging recyclable and reusable by 2025.
- Send zero food waste to landfill by 2030, and over the next 24 months, achieve measurable food waste reductions in every one of our stores.

Advancing Social Equity

Loblaw is committed to being Canada's most representative and inclusive employer, and to supporting the health of children and women as the building blocks of healthy communities. We will:

- Achieve industry-leading representation goals for management, executives and our Board of Directors by the end of 2024.
- Create a ripple effect of inclusion and empathy in our communities by deploying an inclusion training program for our workforce of 200,000 Canadians by the end of 2024.
- Support President's Choice Children's Charity (PCCC), Canada's top non-government provider of in-school kids' nutrition programs, as it seeks to raise $150 million by 2027 and feed one million children a year by 2025.
- Help feed more individuals and families in need, through food bank and food recovery programs – both nationally and via each of our stores.
- Support the LOVE YOU by Shoppers Drug Mart™ program's efforts to advance women's health through improved access to care for their mind and body, by contributing $50 million over the next five years to advance the network of local community-based efforts and partners – helping women stay healthy and safe.

Our approach includes establishing measurable targets, ensuring transparent disclosure, proactive stakeholder engagement and robust ESG governance practices which are discussed in the **Corporate Governance Practices** section.

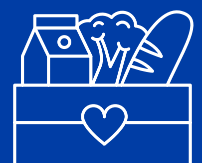
More information can be found in our annual ESG report, and additional disclosures are located at **loblaw.ca**.

Golden Design Rules To Reduce Plastic Waste

Our goal is to inspire systemic change that will stem the tide of plastic waste and support a circular economy that keeps packaging materials out of landfill and nature. All of our control brand and in-store plastic packaging will be recyclable or reusable by 2025. We are inspired by the Consumer Goods Forum's global Golden Design Rules, which align with our new packaging standards. The company played a lead role in creating the rules globally and introducing them to the Canadian plastics value chain. For more, visit **loblaw.ca**.

Eliminate Food Waste Sent To Landfill By 2030

In this country, we waste enough food each year to feed every Canadian for five months. This is why Loblaw has taken action to eliminate food waste at each stage of the lifecycle. On farms, our No Name Naturally Imperfect™ products help those fruits and vegetables which are slightly small or misshapen find their way to our stores. As food approaches its best before date, our partnership with FlashFood helps further reduce waste by selling products at a discount. We're also rescuing more surplus food through our partnership with Second Harvest and Food Banks Canada, providing millions of meals to Canadians in need. For the food we can't rescue, we're avoiding landfill through innovative programs that see expired bakery waste sent to local farms for animal feed, or generating renewable energy that powers local communities by combining food waste with animal manure. It is efforts like these that have enabled us to surpass our target of cutting food waste by 50 per cent by 2025 (five years early) and why we are committed to sending zero food waste to landfill by 2030. For more, visit **loblaw.ca**.



5 million +

Kilograms of product donated from stores and customers to food banks in 2021

Our Divisions

We operate more than 2,500 stores across Canada, employing directly or through our franchisees approximately 200,000 Canadians in full-time and part-time positions. With 90% of Canadians living within 10 kilometres of one of our stores, we are immersed in the communities we serve, and welcome the opportunity to help our customers lead better and healthier lives.

1 Billion +

Customer transactions annually

Passionate about food and about creating exceptional customer experiences, our **Market** division operates a variety of banners – including Loblaws®, Loblaws City Market®, Your Independent Grocer®, Atlantic Superstore®, Zehrs®, Provigo®, Provigo Le Marché®, Real Canadian Wholesale Club®, Real Canadian Liquorstore™, Fortinos® and T&T® stores – and ultimately helps Canadians bring the best to their tables.

Our **Discount** division – including Real Canadian Superstore®, Maxi®, Extra Foods® and No Frills® – proudly offers Canadian families easy, affordable essentials and stands ready to Feed Everyone by providing fresh, quality products at fantastic value.

JOE FRESH

Joe Fresh® provides uniquely accessible shopping to Canadians, mixing modern designs with incredible value. With collections for women, men and children, shopping is made more convenient and cost-effective for the entire family.

Shoppers Drug Mart® is Canada's leading drug store retailer, offering customers incredible convenience and the products and services they need throughout all stages of life. We operate more than 1,300 Associate-owned locations, as well as home healthcare and luxury beauty retail outlets, a specialty drug distribution network, pharmacy services for long-term care and retirement communities, a generic drug manufacturer, a unique health app, and an electronic medical records platform.

PC Financial® brings value and innovation to Canadians. More than 2 million PC® Mastercard® cardholders have collectively saved billions in bank fees while earning trillions of points to redeem for groceries and other products. And in 2021, the PC Money™ Account continued to grow, with Canadians valuing this no monthly fee bank account that gets them even more PC Optimum™ points. We also offer digital verification for authentication, in-platform spend insights, automatic savings goals, and sophisticated analysis of how Canadians earn and redeem PC Optimum™ points.

Kara's Store Rallies To Support Those In Need

Kara Stokes, Store Manager at the Real Canadian Superstore® in Kamloops stepped up for her community getting food, water and essential supplies for surrounding communities affected by the more than 1,600 wildfires in B.C. this year. Thank you Kara for supporting your local community! For more, visit loblaw.ca.

"I saw a lot of donation requests, we did our best to accommodate. Everyone came together to try to help."

KARA STOKES

Catherine And Kyle Keep The 2SLGBTQ+ Community Safe

Catherine Nolan, Associate Owner of two Shoppers Drug Mart® locations in Sudbury, ON together with Kyle Boychuck her store administrator implemented small changes in their stores. They added safe-space stickers and had staff ask customers their pronouns. These measures were sincerely appreciated by 2SLGBTQ+ customers and allies. For more, visit loblaw.ca.

"Colleagues now have this new, holistic perspective on how to approach people walking into their business. It was nice to see that kind of change."

KYLE BOYCHUCK

Our Enablers

We deliver on our purpose – to help Canadians Live Life Well® – through an exceptional internal infrastructure, a unique and customer-centric culture, and a clear set of expectations for colleagues at all levels of the organization.

Brands
Our control brands – including President's Choice®, No Name®, Farmer's Market™ and Life Brand® – are trusted by Canadians. Our product developers surprise and delight our customers with new and unique experiences and innovations.

PC Optimum™
With over 15 million active annual members, PC Optimum™ is unique in its reach and customer engagement. The program is continually refined and enhanced, to provide our customers with greater value and the personalization they seek.

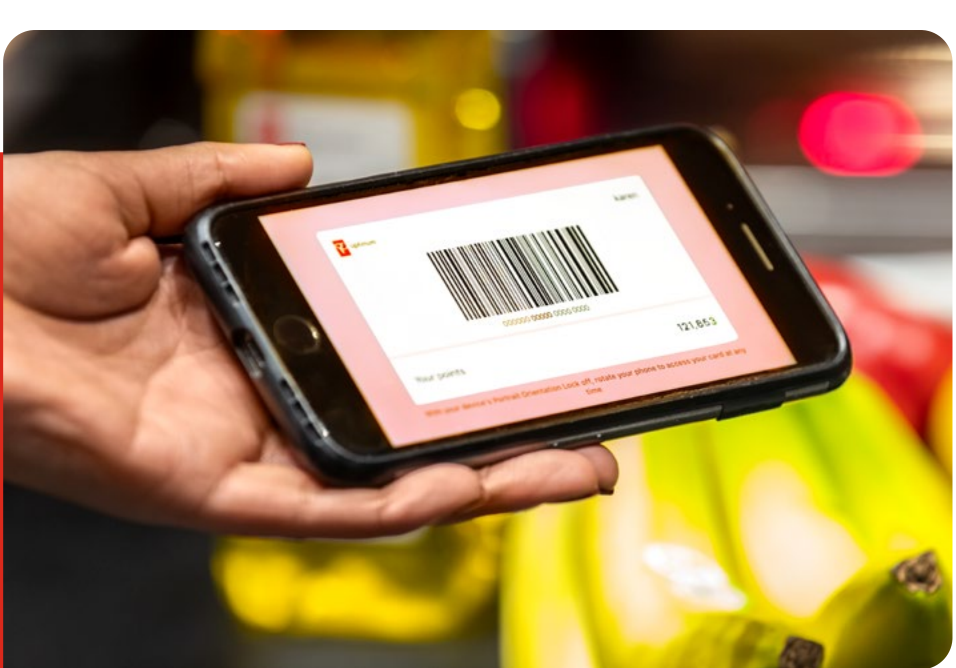
Colleagues, Culture and CORE Values
We understand the importance and relevance of an engaged and collaborative workforce. We welcome authenticity, encourage strong connections, value trust, and make daily decisions with our CORE values – Care, Ownership, Respect, Excellence – top of mind.

Technology & Analytics
We use technology and analytics to connect our customers to the things that matter most: food, health, and money. We enable our business strategy with world class data products and services, including: our agile framework, artificial intelligence and machine learning programs, and an ongoing journey to the cloud – all in an attempt to enhance our customers' experience.

Supply Chain
As one of the largest supply chain networks in North America, we are committed to efficiency, responsiveness, and serving the evolving needs of our stores and customers. Continually adopting new technology, embracing automation, and refining our processes allow us to increase our capacity, source with integrity, and reliably serve Canadians across the country.

Compliance and Ethical Conduct
Our commitment to compliance ensures our colleagues understand our regulatory and legal obligations and have the knowledge they need to comply with those rules. We encourage colleagues and vendors to speak up and take action when necessary, and our policies and training ensure they can conduct themselves in an ethical and compliant manner.

PC Optimum™ points issued through PC Financial® products including the PC Money™ Account



Loblaw Helps Yawdi's Take Off

Adrian Centea, Category Director at Loblaw, worked with Veneise George, a small business owner producing a line of Jamaican inspired sauces under the brand Yawdi's. Together they have successfully placed Yawdi's products in more than 100 Loblaw banner stores in Ontario. For more, visit **loblaw.ca**.

"Getting Black-owned businesses on store shelves is the first step towards addressing systemic equity barriers."

VENEISE GEORGE

Rabie Scores A Full-time Gig

Rabie Shah was hoping to win a student competition for a summer internship and instead landed a full-time job as a Senior Analyst on the Labour Management Team. Welcome to Loblaw Rabie, we're glad you're here. For more, visit **loblaw.ca**.

"I always wanted to work for Loblaw. The fact that it's a Canadian company aligns with my values. The focus on community and the student case competition is a great example of that."

RABIE SHAH

Corporate Governance Practices

The Board of Directors and senior executives of Loblaw Companies Limited are committed to strong corporate governance practices as a foundation to the effective management of the Company and its achievement of strategic, financial, and operational objectives.

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

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

Director Independence

The Canadian Securities Administrators' Corporate Governance Guidelines provide that a director is independent if he or she has no material relationship with the Company or its affiliates that could reasonably be expected to interfere with the exercise of the director's independent judgment. Approximately 83% of the directors on the Board are independent. The independent directors meet separately following each Board meeting. Information relating to each of the directors, including their independence, committee memberships, other public company boards on which they serve, as well as their attendance record for all Board and committee meetings, can be found in the Company's Management Proxy Circular.

Board Leadership

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

Board Responsibilities and Duties

The Board, directly and through its committees, supervises and oversees the management of the business and affairs of the Company. A copy of the Board's mandate can be found on the Company's website, **loblaw.ca**. The Board reviews the Company's strategic direction, assigns responsibility to management for the achievement of the strategy, approves major policy decisions, delegates to management the authority and responsibility of handling day-to-day affairs, and reviews management's performance and effectiveness. The Board's expectations of management are communicated to management directly and through committees of the Board. The Board regularly receives reports on the operating results of the Company as well as reports on certain non-operational matters, including insurance, pensions, corporate governance, environmental, social, workplace health and safety, legal, compliance and treasury matters. The Board also oversees the enterprise risk management (ERM) process, which is designed to assist all areas of the business in managing appropriate levels of risk tolerance by bringing a systematic approach, a methodology and tools for evaluating, measuring and monitoring key risks. The results of the ERM program and other business planning processes are used to identify emerging risks to the Company, prioritize risk management activities and develop a risk-based internal audit plan.

Ethical Business Conduct

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

The Company encourages the reporting of violations and potential violations and has established an **Integrity Action Line**, a toll-free number that any director, officer, supplier or employee may use to report conduct which he or she feels violates the Code or otherwise constitutes fraudulent or unethical conduct. A fraud reporting protocol has also been implemented to ensure that fraud is reported to senior management in a timely manner. In addition, the Audit Committee has endorsed procedures for the anonymous receipt, retention and handling of complaints regarding accounting, internal control or auditing matters. These procedures are available on the Company's website, **loblaw.ca**.

Board Committees

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

Audit Committee

The Audit Committee is responsible for the oversight of the integrity of the Company's financial statements and related public disclosure, as well as ESG disclosures. In doing so, the Audit Committee reviews management's administration of the Company's internal controls over financial reporting, disclosure controls and procedures and internal audit function and related party transactions. The Audit Committee also oversees procedures for the receipt, retention and follow-up of any complaints regarding the Company's accounting, internal controls and auditing matters.

Governance, Employee Development, Nominating and Compensation Committee

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

Pension Committee

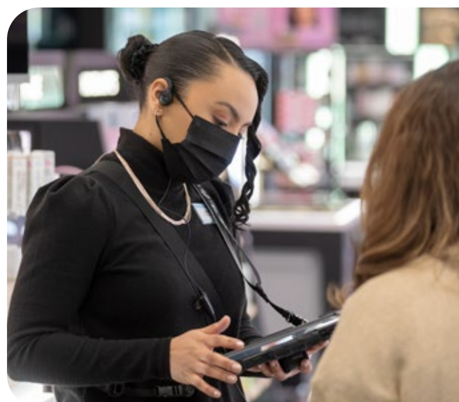
The Pension Committee is responsible for the oversight of the administration, management, design and governance of the Company's pension plans, as well as the administration and management of the Company's benefit programs.

Risk and Compliance Committee

The Risk and Compliance Committee is responsible for the oversight of the Company's legal and regulatory compliance and ethics compliance program, ERM program, ESG program, policy, pharmacy and drug safety matters, food safety and product safety matters and information systems and technology matters.

ESG Governance

The Board oversees and monitors the Corporation's approach, policies and practices related to ESG matters. Management has established an ESG Steering Committee, comprised of senior leaders, responsible for setting priorities, tracking metrics and championing program initiatives across the Corporation. Various management committees are responsible for setting priorities and implementing and monitoring ESG-related initiatives across the organization.



Board of Directors

GALEN G. WESTON, B.A., M.B.A.
Chairman and President, Loblaw Companies Limited; Chairman and Chief Executive Officer, George Weston Limited; Chairman, Wittington Investments, Limited; Chairman and Director, President's Choice Bank.

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

SCOTT B. BONHAM, B.Sc., M.B.A.[1, 4]
Corporate Director and a co-founder of Intentional Capital LLC; Former Co-Founder of GGV Capital; Former Vice-President, Capital Group Companies; Director, The Bank of Nova Scotia; Board Member of Canadian Institute of Advanced Research and the Denmark Bridge.

WARREN BRYANT, B.S., M.B.A.[2, 4*]
Corporate Director; Director, Dollar General Corporation; Former Chairman, President and Chief Executive Officer, Longs Drug Stores Corp.; Former Executive, Kroger Co.; Former member of the Executive Advisory Committee, Portland State University Food Industry Leadership Center; Former Chairman of the Board of Directors and Former member of the Board Executive Committee, National Association of Chain Drug Stores (NACDS); Former member of the Board of Directors, California Governor's Council on Physical Fitness and Sports; Former Director, Longs Drug Stores Corp., Pathmark Stores, Inc. and Office Depot Inc.

CHRISTIE J.B. CLARK, B. COMM., M.B.A., F.C.A., F.C.P.A.[1*, 3, 4]
Corporate Director; Former Chief Executive Officer and Senior Partner, PricewaterhouseCoopers LLP; Director, Air Canada, SNC-Lavalin Group Inc.; Trustee, Choice Properties Real Estate Investment Trust; Former Director, Hydro One Inc., Hydro One Limited; Board Member, Canadian Olympic Committee, Canadian Olympic Foundation, Own the Podium, the Sunnybrook Foundation.

DANIEL DEBOW, B.A., J.D./M.B.A., L.L.M.[1]
Vice President, Product, Shopify Inc.; Former founder and Chief Executive Officer, Helpful.com; Co-founder and former Co-Chief Executive Officer of Rypple; Founding team member of Workbrain.

WILLIAM A. DOWNE, C.M., M.B.A.[2*]
Corporate Director; Former Chief Executive Officer, Chief Operating Officer, Head of BMO Capital Markets, BMO Financial Group; Former Director, Bank of Montreal and its subsidiaries, BMO Nesbitt Burns Holding Corporation and BMO Financial Corp.; Lead Director, ManpowerGroup Inc.; Chairman, Trans Mountain Corporation; Director, Rush University System for Health; Board Member, Social and Economic Policy Advisory Board, Rand Corporation.

JANICE FUKAKUSA, F.C.P.A., F.C.A., B.A., M.B.A.[1]
Corporate Director; former Chief Financial Officer and Chief Administrative Officer, Royal Bank Of Canada; Director, Cineplex Inc., Brookfield Asset Management Inc., RioCan REIT; Chancellor, Ryerson University.

M. MARIANNE HARRIS, B.Sc., J.D., M.B.A.[1, 3, 4]
Corporate Director; Former Managing Director and President, Corporate and Investment Banking, Merrill Lynch Canada Inc., Former Head of Financial Institutions Group Americas, Merrill Lynch Pierce Fenner & Smith; Director, Sun Life Financial Inc.; Director, Public Sector Pension Investment Board; Former Director, Hydro One Inc./ Hydro One Limited; Former Chair, Investment Industry Regulatory Organization of Canada (IIROC); Member of Dean's Advisory Council, Schulich School of Business; Advisory Council, Hennick Centre for Business and Law.

CLAUDIA KOTCHA, B.B.A., C.P.A.[2, 4]
Corporate Director; Former Vice President, Design Innovation & Strategy, Procter & Gamble; Former Trustee, Cooper Hewitt Smithsonian Design Museum; Director, American Red Cross, Los Angeles Region.

BETH PRITCHARD, B.A., M.B.A.[2, 4]
Corporate Director; Director, e.l.f. Beauty, Inc.; Former Principal and Strategic Advisor, Sunrise Beauty Studio, LLC; Former North American Advisor, M. H. Alshaya Co.; Former President and Chief Executive Officer and Vice Chairman, Dean & DeLuca, Inc.; Former President and Chief Executive Officer, Bath & Body Works; Former Chief Executive Officer, Victoria's Secret Beauty; Former Director, Cabela's Incorporated, Shoppers Drug Mart Corporation, Zale Corporation, The Vitamin Shoppe, Inc., BorderFree Inc., Ecolab, Inc.

SARAH RAISS, B.S., M.B.A.[2, 3*]
Corporate Director; Former Executive, TransCanada Corporation; Director, Commercial Metals Company, Ritchie Bros Auctioneers Inc.; Former Chair, Alberta Electric Systems; Former Director, Canadian Oil Sands Limited, Shoppers Drug Mart Corporation, Vermillion Energy Inc.

Notes
[1] Audit Committee
[2] Governance, Employee Development, Nominating and Compensation Committee
[3] Pension Committee
[4] Risk and Compliance Committee
[*] Chair of the Committee

Leadership

GALEN G. WESTON
President and Chairman

RICHARD DUFRESNE
Chief Financial Officer

ROBERT SAWYER
Chief Operating Officer

ROBERT WIEBE
Chief Administrative Officer

NICK HENN
Executive Vice President, Chief Legal Officer and Secretary

DAVID MARKWELL
Executive Vice President, Chief Technology and Analytics Officer

MARK WILSON
Executive Vice President and Chief Human Resources Officer

JOCYANNE BOURDEAU
President, Discount Division

BARRY K. COLUMB
President, President's Choice Financial

IAN FREEDMAN
President, Joe Fresh

JEFF LEGER
President, Shoppers Drug Mart

GREG RAMIER
President, Market Division

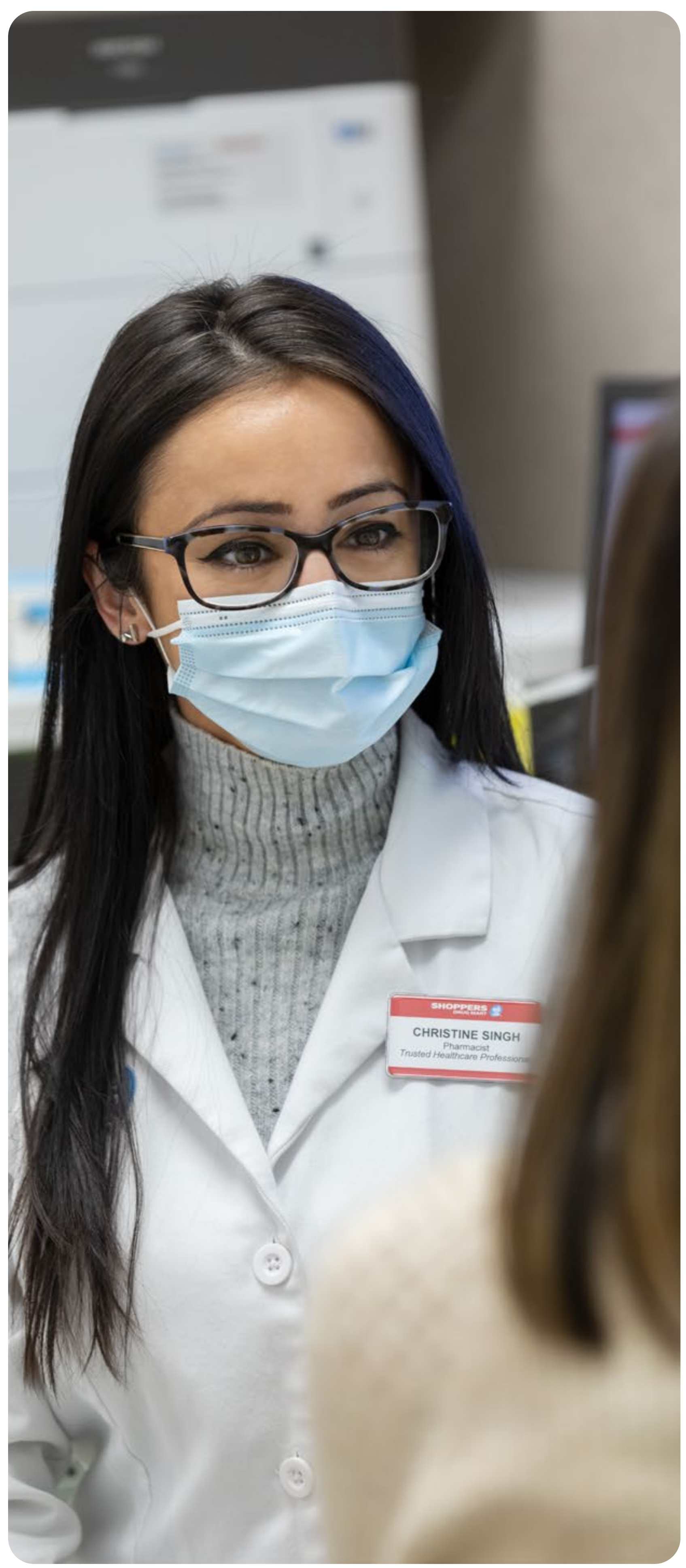
KEVIN GROH
Senior Vice President, Corporate Affairs and Communication

Environmental Savings Summary

By using 1,696 kg of paper manufactured with 30% post-consumer recycled fibre for the Annual Report and 2,366 kg of paper manufactured with 100% post-consumer recycled waste fibre for the 2021 Annual Report, Loblaw Companies Limited reduced its environmental footprint by:

Wood Use:	5,080 kg
Total Energy:	14.3 million BTUs
Greenhouse Gases:	695 kg of CO_2 equivalent
Wastewater Flow:	13,211 litres
Solid Waste:	51 kg

Environmental impact savings estimates were made using the Environmental Defense Paper Calculator, www.papercalculator.org. Amounts calculated are approximate based on industry averages.



loblaw.ca

pcexpress.ca

shoppersdrugmart.ca

pharmaprix.ca

pcfinancial.ca

presidentschoice.ca

pcoptimum.ca

joefresh.com

noname.ca

tntsupermarket.com

wellwise.ca

Apps

PC Express™

PC Optimum™

PC Health

Shoppers Drug Mart®

PC Financial®

Joe Fresh®

T&T®

Loblaw Companies Limited

®/™ Trademarks of Loblaws Inc. Shoppers Drug Mart® are trademarks of 911979 Alberta Ltd., used under licence. T&T® are trademarks of T&T Supermarket Inc., used under licence. Mastercard® is a registered trademark of Mastercard International Incorporated. President's Choice Bank is a licensee of the marks.

Live Life Well®

Loblaw
Companies
Limited

2021 Annual Report –
Financial Review

Financial Highlights[1]

As at or for the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020[4] (53 weeks)
Consolidated Results of Operations		
Revenue	**$ 53,170**	$ 52,714
Revenue growth	**0.9 %**	9.7 %
Operating income	**$ 2,937**	$ 2,365
Adjusted EBITDA[2]	**5,587**	5,004
Adjusted EBITDA margin[2]	**10.5 %**	9.5 %
Net interest expense and other financing charges	**$ 495**	$ 742
Adjusted net interest expense and other financing charges[2]	**684**	742
Income taxes	**466**	431
Adjusted income taxes[2]	**721**	580
Adjusted effective tax rate[2]	**26.3 %**	26.7 %
Net earnings	**$ 1,976**	$ 1,192
Net earnings attributable to shareholders of the Company	**1,875**	1,108
Net earnings available to common shareholders of the Company[i]	**1,863**	1,096
Adjusted net earnings available to common shareholders of the Company[2]	**1,911**	1,499
Consolidated per Common Share ($)		
Diluted net earnings	**$ 5.45**	$ 3.06
Adjusted diluted net earnings[2]	**$ 5.59**	$ 4.18
Dividends		
Dividends declared per common share ($)	**$ 1.400**	$ 1.280
Consolidated Financial Position and Cash Flows[ii]		
Cash and cash equivalents and short term investments	**$ 2,440**	$ 1,937
Cash flows from operating activities	**4,827**	5,191
Capital investments	**1,183**	1,224
Free cash flow[2]	**1,959**	2,247
Financial Measures		
Retail debt to retail adjusted EBITDA[2]	**2.6 x**	2.9 x
Adjusted return on equity[2]	**17.3 %**	13.8 %
Adjusted return on capital[2]	**9.8 %**	8.1 %

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

Financial Highlights[1]

As at or for the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021** **(52 weeks)**	2020[4] (53 weeks)
Retail Results of Operations		
Sales	**$ 52,269**	$ 51,859
Operating income	**2,713**	2,231
Adjusted gross profit[2]	**16,041**	15,300
Adjusted gross profit %[2]	**30.7 %**	29.5 %
Adjusted EBITDA[2]	**$ 5,322**	$ 4,845
Adjusted EBITDA margin[2]	**10.2 %**	9.3 %
Depreciation and amortization	**$ 2,623**	$ 2,571
Retail Operating Statistics		
Food retail same-store sales growth[6]	**0.3 %**	8.6 %
Drug retail same-store sales growth[6]	**5.0 %**	4.9 %
Drug retail same-store pharmacy sales growth	**8.4 %**	5.3 %
Drug retail same-store front store sales growth	**2.1 %**	4.5 %
Total retail square footage (in millions)	**71.2**	71.0
Number of corporate stores	**545**	550
Number of franchise stores	**551**	542
Number of Associate-owned drug stores	**1,342**	1,347
Financial Services Results of Operations		
Revenue	**$ 1,182**	$ 1,097
Earnings before income taxes	**160**	47
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	**$ 3,128**	$ 3,165
Credit card receivables	**3,443**	3,109
Allowance for credit card receivables	**205**	237
Annualized yield on average quarterly gross credit card receivables	**12.7 %**	13.3 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.5 %**	3.4 %

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The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included on page 73 to 146 of this Annual Report – Financial Review ("Annual Report").

The Company's annual audited consolidated financial statements and the accompanying notes for the year ended January 1, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except when otherwise noted.

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

The information in this MD&A is current to February 23, 2022, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 147.

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2021 (12 weeks ended January 1, 2022) are against results for the fourth quarter of 2020 (13 weeks ended January 2, 2021) and all comparisons of results for the full-year of 2021 (52 weeks ended January 1, 2022) are against the results for the full-year of 2020 (53 weeks ended January 2, 2021).

1. Forward-Looking Statements

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementation. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, Section 3 "Strategic Framework", Section 5.1 "Consolidated Results of Operations", Section 6.1 "Retail Segment", Section 6.2 "Financial Services Segment". Section 7 "Liquidity and Capital Resources", Section 9 "Quarterly Results of Operations", Section 12.1 "Operating Risks and Risk Management", Section 14 "Critical Accounting Estimates and Judgments", Section 15 "Accounting Standards, Section 16 "Outlook" and Section 17 "Non-GAAP Financial Measures". Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the Company's MD&A in the 2021 Annual Report, and the Company's 2021 Annual Information Form ("AIF") for the year ended January 1, 2022. Such risks and uncertainties include:

- duration and impact of the COVID-19 pandemic on the business, operations and financial condition of the Company, as well as on vendor operations, consumer behaviour and the economy in general;
- inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at the store and digital retail level;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems and related processes;
- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- adverse outcomes of legal and regulatory proceedings and related matters;
- failure to adapt to environmental and social risks, including failure to execute against the Company's climate change and social equity initiatives;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business and located in both advanced and developing markets;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and Associates (as defined below); and
- changes to any of the laws, rules, regulations or policies applicable to the Company's business.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2021 AIF (for the year ended January 1, 2022). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. Overview

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

3. Strategic Framework

Loblaw is driven by its purpose to help Canadians *Live Life Well*® which guides the Company's strategic framework. This framework centres around a passion for customers and drives investments in three key strategic priorities: Everyday Digital Retail, Payments and Rewards, and Connected Healthcare. Enabling these investments comes from a sharp focus on leveraging data driven insights and process efficiency excellence to deliver strong financial performance. The framework is supported by colleagues with a shared set of CORE values and culture principles that encourages colleagues to be authentic, build trust and make connections.

The Company strives to be the "best in food, health and beauty" and with its focus on retail excellence, it is constantly improving its retail operations to differentiate its customer offerings and deliver scale through its national logistics infrastructure. Building for the future, its purpose guides its investments in strategic growth initiatives to further differentiate its portfolio of assets, generate competitive advantages in products, services and price, improve its operational efficiencies, and create new areas of growth.

Retail operations benefit from more than one billion customer touchpoints annually and deliver a unique customer experience driven by industry leading control brands, healthy alternatives and a choice of in-store shopping, pick-up and delivery. The approach to being “best in food” is driven by fresh food selection, competitive value and customized assortments across banners. The approach to being “best in health and beauty” is supported by high quality health and wellness products and services, and a diverse and differentiated beauty offering.

Loblaw's purpose-led approach to addressing environmental, social and governance issues focuses on two priorities: fighting climate change and advancing social equity. Environmental, social and governance (“ESG”) considerations are central to decisions made across the Company. By integrating consideration of environmental and social risks and good governance practices in its day-to-day business activities, implementing robust compliance and ethics programs and supporting its colleagues and the communities in which it operates, the Company aims to be a leading contributor to Canadian society both today and for generations to come.

Together, each of these components forms a part of the strategic framework that guides our direction now and into the future.

4. Key Financial Performance Indicators[1]

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

As at or for the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020[4] (53 weeks)
Consolidated		
Revenue growth	**0.9 %**	9.7 %
Operating income	**$ 2,937**	$ 2,365
Adjusted EBITDA[2]	**5,587**	5,004
Adjusted EBITDA margin[2]	**10.5 %**	9.5 %
Net earnings	**$ 1,976**	$ 1,192
Net earnings attributable to shareholders of the Company	**1,875**	1,108
Net earnings available to common shareholders of the Company[i]	**1,863**	1,096
Adjusted net earnings available to common shareholders of the Company[2]	**1,911**	1,499
Diluted net earnings per common share ($)	**$ 5.45**	$ 3.06
Adjusted diluted net earnings per common share[2] ($)	**$ 5.59**	$ 4.18
Cash and cash equivalents and short term investments	**$ 2,440**	$ 1,937
Cash flows from operating activities	**4,827**	5,191
Free cash flow[2]	**1,959**	2,247
Financial Measures		
Retail debt to retail adjusted EBITDA[2]	**2.6 x**	2.9 x
Adjusted return on equity[2]	**17.3 %**	13.8 %
Adjusted return on capital[2]	**9.8 %**	8.1 %
Retail Segment		
Food retail same-store sales growth[6]	**0.3 %**	8.6 %
Drug retail same-store sales growth[6]	**5.0 %**	4.9 %
Operating income	**$ 2,713**	$ 2,231
Adjusted gross profit[2]	**16,041**	15,300
Adjusted gross profit %[2]	**30.7 %**	29.5 %
Adjusted EBITDA[2]	**$ 5,322**	$ 4,845
Adjusted EBITDA margin[2]	**10.2 %**	9.3 %
Financial Services Segment		
Earnings before income taxes	**$ 160**	$ 47
Annualized yield on average quarterly gross credit card receivables	**12.7 %**	13.3 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.5 %**	3.4 %

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

5. Overall Financial Performance

5.1 Consolidated Results of Operations

Unless otherwise indicated all financial information includes the impact of the 53rd week of 2020. The following is a summary of selected consolidated financial information for 2021:

As at or for the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020[4] (53 weeks)	$ Change	% Change
Revenue	**$ 53,170**	$ 52,714	$ 456	0.9 %
Operating income	**2,937**	2,365	572	24.2 %
Adjusted EBITDA[2]	**5,587**	5,004	583	11.7 %
Adjusted EBITDA margin[2]	**10.5 %**	9.5 %		
Depreciation and amortization	**$ 2,664**	$ 2,596	$ 68	2.6 %
Net interest expense and other financing charges	**495**	742	(247)	(33.3)%
Adjusted net interest expense and other financing charges[2]	**684**	742	(58)	(7.8)%
Income taxes	**466**	431	35	8.1 %
Adjusted income taxes[2]	**721**	580	141	24.3 %
Adjusted effective tax rate[2]	**26.3 %**	26.7 %		
Net earnings attributable to non-controlling interests	**$ 101**	$ 84	$ 17	20.2 %
Net earnings attributable to shareholders of the Company	**$ 1,875**	$ 1,108	$ 767	69.2 %
Net earnings available to common shareholders of the Company[i]	**1,863**	1,096	767	70.0 %
Adjusted net earnings available to common shareholders of the Company[2]	**1,911**	1,499	412	27.5 %
Diluted net earnings per common share ($)	**$ 5.45**	$ 3.06	$ 2.39	78.1 %
Adjusted diluted net earnings per common share[2] ($)	**$ 5.59**	$ 4.18	$ 1.41	33.7 %
Diluted weighted average common shares outstanding (in millions)	**341.8**	358.2		

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

The Company's focus on retail excellence drove strong operational and financial performance as the COVID-19 pandemic continued to impact operations and consumer behaviours. In Food Retail, sales remained strong as eat-at-home trends remained elevated even in periods where social restrictions loosened. In Drug Retail, sales benefited from growth in pharmacy services as nationwide COVID-19 testing and vaccinations ramped up throughout the year.

Higher margin front-store categories within Drug Retail, that had previously negatively impacted earnings, gained sales momentum as the economy opened up. Despite supply chain and inflationary pressures, Loblaw continued to deliver value in the categories that meant most to customers over the course of the pandemic.

Looking ahead, the COVID-19 pandemic has accelerated certain longer-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital Retail, Connected Healthcare Network, and Payments and Rewards.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share
Net earnings available to common shareholders of the Company were $1,863 million ($5.45 per common share) in 2021. This represented an increase of $767 million ($2.39 per common share) or 70.0% when compared to 2020, which was negatively impacted by $35 million due to the 53rd week in 2020. The increase included improvements in the underlying operating performance of $412 million and the favourable change in adjusting items totaling $355 million, as described below:

- the improvement in the underlying operating performance of $412 million ($1.15 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment driven by an increase in adjusted gross profit[(2)], partially offset by an increase in selling, general and administrative expenses ("SG&A") and depreciation and amortization;
  - an improvement in the underlying operating performance in the Financial Services segment; and
  - an improvement in interest expense primarily driven by a reduction in interest expense from lease liabilities and lower interest expense in the Financial Services segment.
- the favourable change in adjusting items totaling $355 million ($0.98 per common share) was primarily due to the following:
  - the favourable impact of the recovery related to Glenhuron Bank Limited ("Glenhuron") of $313 million ($0.92 per common share);
  - the year-over-year favourable change in restructuring and other related costs of $17 million ($0.05 per common share);
  - the year-over-year favourable change in fair value adjustment on fuel and foreign currency contracts of $14 million ($0.04 per common share); and
  - the year-over-year favourable change in fair value adjustment on non-operating properties of $8 million ($0.02 per common share).
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months ($0.26 per common share).

Adjusted net earnings available to common shareholders of the Company[(2)] were $1,911 million in 2021. When compared to 2020, this represented an increase of $412 million or 27.5%, which was negatively impacted by $35 million due to the 53rd week in 2020.

Adjusted net earnings per common share[(2)] in 2021 were $5.59. When compared to 2020, this represented an increase of $1.41 or 33.7%, which was negatively impacted by $0.10 due to the 53rd week in 2020. The increase includes the favourable impact of the repurchase of common shares. The two year adjusted diluted net earnings per common share[(2)] Compound Average Growth Rate ("CAGR")[(5)] was 20.2%.

Revenue

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020 (53 weeks)	$ Change	% Change
Retail	**$ 52,269**	$ 51,859	$ 410	0.8 %
Financial Services	**1,182**	1,097	85	7.7 %
Consolidation and Eliminations	**(281)**	(242)	(39)	(16.1)%
Revenue	**$ 53,170**	$ 52,714	$ 456	0.9 %

Revenue was $53,170 million in 2021, an increase of $456 million, or 0.9%, when compared to 2020, primarily driven by an increase in Retail segment sales of $410 million, which was negatively impacted by $878 million due to the 53rd week in 2020. The increase was also due to positive same-store sales growth and a net increase in Retail square footage. Furthermore, there was an improvement in Financial Services segment sales of $85 million.

Operating Income Operating income was $2,937 million in 2021, an increase of $572 million, or 24.2%, when compared to 2020, which was negatively impacted by $67 million due to the 53rd week in 2020. The increase in operating income was driven by improvements in the underlying operating performance of $512 million and a favourable impact of certain adjusting items totaling $60 million as described below:

- improvements in the underlying operating performance of $512 million were primarily due to the following:
  - an improvement in the underlying operating performance of the Retail segment due to an increase in adjusted gross profit[(2)], partially offset by an increase in SG&A and depreciation and amortization; and
  - an improvement in the underlying operating performance of the Financial Services segment.
- the favourable year-over-year impact of certain adjusting items totaling $60 million including:
  - the year-over-year favourable change in restructuring and other related costs of $25 million;
  - the year-over-year favourable impact of fair value adjustments on fuel and foreign currency contracts of $18 million; and
  - the year-over-year favourable change in fair value adjustment on non-operating properties of $11 million.

Adjusted EBITDA[(2)]

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020[(4)] (53 weeks)	$ Change	% Change
Retail	**$ 5,322**	$ 4,845	$ 477	9.8 %
Financial Services	**265**	159	106	66.7 %
Adjusted EBITDA[(2)]	**$ 5,587**	$ 5,004	$ 583	11.7 %

Adjusted EBITDA[(2)] was $5,587 million in 2021, an increase of $583 million, or 11.7%, when compared to 2020, which was negatively impacted by $67 million due to the 53rd week in 2020. The year-to-date increase in adjusted EBITDA[(2)] was primarily due to an increase in the Retail segment of $477 million and an increase in the Financial Services segment of $106 million.

Depreciation and Amortization Depreciation and amortization was $2,664 million in 2021, an increase of $68 million or 2.6% when compared to 2020. The increase in depreciation and amortization in 2021 was primarily driven by an increase in depreciation of IT and leased assets and an increase in depreciation in the Financial Services segment due to the launch of the *PC Money™* Account. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $506 million (2020 – $509 million).

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $495 million in 2021. When compared to 2020, this represented a decrease of $247 million. The decrease in net interest expense and other financing charges were primarily driven by the favourable impact of the recovery related to Glenhuron, a reduction in interest expense from lease liabilities and lower interest expense in the Financial Services segment. Please refer to "Income Taxes" section below for more details on the recovery related to Glenhuron.

Income Taxes

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020[4] (53 weeks)	$ Change	% Change
Income taxes	**$ 466**	$ 431	$ 35	8.1 %
Add (deduct) impact of the following				
Tax impact of items included in adjusted earnings before taxes	**127**	149	(22)	(14.8)%
Recovery related to Glenhuron	**128**	—	128	100.0 %
Adjusted income taxes[2]	**$ 721**	$ 580	$ 141	24.3 %
Effective tax rate	**19.1 %**	26.6 %		
Adjusted effective tax rate[2]	**26.3 %**	26.7 %		

Income tax expense was $466 million (2020 – $431 million) and the effective tax rate was 19.1% (2020 – 26.6%). The decrease to the year-to-date effective tax rate was primarily attributable to a recovery of $128 million related to Glenhuron and the impact of the reversal of the non-deductible interest related to Glenhuron.

Adjusted income tax expense in 2021 was $721 million (2020 – $580 million) and the adjusted effective tax rate[2] was 26.3% (2020 – 26.7%). The decrease to the year-to-date adjusted effective tax rate[2] was primarily attributable to higher earnings of lower tax rate entities as well as the impact of certain non-deductible items.

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 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 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.

Net earnings attributable to non-controlling interests Net earnings attributable to non-controlling interests were $101 million in 2021. Non-controlling interests represents the share of earnings that relates to the Company's Food Retail franchisees. When compared to 2020, this represented an increase of $17 million or 20.2%. The increases in non-controlling interests were primarily driven by an improvement in franchisee earnings when compared to 2020.

5.2 Selected Financial Information

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated January 1, 2022, January 2, 2021, and December 28, 2019. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the financial condition and results of the Company's operations over the most recent three years.

For the years ended January 1, 2022 and January 2, 2021 and December 28, 2019 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020[4][7] (53 weeks)	2019[4] (52 weeks)
Revenue	**$ 53,170**	$ 52,714	$ 48,037
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 %
Depreciation and amortization	**$ 2,664**	$ 2,596	$ 2,524
Adjusted net interest expense and other financing charges[2]	**684**	742	747
Adjusted effective tax rate[2]	**26.3 %**	26.7 %	26.0%
Net earnings	**$ 1,976**	$ 1,192	$ 1,131
Net earnings attributable to the shareholders of the Company	**1,875**	1,108	1,081
Net earnings available to common shareholders of the Company[i]	**1,863**	1,096	1,069
Adjusted net earnings available to common shareholders of the Company[2]	**1,911**	1,499	1,427
Basic net earnings per common share ($)	**$ 5.49**	$ 3.08	$ 2.93
Diluted net earnings per common share ($)	**$ 5.45**	$ 3.06	$ 2.90
Adjusted diluted net earnings per common share[2] ($)	**$ 5.59**	$ 4.18	$ 3.87
Diluted weighted average common shares (in millions)	**341.8**	358.2	368.4
Dividends declared per common share ($)	**$ 1.400**	$ 1.280	$ 1.240
Dividends declared per Second Preferred Share, Series B ($)	**$ 1.325**	$ 1.325	$ 1.325
Total assets	**$ 36,614**	$ 35,873	$ 36,309
Total long term debt	**$ 7,213**	$ 7,046	$ 7,098
Lease liabilities	**8,839**	8,901	9,110
Long term financial liabilities	**$ 16,052**	$ 15,947	$ 16,208

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

Revenue Revenue was $53,170 million in 2021, an increase of $456 million when compared to 2020, which was negatively impacted by $878 million due to the 53rd week in 2020. Food retail same-store sales growth[6] was 0.3% (2020 – 8.6%). Drug retail same-store sales growth[6] was 5.0% (2020 – 4.9%).

Revenue was $52,714 million in 2020, an increase of $4,677 million when compared to 2019, which was impacted by $878 million due to the 53rd week in 2020. Food retail same-store sales growth[6] was 8.6% (2019 – 1.1%). Drug retail same-store sales growth[6] was 4.9% (2019 – 3.6%).

The Company's Retail segment sales have continued to grow despite the pressure of a competitive retail market and an uncertain economic and regulatory environment over the last three years. In 2019, Food retail prices were inflationary. Drug retail prices were deflationary until the second quarter of 2019 when they returned to being inflationary. In 2020, the COVID-19 pandemic had a significant impact on the Company's colleagues, customers, suppliers and other stakeholders. The Company experienced sales volatility and changes in sales mix as the pandemic impacted consumer behaviour throughout the year. In 2021, COVID-19 has continued to have a significant impact on the Company, continuing to accelerate some long-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments and Rewards. In Food Retail, sales remained strong as eat-at-home trends remained elevated even in periods where social restrictions loosened. In Drug Retail, sales benefited from growth in pharmacy services as COVID-19 testing and vaccinations ramped up throughout the year. Higher margin front-store categories within Drug Retail, that had previously negatively impacted earnings, increased sales momentum as the economy opened up. Despite supply chain and inflationary pressures, Loblaw continued to deliver value in the categories that meant most to consumers over the course of the pandemic.

The Financial Services segment sales have continued to grow however have been impacted by the COVID-19 pandemic. The Company's Financial Services segment grew in 2019, mainly driven by growth in the credit card portfolio and The Mobile Shop™ kiosks. During 2020, the Company's Financial Services segment sales were negatively impacted by the COVID-19 pandemic from lower credit card related revenues from lower customer spending and lower sales attributable to the partial closure of *The Mobile Shop*™ kiosks during the second quarter of 2020. The Financial Services segment also launched the *PC Money*™ Account in the third quarter of 2020, an everyday banking product that allows account holders to earn *PC Optimum*™ points by making payments. The underlying operating performance of the Company's Financial Services segment improved in 2021. In 2021, the Financial Services segment benefited from an increase in customer spending and higher sales attributable to *The Mobile Shop*™ kiosks.

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

- the impact of the 53rd week in fiscal year 2020;
- changes in underlying operating performance of the Retail segment due to COVID-19. The Company's financial results for the year ended January 1, 2022 and January 2, 2021 had elevated revenue and cost of merchandise inventories sold when compared to 2019. In addition, SG&A increased in 2020 as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers which have stabilized in 2021;
- cost savings and operating efficiencies from Process and Efficiency initiatives and investments in and benefits from strategic initiatives;
- fluctuations in the performance of the Financial Services segment including the continued investments in strategic initiatives;
- the 2021 reversal of certain commodity taxes accrued;
- the favourable impact of the repurchase of common shares for cancellation;
- the impact of certain adjusting items, including:
    - the recovery related to Glenhuron;
    - restructuring and other related costs; and
    - the gain or loss on sale of non-operating properties.

Total Assets and Long Term Financial Liabilities In 2021, total assets of $36,614 million increased by 2.1% compared to 2020. The increase was primarily driven by an increase in receivables due to the recovery of taxes and interest from Glenhuron, an increase in credit card receivables and an increase in cash and cash equivalents. Long term financial liabilities of $16,052 million increased by 0.7% compared to 2020. This was primarily driven by an increase in long term debt due to *Eagle Credit Card Trust*® ("*Eagle*") issuance of $300 million of senior and subordinated term notes with a maturity date of June 17, 2026 at a weighted average interest rate of 1.61%. The increase was also due to an increase in the independent funding trust, partially offset by a decrease in Guaranteed Investment Certificates ("GIC").

In 2020, total assets of $35,873 million decreased by 1.2% compared to 2019. The decrease was primarily driven by the decrease in credit card receivables as a result of lower customer spending due to COVID-19 and an increase in depreciation and amortization of intangible and right-of-use assets. This was partially offset by an increase in cash and cash equivalents. Long term financial liabilities of $15,947 million decreased by 1.6% compared to 2019. This was primarily driven by decrease in lease liability due to lease payments, which was partially offset by additions of property leases and lease extensions.

6. Reportable Operating Segments Results of Operations

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

- The Retail segment consists primarily of corporate and franchise-owned retail food stores and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum*™ Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base; and
- The Financial Services segment provides credit card and everyday banking services, the *PC Optimum*™ Program, insurance brokerage services, and telecommunication services.

6.1 Retail Segment

Unless otherwise indicated all financial information includes the impact of the 53rd week of 2020.

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**	2020[4] (53 weeks)	$ Change	% Change
Sales	**$ 52,269**	$ 51,859	$ 410	0.8 %
Operating income	**2,713**	2,231	482	21.6 %
Adjusted gross profit[2]	**16,041**	15,300	741	4.8 %
Adjusted gross profit %[2]	**30.7 %**	29.5 %		
Adjusted EBITDA[2]	**$ 5,322**	$ 4,845	$ 477	9.8 %
Adjusted EBITDA margin[2]	**10.2 %**	9.3 %		
Depreciation and amortization	**$ 2,623**	$ 2,571	$ 52	2.0 %

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (52 weeks)**		2020 (53 weeks)	
	Sales	**Same-store sales[6]**	Sales	Same-store sales[6]
Food retail	**$ 37,481**	**0.3 %**	$ 37,596	8.6 %
Drug retail	**14,788**	**5.0 %**	14,263	4.9 %
Pharmacy	**7,224**	**8.4 %**	6,758	5.3 %
Front store	**7,564**	**2.1 %**	7,505	4.5 %

Sales Retail segment sales were $52,269 million in 2021, an increase of $410 million, or 0.8% when compared to 2020, which was negatively impacted by $878 million due to the 53rd week in 2020.

- Food retail same-store sales growth[6] was 0.3% (2020 – 8.6%) for 2021. Sales were impacted by lower eat-at-home trends after strong growth last year, offset by higher industry inflation levels. The two year Food Retail sales CAGR[5] was 5.4%.
    - Sales growth in food was flat;
    - Sales growth in pharmacy was flat;
    - The Consumer Price Index ("CPI") as measured by The Consumer Price Index for Food Purchased from Stores was 2.2% (2020 – 2.4%) which was slightly lower than the Company's internal food inflation.
    - On a comparable week basis Food Retail basket size decreased and traffic increased, when compared to 2020.
- Drug retail same-store sales growth[6] was 5.0% (2020 – 4.9%). Pharmacy same-store sales growth benefited from strong sales in pharmacy related services. Front store same-store sales growth benefited from the economic re-opening in the third quarter of 2021. The two year Drug Retail sales CAGR[5] was 5.3%.
    - Pharmacy same-store sales growth[6] was 8.4% (2020 – 5.3%). The number of prescriptions dispensed increased by 0.9% (2020 – 6.0%). On a same-store basis[6], the number of prescriptions dispensed increased by 2.7% (2020 – 4.2%) and the average prescription value increased by 4.7% (2020 – 0.5%).
    - Front store same-store sales growth[6] was 2.1% (2020 – 4.5%).

In 2021, 23 food and drug stores were opened, and 24 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.2 million square feet, or 0.3%.

Operating Income Operating income was $2,713 million in 2021, an increase of $482 million when compared to 2020, which was negatively impacted by $67 million due to the 53rd week in 2020. The increase was driven by improvements in the underlying operating performance of $422 million and the favourable change in adjusting items totaling $60 million, as described below:

- the improvements in the underlying operating performance of $422 million was primarily from an increase in adjusted gross profit[2], partially offset by an increase in SG&A and an increase in depreciation and amortization.
- the favourable change in adjusting items totaling $60 million was primarily due to the following:
    - the year-over-year favourable change in restructuring and other related costs of $25 million;
    - the year-over-year favourable impact of fair value adjustments on fuel and foreign currency contracts of $18 million; and
    - the year-over-year favourable change in fair value adjustment on non-operating properties of $11 million.

Adjusted Gross Profit[2] Adjusted gross profit[2] was $16,041 million in 2021, an increase of $741 million when compared to 2020. Adjusted gross profit percentage[2] of 30.7% increased by 120 basis points when compared to 2020, from favourable changes in sales mix in both Food and Drug Retail and improved business initiatives.

Adjusted EBITDA[2] Adjusted EBITDA[2] was $5,322 million in 2021, an increase of $477 million when compared to 2020. The increase was driven by an increase in adjusted gross profit[2] of $741 million, partially offset by an increase in SG&A of $264 million. SG&A as a percentage of sales was 20.5%, an increase of 30 basis points when compared to 2020. The unfavourable increase of 30 basis points was primarily driven by higher expenses related to the normalization of post-lockdown operating conditions, corporate costs including network optimization costs, and higher costs incurred in Drug Retail from providing pharmacy related services, partially offset by a reduction in COVID-19 costs.

Adjusted EBITDA[2] included gains of nil (2020 – nil) related to the sale and leaseback of properties to Choice Properties Real Estate Investment Trust ("Choice Properties") in 2021.

Depreciation and Amortization Depreciation and amortization was $2,623 million in 2021, an increase of $52 million when compared to 2020. The increase in depreciation and amortization was primarily driven by an increase in IT and leased assets. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $506 million (2020 – $509 million).

6.2 Financial Services Segment

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021** **(52 weeks)**	2020 (53 weeks)	$ Change	% Change
Revenue	**$ 1,182**	$ 1,097	$ 85	7.7 %
Earnings before income taxes	**160**	47	113	240.4 %

(millions of Canadian dollars except where otherwise indicated)	**As at** **January 1, 2022**	As at January 2, 2021	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,128**	$ 3,165	$ (37)	(1.2)%
Credit card receivables	**3,443**	3,109	334	10.7 %
Allowance for credit card receivables	**205**	237	(32)	(13.5)%
Annualized yield on average quarterly gross credit card receivables	**12.7 %**	13.3 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**2.5 %**	3.4 %		

Revenue Revenue was $1,182 million in 2021. When compared to 2020, this represented an increase of $85 million, primarily driven by:

- higher interchange income due to an increase in customer spending; and
- higher sales attributable to *The Mobile Shop*™ kiosks due to the temporary partial shutdown of *The Mobile Shop*™ kiosks during the second and third quarter of 2020;

which has been partially offset by,

- lower interest income attributable to a lower revolving volume of credit card receivables.

Earnings before income taxes Earnings before income taxes were $160 million in 2021. When compared to 2020, this represented an increase of $113 million. The increase was primarily driven by:

- the reversal of certain commodity tax accrued in the amount of $37 million;
- higher revenue, as described above;
- the reduction of expected credit loss provision in the current year, and the lapping of an increase in the expected credit loss provision from the prior year;
- lower contractual charge-off; and
- lower funding costs.

partially offset by,

- higher loyalty program costs and operating costs; and
- higher customer acquisition costs.

Credit Card Receivables As at January 1, 2022, credit card receivables were $3,443 million. When compared to January 2, 2021, this represented an increase of $334 million. This increase was primarily driven by an increase in customer spending partially offset by higher payment rates. The allowance for credit card receivables decreased to $205 million, a decrease of $32 million compared to January 2, 2021.

7. Liquidity and Capital Resources

7.1 Cash Flows

Major Cash Flow Components

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	2021 (52 weeks)	2020 (53 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of year	$ 1,668	$ 1,133	$ 535	47.2 %
Cash flows from (used in):				
Operating activities	$ 4,827	$ 5,191	$ (364)	(7.0)%
Investing activities	(1,271)	(1,376)	105	7.6 %
Financing activities	(3,249)	(3,282)	33	1.0 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	1	2	(1)	(50.0)%
Change in cash and cash equivalents	$ 308	$ 535	$ (227)	(42.4)%
Cash and cash equivalents, end of year	$ 1,976	$ 1,668	$ 308	18.5 %

Cash Flows from Operating Activities Cash flows from operating activities were $4,827 million in 2021, a decrease of $364 million compared to 2020. The decrease in cash flows from operating activities was primarily driven by an increase in credit card receivables from a rise in customer spending and higher income taxes paid, partially offset by higher cash earnings.

Cash Flows used in Investing Activities Cash flows used in investing activities were $1,271 million in 2021, a decrease of $105 million compared to 2020. The decrease in cash flows used in investing activities was primarily driven by the higher initial investment in Maple Corporation ("Maple") in the prior year and a decrease in short term investments in the current year.

Capital Investments and Store Activity

For the years ended January 1, 2022 and January 2, 2021	2021 (52 weeks)	2020 (53 weeks)	% Change
Corporate square footage (in millions)	35.1	35.5	(1.1)%
Franchise square footage (in millions)	17.2	16.7	3.0 %
Associate-owned drug store square footage (in millions)	18.9	18.8	0.5 %
Total retail square footage (in millions)	71.2	71.0	0.3 %
Number of corporate stores	545	550	(0.9)%
Number of franchise stores	551	542	1.7 %
Number of Associate-owned drug stores	1,342	1,347	(0.4)%
Total number of stores	2,438	2,439	— %
Percentage of corporate real estate owned	7 %	7 %	
Percentage of franchise real estate owned	4 %	4 %	
Percentage of Associate-owned drug store real estate owned	1 %	1 %	
Average store size (square feet)			
Corporate	64,400	64,500	(0.2)%
Franchise	31,200	30,800	1.3 %
Associate-owned drug store	14,100	14,000	0.7 %

Capital Investments Capital investments were $1,183 million in 2021, a decrease of $41 million or 3.3% compared to 2020.

Cash Flows used in Financing Activities Cash flows used in financing activities were $3,249 million in 2021, a decrease of $33 million compared to 2020. The decrease in cash flows used in financing activities was primarily driven by a net repayment of long term debt in the prior year of $69 million compared to a net issuance of long term debt of $169 million in the current year and the timing of the fourth quarter 2020 dividend payment, partially offset by fewer repurchases of common shares under the Company's Normal Course Issuer Bid ("NCIB") in the prior year.

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

Free Cash Flow[(2)]

				2021 (52 weeks)				2020 (53 weeks)
For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations[(i)]**	**Consolidated**	Retail	Financial Services	Eliminations[(i)]	Consolidated
Cash flows from (used in) operating activities	**$ 4,775**	**$ (16)**	**$ 68**	**$ 4,827**	$ 4,424	$ 683	$ 84	$ 5,191
Less:								
Capital investments	**1,154**	**29**	**—**	**1,183**	1,193	31	—	1,224
Interest paid	**271**	**—**	**68**	**339**	252	—	84	336
Lease payments, net	**1,346**	**—**	**—**	**1,346**	1,384	—	—	1,384
Free cash flow[(2)]	**$2,004**	**$ (45)**	**$ —**	**$ 1,959**	$ 1,595	$ 652	$ —	$ 2,247

(i) Interest paid is included in cash flows from (used in) operating activities under the Financial Services segment.

Free cash flow[(2)] from the Retail segment was $2,004 million in 2021, an increase of $409 million when compared to 2020. The increase in free cash flow[(2)] from the Retail segment was primarily driven by higher cash earnings, partially offset by higher income taxes paid.

Free cash flow[(2)] used in the Financial Services segment was $45 million in 2021, an increase of $697 million when compared to 2020. The increase in free cash flow[(2)] used in the Financial Services segment was primarily driven by an increase in credit card receivables from a rise in customer spending, partially offset by higher cash earnings.

7.2 Liquidity and Capital Structure

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

President's Choice Bank ("PC Bank") expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle* notes and GICs.

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

			As at January 1, 2022			As at January 2, 2021
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total
Bank indebtedness	**$ 52**	**$ —**	**$ 52**	$ 86	$ —	$ 86
Demand deposits from customers	**—**	**75**	**75**	—	24	24
Short term debt	**—**	**450**	**450**	—	575	575
Long term debt due within one year	**570**	**432**	**1,002**	—	597	597
Long term debt	**4,297**	**1,914**	**6,211**	4,811	1,638	6,449
Certain other liabilities(i)	**131**	**—**	**131**	117	—	117
Total debt excluding lease liabilities	**$ 5,050**	**$ 2,871**	**$ 7,921**	$ 5,014	$ 2,834	$ 7,848
Lease liabilities due within one year	**1,297**	**—**	**1,297**	1,379	—	1,379
Lease liabilities	**7,542**	**—**	**7,542**	7,522	—	7,522
Total debt including total lease liabilities	**$ 13,889**	**$ 2,871**	**$ 16,760**	$ 13,915	$ 2,834	$ 16,749

(i) As at January 1, 2022, certain other liabilities include financial liabilities of $57 million related to the sale of retail properties to Choice Properties (January 2, 2021 — $46 million).

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

	As at January 1, 2022	As at January 2, 2021(4)
Retail debt to retail adjusted EBITDA(2)	**2.6 x**	2.9 x

The Retail debt to retail adjusted EBITDA(2) ratio as at January 1, 2022 decreased compared to January 2, 2021, primarily due to an improvement in adjusted EBITDA(2).

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

Covenants and Regulatory Requirements The Company is required to comply with certain financial covenants for various debt instruments. As at January 1, 2022 and throughout the year, the Company was in compliance with such covenants. As at January 1, 2022 and throughout the year, PC Bank has met all applicable regulatory requirements.

7.3 Components of Total Debt

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**

Committed Credit Facility The Company has a $1.0 billion committed credit facility, with a maturity date of October 7, 2023, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants. During 2020, the Company withdrew and repaid $350 million under this facility. There were no withdrawals during 2021. As at January 1, 2022 and January 2, 2021, there were no amounts drawn under this facility.

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

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

(millions of Canadian dollars)	**As at January 1, 2022**	As at January 2, 2021
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust*®	**$ 1,350**	$ 1,050
Securitized to Other Independent Securitization Trusts	**450**	575
Total securitized to independent securitization trusts	**$ 1,800**	$ 1,625

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.

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.

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 Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at January 1, 2022, the Company provided a credit enhancement of $64 million (January 2, 2021 – $64 million) 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.

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

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

As at January 1, 2022, $182 million in GICs were recorded as long term debt due within one year (January 2, 2021 – $597 million).

Associate Guarantees The Company has arranged for its pharmacist owners of corporations licensed to operate retail drug stores at specific location using the Company's trademarks ("Associates") to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at January 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.

7.4 Financial Condition

Adjusted Return on Equity[2] and Adjusted Return on Capital[2]

	As at January 1, 2022	As at January 2, 2021[4]
Adjusted return on equity[2]	**17.3 %**	13.8 %
Adjusted return on capital[2]	**9.8 %**	8.1 %

Adjusted return on equity[2] as at January 1, 2022 increased compared to January 2, 2021 primarily due to an increase in the underlying operating performance of both the Retail segment and Financial Services segment.

Adjusted return on capital[2] as at January 1, 2022 increased compared to January 2, 2021 primarily due to an increase in tax-effected adjusted operating income[2] and an increase in cash and cash equivalents and short term investments.

7.5 Credit Ratings

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

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

During 2021, Dominion Bond Rating Service Morningstar confirmed the credit ratings and trend of the Company, and Standard and Poor's Global Ratings confirmed the credit ratings and outlook of the Company.

7.6 Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at January 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 (52 weeks)		2020 (53 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	**347,361,480**	**$ 6,837**	360,064,475	$ 7,065
Issued for settlement of stock options	**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	**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	**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 NCIB.

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Company's Board of Directors ("Board"), which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the 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	**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 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 George Weston Limited ("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.

7.7 Off-Balance Sheet Arrangements

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

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, surety bond, securitization of PC Bank's credit card receivables, letter of credit and third party financing made available to the Company's franchisees. The gross potential liability related to the Company's letters of credit is approximately $518 million as at January 1, 2022 (January 2, 2021 – $518 million).

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

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The Company has guaranteed lease obligations of a third party distributor in the amount of $2 million (January 2, 2021 – $3 million).

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard International Incorporated ("MasterCard") for accepting PC Bank as a card member and licensee of MasterCard. As at January 1, 2022, the guarantee on behalf of PC Bank to MasterCard was USD $190 million (January 2, 2021 – USD $190 million).

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.

7.8 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at January 1, 2022:

Summary of Contractual Obligations

	Payments due by year						
(millions of Canadian dollars)	2022	2023	2024	2025	2026	Thereafter	Total
Total debt (including interest payments[(i)])	$ 1,875	$ 1,607	$ 1,071	$ 733	$ 613	$ 4,299	$ 10,198
Foreign exchange forward contracts	321	—	—	—	—	—	321
Financial Liabilities[(ii)]	3	3	3	4	4	35	52
Lease payments	1,268	1,321	1,168	1,108	889	3,219	8,973
Contracts for purchases of investment projects[(iii)]	106	181	205	206	46	—	744
Purchase obligations[(iv)]	689	676	607	508	500	15	2,995
Total contractual obligations	$ 4,262	$ 3,788	$ 3,054	$ 2,559	$ 2,052	$ 7,568	$23,283

(i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities. Variable interest payments are based on the forward rates as of January 1, 2022.

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

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

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

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

8. Financial Derivative Instruments

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

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

	January 1, 2022 (52 weeks)			January 2, 2021 (53 weeks)		
(millions of Canadian dollars)	**Net asset/ (liability) Fair value**	**Gain/(loss) recorded in OCI**	**Gain/(loss) recorded in operating income**	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges						
Foreign Exchange Forwards[(i)]	**$ —**	**$ —**	**$ (1)**	$ —	$ —	$ —
Bond Forwards[(ii)]	**(1)**	**6**	**(7)**	—	(40)	(5)
Interest Rate Swaps[(iii)]	**1**	**1**	**—**	—	1	(4)
Total derivatives designated as cash flow hedges	**$ —**	**$ 7**	**$ (8)**	$ —	$ (39)	$ (9)

(i) PC Bank uses foreign exchange forwards, with a notional value of $19 million USD (2020 — nil), 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 (2020 — $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 (2020 — trade payables and other liabilities). During 2021, PC Bank settled $175 million of bond forward (2020 — $200 million), During 2020, the Company issued and settled $350 million of bond forward. The Company concluded that the hedge was effective as at settlement date.

(iii) PC Bank uses interest rate swaps, with notional value of $225 million (2020 — $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 (2020 — trade payables and other liabilities).

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 financial derivative instruments not designated in a formal hedging relationship:

	January 1, 2022 (52 weeks)			January 2, 2021 (53 weeks)		
(millions of Canadian dollars)	**Net asset/ (liability) Fair value**	**Gain/(loss) recorded in OCI**	**Gain/(loss) recorded in operating income**	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	**$ 2**	**$ —**	**$ 1**	$ (7)	$ —	$ (3)
Other Non-Financial Derivatives	**3**	**—**	**18**	(4)	—	(23)
Total derivatives not designated in a formal hedging relationship	**$ 5**	**$ —**	**$ 19**	$ (11)	$ —	$ (26)

9. Quarterly Results of Operations

9.1 Results by Quarter

The Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks due to an accounting convention common in the retail industry. Fiscal year 2021 was 52 weeks and fiscal year 2020 was 53 weeks. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

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

Summary of Consolidated Quarterly Results

					2021					2020[4]
(millions of Canadian dollars except where otherwise indicated)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**Total (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (13 weeks)	Total (53 weeks)
Revenue	**$11,872**	**$12,491**	**$16,050**	**$12,757**	**$53,170**	$11,800	$11,957	$15,671	$13,286	$52,714
Adjusted EBITDA[2]	**1,218**	**1,371**	**1,674**	**1,324**	**5,587**	1,165	1,008	1,518	1,313	5,004
Net earnings available to common shareholders of the Company	**313**	**375**	**431**	**744**	**1,863**	240	169	342	345	1,096
Adjusted net earnings available to common shareholders of the Company[2]	**392**	**464**	**540**	**515**	**1,911**	349	260	459	431	1,499
Net earnings per common share:										
Basic ($)	**$ 0.91**	**$ 1.10**	**$ 1.28**	**$ 2.23**	**$ 5.49**	$ 0.67	$ 0.47	$ 0.96	$ 0.98	$ 3.08
Diluted ($)	**$ 0.90**	**$ 1.09**	**$ 1.27**	**$ 2.20**	**$ 5.45**	$ 0.66	$ 0.47	$ 0.96	$ 0.98	$ 3.06
Adjusted diluted net earnings per common share[2] ($)	**$ 1.13**	**$ 1.35**	**$ 1.59**	**$ 1.52**	**$ 5.59**	$ 0.97	$ 0.72	$ 1.28	$ 1.22	$ 4.18
Food Retail same-store sales growth/(decline)[6]	**0.1 %**	**(0.1)%**	**0.2 %**	**1.1 %**	**0.3 %**	9.6 %	10.0 %	6.9 %	8.6 %	8.6 %
Drug Retail same-store sales growth/(decline)[6]	**(1.7)%**	**9.6 %**	**4.4 %**	**7.9 %**	**5.0 %**	10.7 %	(1.1)%	6.1 %	3.7 %	4.9 %

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

- COVID-19 pandemic related impacts on sales volume and sales mix;
- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the impact of the 53rd week in the fourth quarter of fiscal year 2020;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.4 million square feet to 71.2 million square feet.

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

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the impact of the 53rd week in the fourth quarter of fiscal year 2020;
- the timing of holidays;
- cost savings and operating efficiencies from Process and Efficiency initiatives and benefits from strategic initiatives;
- the Company's financial results for the year ended January 1, 2022 show increased revenue, driven by increased demand for the Company's products, as well as increased cost of merchandise inventories sold. In addition, SG&A had increased in 2020 as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers which have stabilized in 2021;
- fluctuations in the performance of the Financial Services segment including the continued investments in strategic initiatives;
- the 2021 reversal of certain commodity taxes accrued;
- the favourable impact of the repurchase of common shares for cancellation; and
- the impact of certain adjusting items, as set out in Section 17 "Non-GAAP Financial Measures", including:
    - restructuring and other related charges;
    - the recovery relating to Glenhuron; and
    - the gain or loss on sale of non-operating properties.

9.2 Fourth Quarter Results

Unless otherwise indicated all financial information includes the impact of the 53rd week of 2020. The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2021:

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[4] (13 weeks)	$ Change	% Change
Revenue	**$ 12,757**	$ 13,286	$ (529)	(4.0)%
Operating income	**705**	702	3	0.4 %
Adjusted EBITDA[2]	**1,324**	1,313	11	0.8 %
Adjusted EBITDA margin[2]	**10.4 %**	9.9 %		
Depreciation and amortization	**$ 623**	$ 609	$ 14	2.3 %
Net (recovery)/interest expense and other financing charges	**(29)**	166	(195)	(117.5)%
Adjusted net interest expense and other financing charges[2]	**160**	166	(6)	(3.6)%
Income taxes	**15**	142	(127)	(89.4)%
Adjusted income taxes[2]	**168**	175	(7)	(4.0)%
Adjusted effective tax rate[2]	**25.5 %**	26.7 %		
Net (loss)/earnings attributable to non-controlling interests	**(28)**	46	(74)	(160.9)%
Net earnings attributable to shareholders of the Company	**$ 747**	$ 348	$ 399	114.7 %
Net earnings available to common shareholders of the Company[i]	**744**	345	399	115.7 %
Adjusted net earnings available to common shareholders of the Company[2]	**515**	431	84	19.5 %
Diluted net earnings per common share ($)	**$ 2.20**	$ 0.98	$ 1.22	124.5 %
Adjusted diluted net earnings per common share[2] ($)	**$ 1.52**	$ 1.22	$ 0.30	24.6 %
Diluted weighted average common shares outstanding (in millions)	**338.1**	353.8		
Cash flows from (used in)[i]:				
Operating activities	**$ 1,024**	$ 1,380	$ (356)	(25.8)%
Investing activities	**(249)**	(275)	26	9.5 %
Financing activities	**(578)**	(940)	362	38.5 %
Dividends declared per common share ($)	**$ 0.365**	$ 0.335	$ 0.03	9.0 %
Dividends declared per Second Preferred Share, Series B ($)	**$0.33125**	$ 0.33125		

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

In the fourth quarter, Loblaw experienced strong demand as consumers continued to eat-at-home, particularly over the holiday period. The Company's focus on retail excellence resulted in operational and financial improvements, despite supply chain and inflationary pressures. Discount banners (representing 60% of Loblaw's Food Retail network) benefited from the return of price-sensitive customers, and conventional Market stores extended strong performance, with impactful promotional strategies. Drug Retail front-store and prescription sales benefited from the loosening of social restrictions in the quarter. The Drug Retail business continued to play an important role in supporting communities nationwide with COVID-19 testing and vaccine services. Loyalty and data-driven marketing promotions across the portfolio were effective as customers responded favourably to mass and personalized offers.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share
Net earnings available to common shareholders of the Company in the fourth quarter of 2021 were $744 million ($2.20 per common share). When compared to the fourth quarter of 2020, this represented an increase of $399 million ($1.22 per common share), which was negatively impacted by $35 million due to the 53rd week in 2020. The increase included improvements in the underlying operating performance of $84 million and the favourable change in adjusting items totaling $315 million, as described below:

- the improvement in underlying operating performance of $84 million ($0.23 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment was driven by an increase in adjusted gross profit[2], partially offset by an increase in SG&A and an increase in depreciation and amortization;
  - an improvement in the underlying operating performance in the Financial Services segment; and
  - the favourable impact from non-controlling interests.
- the favourable change in adjusting items totaling $315 million ($0.92 per common share) was primarily due to the following:
  - the favourable impact of the recovery related to Glenhuron of $313 million ($0.92 per common share);
  - the year-over-year unfavourable change in restructuring and other related costs of $11 million ($0.04 per common share); and
  - the year-over-year favourable change in fair value adjustment on non-operating properties of $8 million ($0.02 per common share);

  which has been partially offset by:
  - the year-over-year unfavourable change in fair value adjustment on fuel and foreign currency contracts of $9 million ($0.02 per common share); and
  - the year-over-year unfavourable impact of gain on the sale of non-operating properties of $7 million ($0.02 per common share).
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months ($0.07 per common share).

Adjusted net earnings available to common shareholders of the Company[2] in the fourth quarter of 2021 was $515 million. When compared to the fourth quarter of 2020, this represented an increase of $84 million, which was negatively impacted by $35 million due to the 53rd week in 2020.

Adjusted net earnings per common share[2] in the fourth quarter of 2021 was $1.52. When compared to the fourth quarter of 2020, this represented an increase of $0.30, which was negatively impacted by $0.10 due to the 53rd week in 2020. The two year adjusted diluted net earnings per common share[2] CAGR[5] was 30.0%. The two year adjusted diluted net earnings per common share CAGR[5] was positively impacted by lower fixed asset impairment in 2021 when compared to 2019. The impact on the CAGR[5] was 7.3%.

Revenue

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020 (13 weeks)	$ Change	% Change
Retail	**$ 12,486**	$ 13,043	$ (557)	(4.3)%
Financial Services	**360**	320	40	12.5 %
Consolidation and Eliminations	**(89)**	(77)	(12)	(15.6)%
Revenue	**$ 12,757**	$ 13,286	$ (529)	(4.0)%

Revenue was $12,757 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented a decrease of $529 million, or 4.0%. The decrease was primarily driven by a decrease in Retail segment sales of $557 million, which included the negative impact of the 53rd week in 2020 of $878 million. The decrease was partially offset by an increase in Financial Services segment sales of $40 million.

Operating Income Operating income was $705 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented an increase of $3 million, which was negatively impacted by $67 million due to the 53rd week in 2020. The increase included the favourable change in adjusting items totaling $6 million, partially offset by a decline in underlying operating performance of $3 million as described below:

- the favourable change in adjusting items totaling $6 million was primarily due to the following:
  - the year-over-year favourable change in restructuring and other related costs $16 million; and
  - the year-over-year favourable change in fair value adjustment on non-operating properties of $11 million;

  which has been partially offset by;
  - the year-over-year unfavourable impact of fair value adjustments on fuel and foreign currency contracts of $13 millions; and
  - the year-over-year unfavourable change in net gain on the sale of non-operating properties of $8 million;

partially offset by,

- an overall decline in segment performance primarily driven by the 53rd week in 2020 in Retail. This was partially offset by improvements in the Financial Services segment.

Adjusted EBITDA[2]

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021** **(12 weeks)**	2020[4] (13 weeks)	$ Change	% Change
Retail	**$ 1,244**	$ 1,251	$ (7)	(0.6)%
Financial Services	**80**	62	18	29.0 %
Adjusted EBITDA[2]	**$ 1,324**	$ 1,313	$ 11	0.8 %

Adjusted EBITDA[2] was $1,324 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented an increase of $11 million, which was negatively impacted by $67 million due to the 53rd week in 2020. The increase in adjusted EBITDA[2] was primarily due to an improvement in the Financial Services segment, partially offset by the decline in Retail which included the negative impact of the 53rd week in 2020.

Depreciation and Amortization Depreciation and amortization was $623 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented an increase of $14 million. The increase is primarily driven by an increase in depreciation of IT and leased assets and an increase in depreciation in the Financial Services segment due to the launch of the *PC Money*™ Account. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $117 million (2020 – $117 million).

Net Interest (Recovery)/Expense and Other Financing Charges Net interest recovery was $29 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented a decrease of $195 million. The decrease in net interest expense and other financing charges in the fourth quarter 2021 was primarily driven by the recovery of interest expense related to Glenhuron.

Income Taxes

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[4] (13 weeks)	$ Change	% Change
Income taxes	**$ 15**	$ 142	$ (127)	(89.4)%
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**25**	33	(8)	(24.2)%
Recovery related to Glenhuron	**128**	—	128	100.0 %
Adjusted income taxes[2]	**$ 168**	$ 175	$ (7)	(4.0)%
Effective tax rate	**2.0 %**	26.5 %		
Adjusted effective tax rate[2]	**25.5 %**	26.7 %		

Income tax expense in the fourth quarter of 2021 was $15 million (2020 – $142 million) and the effective tax rate was 2.0% (2020 – 26.5%). The decrease in the effective tax rate was primarily attributable to the recovery of income taxes related to Glenhuron, as well as the impact of certain non-deductible items.

Adjusted income tax expense[2] in the fourth quarter of 2021 was $168 million (2020 – $175 million) and the adjusted effective tax rate[2] was 25.5% (2020 – 26.7%). The decrease in the adjusted effective tax rate[2] was primarily attributable to the impact of certain non-deductible items.

Net loss attributable to non-controlling interests Net loss attributable to non-controlling interests was $28 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented a decrease of $74 million or 160.9%. Non-controlling interests represents the share of earnings that relates to the Company's Food Retail franchisees and is impacted by the timing of when profit sharing with franchisees is agreed and finalized under the terms of the agreements. On a full year basis, net earnings attributable to non-controlling interests of $101 million increased by $26 million when compared to 2020, reflecting an improvement in franchisee earnings.

Cash Flow

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020 (13 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,780**	$ 1,499	$ 281	18.7 %
Cash flows from (used in):				
Operating activities	**$ 1,024**	$ 1,380	$ (356)	(25.8)%
Investing activities	**(249)**	(275)	26	9.5 %
Financing activities	**(578)**	(940)	362	38.5 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(1)**	4	(5)	(125.0)%
Change in cash and cash equivalents	**$ 196**	$ 169	$ 27	16.0 %
Cash and cash equivalents, end of period	**$ 1,976**	$ 1,668	$ 308	18.5 %

Cash Flows from Operating Activities Cash flows from operating activities in the fourth quarter of 2021 were $1,024 million, a decrease of $356 million compared to the fourth quarter of 2020. The decrease in cash flows from operating activities was primarily driven by an increase in credit card receivables from a rise in customer spending and an unfavourable change in non-cash working capital.

Cash Flows used in Investing Activities Cash flows used in investing activities in the fourth quarter of 2021 were $249 million, a decrease of $26 million compared to the fourth quarter of 2020. The decrease in cash flows used in investing activities was primarily driven by a decrease in short term investments.

Cash Flows used in Financing Activities Cash flows used in financing activities in the fourth quarter of 2021 were $578 million, a decrease of $362 million compared to the fourth quarter of 2020. The decrease in cash flows used in financing activities was primarily driven by a net repayment of long term debt in the prior year of $177 million compared to a net issuance of long term debt of $43 million in the current year and fewer repurchases of common shares under the Company's NCIB in the current year.

Capital Investments In the fourth quarter of 2021, the Company invested $392 million (2020 – $418 million) in fixed asset purchases and intangible asset additions.

Free Cash Flow(2)

				2021 (12 weeks)				2020 (13 weeks)
For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Consolidated**	Retail	Financial Services	Eliminations(i)	Consolidated
Cash flows from (used in) operating activities	**$1,193**	**$ (186)**	**$ 17**	**$ 1,024**	$1,399	$ (44)	$ 25	$ 1,380
Less:								
Capital investments	**381**	**11**	**—**	**392**	413	5	—	418
Interest paid	**58**	**—**	**17**	**75**	46	—	25	71
Lease payments, net	**294**	**—**	**—**	**294**	285	—	—	285
Free cash flow(2)	**$ 460**	**$ (197)**	**$ —**	**$ 263**	$ 655	$ (49)	$ —	$ 606

(i) Interest paid is included in cash flows used in operating activities under the Financial Services segment.

Free cash flow(2) from the Retail segment in the fourth quarter of 2021 was $460 million, a decrease of $195 million compared to the fourth quarter of 2020. The decrease in free cash flow(2) from the Retail segment was primarily driven by an unfavourable change in non-cash working capital and an increase in income taxes paid.

Free cash flow(2) used in the Financial Services segment in the fourth quarter of 2021 was $197 million, an increase of $148 million compared to the fourth quarter of 2020. The increase in free cash flow(2) used in the Financial Services segment was primarily driven by an increase in credit card receivables from a rise in customer spending.

Segment Information

unaudited (millions of Canadian dollars)	January 1, 2022 (12 weeks) Retail	Financial Services	Eliminations(i)	Total	January 2, 2021(4) (13 weeks) Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$12,486**	**$ 360**	**$ (89)**	**$12,757**	$13,043	$ 320	$ (77)	$13,286
Operating income	**$ 636**	**$ 69**	**$ —**	**$ 705**	$ 649	$ 53	$ —	$ 702
Net interest expense and other financing charges	**(45)**	**16**	**—**	**(29)**	146	20	—	166
Earnings before income taxes	**$ 681**	**$ 53**	**$ —**	**$ 734**	$ 503	$ 33	$ —	$ 536
Operating income	**$ 636**	**$ 69**	**$ —**	**$ 705**	$ 649	$ 53	$ —	$ 702
Depreciation and amortization	**612**	**11**	**—**	**623**	600	9	—	609
Adjusting items(iii)	**113**	**—**	**—**	**113**	119	—	—	119
Less: amortization of intangible assets acquired with Shoppers Drug Mart	**(117)**	**—**	**—**	**(117)**	(117)	—	—	(117)
Adjusted EBITDA(iii)	**$ 1,244**	**$ 80**	**$ —**	**$ 1,324**	$ 1,251	$ 62	$ —	$ 1,313
Depreciation and amortization(iv)	**495**	**11**	**—**	**506**	483	9	—	492
Adjusted operating income	**$ 749**	**$ 69**	**$ —**	**$ 818**	$ 768	$ 53	$ —	$ 821

(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 $111 million (January 2, 2021 – $111 million) of interest income.
(iii) Certain items are excluded from operating income to derive adjusted EBITDA(2). Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.
(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $117 million (January 2, 2021 – $117 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

Retail Segment Fourth Quarter Results of Operations

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020(4) (13 weeks)	$ Change	% Change
Sales	**$ 12,486**	$ 13,043	$ (557)	(4.3)%
Operating income	**636**	649	(13)	(2.0)%
Adjusted gross profit(2)	**3,859**	3,832	27	0.7 %
Adjusted gross profit %(2)	**30.9 %**	29.4 %		
Adjusted EBITDA(2)	**$ 1,244**	$ 1,251	$ (7)	(0.6)%
Adjusted EBITDA margin(2)	**10.0 %**	9.6 %		
Depreciation and amortization	**$ 612**	$ 600	$ 12	2.0 %

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks) Sales	Same-store sales(6)	2020 (13 weeks) Sales	Same-store sales(6)
Food retail	**$ 8,742**	**1.1 %**	$ 9,302	8.6 %
Drug retail	**3,744**	**7.9 %**	3,741	3.7 %
Pharmacy	**1,728**	**10.2 %**	1,706	5.0 %
Front store	**2,016**	**6.1 %**	2,035	2.8 %

Sales Retail segment sales were $12,486 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented a decrease of $557 million, or 4.3%, which included the negative impact of the 53rd week in 2020 of $878 million, primarily driven by the following factors:

- Food retail same-store sales grew by 1.1% (2020 – 8.6%) for the quarter. Sales were impacted by lower eat-at-home trends after strong growth last year, offset by higher industry inflation levels. The two year Food Retail sales CAGR[5] was 4.8%.
  - Sales growth in food was modest;
  - Sales growth in pharmacy was modest;
  - The Consumer Price Index ("CPI") as measured by The Consumer Price Index for Food Purchased From Stores was 4.8% (2020 – 1.5%) which was slightly lower than the Company's internal food inflation.
  - Food Retail basket size decreased and traffic increased in the quarter when compared to the fourth quarter of 2020.
- Drug retail same-store sales grew by 7.9% (2020 – 3.7%). Pharmacy same-store sales growth benefited from strong sales in pharmacy related services. Front store same-store sales growth benefited from the economic re-opening in the third quarter of 2021. The two year Drug Retail sales CAGR[5] was 5.5%.
  - Pharmacy same-store sales[6] growth was 10.2% (2020 – 5.0%). The number of prescriptions dispensed decreased by 0.5% (2020 – increased by 9.3%). On a same-store basis, the number of prescriptions dispensed increased by 8.8% (2020 – 1.9%) and year-over-year, the average prescription value increased by 1.1% (2020 – 2.0%); and
  - Front store same-store sales increased by 6.1% (2020 – 2.8%).

In the last 12 months, 23 food and drug stores were opened, and 24 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.2 million square feet, or 0.3%.

Operating Income Operating income was $636 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented a decrease of $13 million, which included the negative impact of the 53rd week in 2020 of $67 million. The decline in operating income was $19 million, partially offset by the favourable change in adjusting items totaling $6 million, as described below:

- an overall decline of $19 million primarily driven by the negative impact of the 53rd week in 2020;

which was partially offset by,

- the favourable change in adjusting items totaling $6 million which was primarily due to the following:
  - the year-over-year favourable change in restructuring and other related costs $16 million; and
  - the year-over-year favourable change in net gain on sale of non-operating properties of $11 million

  which has been partially offset by;
  - the year-over-year unfavourable impact of fair value adjustments on fuel and foreign currency contracts of $13 millions; and
  - the year-over-year unfavourable change in net gain on the sale of non-operating properties of $8 million.

Adjusted Gross Profit[2] Adjusted gross profit[2] in the fourth quarter of 2021 was $3,859 million. When compared to the fourth quarter of 2020, this represented an increase of $27 million. Adjusted gross profit percentage[2] of 30.9% increased by 150 basis points when compared to the fourth quarter of 2020, from favourable changes in sales mix in both Food and Drug Retail and improved business initiatives.

Adjusted EBITDA[2] Adjusted EBITDA[2] was $1,244 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented a decrease of $7 million, which included the negative impact of the 53rd week of $67 million. The decrease was driven by an unfavourable increase in SG&A of $34 million, partially offset by higher adjusted gross profit[2] of $27 million. SG&A as a percentage of sales was 20.9%, an increase of 110 basis points compared to the fourth quarter of 2020. The unfavourable increase of 110 basis points was primarily driven by higher expenses related to the normalization of post-lockdown operating conditions, corporate costs including network optimization costs and higher costs incurred in Drug Retail from providing pharmacy related services, partially offset by a reduction in COVID-19 costs.

Depreciation and Amortization Depreciation and amortization in the fourth quarter of 2021 was $612 million. When compared to the fourth quarter of 2020, this represented an increase of $12 million, primarily driven by an increase in IT and leased assets. Included in depreciation and amortization was the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart of $117 million (2020 – $117 million).

Network Optimization In the fourth quarter of 2021, the Company finalized network optimization plans that will result in banner conversions, closures and right-sizing of approximately 20 unprofitable retail locations across a range of banners and formats, the majority of which will be banner conversions and 3 will be closures within Food retail. The Company expects to record charges of approximately $25 million to $35 million resulting from this network optimization. These charges will be recorded as incurred and are expected to include equipment, severance, lease related and other costs and will not be considered an adjusting item. The Company expects to realize approximately $25 million in annualized EBITDA run-rate savings related to these plans. In the fourth quarter of 2021, the Company recorded charges of $19 million as a result of this network optimization project. Further charges will be recorded as they are incurred throughout 2022.

Financial Services Segment Fourth Quarter Results of Operations

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020 (13 weeks)	$ Change	% Change
Revenue	**$ 360**	$ 320	$ 40	12.5 %
Earnings before income taxes	**53**	33	20	60.6 %

(millions of Canadian dollars except where otherwise indicated)	**As at January 1, 2022**	As at January 2, 2021	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,128**	$ 3,165	$ (37)	(1.2)%
Credit card receivables	**3,443**	3,109	334	10.7 %
Allowance for credit card receivables	**205**	237	(32)	(13.5)%
Annualized yield on average quarterly gross credit card receivables	**12.7 %**	13.3 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**2.5 %**	3.4 %		

Revenue Revenue was $360 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented an increase of $40 million. The increase was primarily driven by:

- higher interchange income due to an increase in customer spending; and
- higher sales attributable to *The Mobile Shop*™.

Earnings before income taxes Earnings before income taxes were $53 million in the fourth quarter of 2021. When compared to the fourth quarter of 2020, this represented an increase of $20 million. The increase was primarily driven by:

- higher revenue as described above;
- lower contractual charge-off;
- lower funding costs; and
- reversal of certain commodity taxes accrued in the amount of $27 million;

partially offset by,

- the reduction of expected credit loss provision in the prior year;
- higher loyalty program costs and operating costs; and
- higher customer acquisition costs.

Credit Card Receivables As at January 1, 2022, credit card receivables were $3,443 million. When compared to January 2, 2021, this represented an increase of $334 million. This increase was primarily driven by the increase in customer spending, partially offset by higher payment rates. The allowance for credit card receivables was $205 million, a decrease of $32 million compared to January 2, 2021.

10. Disclosure Controls and Procedures

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

As required by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Chairman and President and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at January 1, 2022.

11. Internal Control over Financial Reporting

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

As required by NI 52-109, the Chairman and President, and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at January 1, 2022.

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

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal control over financial reporting in 2021 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

12. Enterprise Risks and Risk Management

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

Risks are not eliminated through the ERM program, but rather, are identified and managed in line with the Company's Risk Appetite Statement and within approved risk tolerances. The Risk Appetite Statement articulates key aspects of the Company's businesses, values, and brands and provides directional guidance on risk taking.

RESPONSIBILITIES / OUTCOMES		KEY ACTIVITIES
Oversight of the ERM program and the alignment between strategy and risk	The Board	• Review of strategy plans, including capital allocation • Review enterprise risks and mitigation plans • Annual approval of the ERM policy and Risk Appetite Statement
Based on risk ownership assigned by the Board, responsible for managing risk and implementing risk mitigation strategies and operating within the approved risk appetite thresholds	Management	• Periodic updates to the Board by the ERM function on the status of key risks[i] • Long-term risk levels are assessed to monitor potential long-term risk impacts
The ERM Program • Facilitate effective corporate governance by providing a consolidated view of risks • Focus on key risks that could impact strategic objectives[ii] • Ensure risk appetite and tolerances are defined and understood • Promote a culture of awareness of risk management and compliance • Assist in developing risk management tools and methodologies • Anticipate and provide early warnings of risks through key risk indicators	ERM Program	**ERM assessment:** • Continuous update and risk identification • Carried out in parallel with strategic planning • Includes interviews surveys, workshops with management and the Board • Monitor changes to enterprise risk • Mitigation plan updates and review key risk indicators against tolerances
Mitigation of risks[ii]	Risk Owners	• Managing risk and implementation of risk mitigation strategies for Operating and Financial Risks

(i) Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risks would have on the Company's ability to execute on its strategies and achieve its objectives.

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

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

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

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

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

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

12.1 Operating Risks and Risk Management

The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Company's business, as included in the Company's AIF for the year ended January 1, 2022, which is hereby incorporated by reference:

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

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

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

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

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

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

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

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

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

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

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

IT Systems Implementation and Data Management The operations of the Company are reliant on the continuous and uninterrupted operations of critical technology systems. Any technology failure/outage pertaining to the availability, capacity or sustainability of the Company's IT systems may result in disruptions impacting the Company's customers or financial performance, or may negatively impact the Company's reputation. The Company continues to make investments in new IT systems to improve the operating effectiveness of the organization. Failure to successfully migrate from legacy systems to new IT systems or a significant disruption in the Company's current IT systems during the implementation of new systems could result in a lack of accurate data to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

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

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

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

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

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

The majority of prescription drug sales are reimbursed or paid by three types of payers: (i) government or public, (ii) private insurers or employers, and (iii) out-of-pocket by the patient. These payers have pursued and continue to pursue measures to manage the costs of their drug plans. Canada and each of the provinces has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers, which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing. Additionally, the pan-Canadian Pharmaceutical Alliance continues its work regarding cost reduction initiatives for pharmaceutical products and services.

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

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

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

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

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

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

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

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

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 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.

Environmental and Social As a leading Canadian food and pharmacy retailer, Loblaw is committed to creating positive environmental and social change by focusing on issues that matter most to the Company's customers, employees, communities and other stakeholders, with a particular focus on combating climate change and advancing social equity. Any failure or perceived failure to advance the ESG priorities of the Company or its stakeholders may negatively affect the Company's reputation, operations or financial performance.

Environmental The Company faces environmental risks that could, directly or indirectly, negatively impact the Company's reputation, operations or performance over the short or long term.

In particular, the Company is confronted with issues relating to climate change. As a large company, Loblaw has the opportunity to make a significant positive impact on the environment. To address this opportunity, Loblaw is focused on several strategic initiatives, including reducing emissions, food and plastic waste. Federal and provincial governments are also striving to combat climate change, including through the consideration and/or implementation of carbon reduction targets and financial mechanisms to reduce carbon emissions, such as carbon taxes, carbon pricing and caps and trade. In addition to its own initiatives, the Company may be required to make operational changes and/or incur significant financial costs to comply with the various governmental reforms, which may differ across jurisdictions. Additionally, certain global climate change patterns (e.g. rising sea levels, changing rain fall) may impact sourcing of food and food ingredients. Any failure to meet its strategic objectives, adhere to climate change reforms or to adapt to the impacts of climate change, such as failure to reduce emissions, eliminate food and plastic waste or mitigate sourcing and supply chain disruptions, could result in fines or could adversely affect the Company's reputation, operations or financial performance.

The Company maintains a portfolio of real estate and other facilities and is subject to environmental risks associated with the contamination of such properties and facilities, whether by previous owners or occupants, neighbouring properties or by the Company itself. In particular, the Company has a number of underground fuel storage tanks, the majority of which are used for its supply chain transport fleets. Contamination resulting from leaks from these tanks is possible. Additional environmental issues relating to matters or sites may require the Company to incur significant additional costs. The Company also operates refrigeration equipment in its stores and distribution centres to preserve perishable products as they pass through the supply chain and ultimately to consumers. These systems contain refrigerant gases which could be released if equipment fails or leaks. A release of these gases could have adverse effects on the environment. Failure to properly manage any of these environmental risks could adversely affect the reputation, operations or financial performance of the Company.

The Company is subject to legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. There is a risk that the Company will be subject to increased costs associated with these laws. In addition, the Company could be subject to increased or unexpected costs associated with environmental incidents and the related remediation activities, including litigation and regulatory related costs, all of which could adversely affect the reputation or financial performance of the Company.

Social The Company faces risks associated with social issues and has established certain priorities in response, including achieving adequate representation of traditionally under-represented groups in management positions and the colleague population as a whole, building a culture of inclusion and investing in communities, particularly by supporting women's and children's health. In the event that the Company is not perceived to have robust diversity and inclusion programs, its ability to attract, develop and retain colleagues could be compromised. The Company recognizes its responsibility to respect and protect the human rights of all people who support and intersect with the business, and is committed to not tolerating abuse, discrimination or harassment in any form. Ineffective action or inaction in response to social matters, including a failure or perceived failure to adequately address its priorities, could adversely affect the Company's reputation or financial performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On December 19, 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Please refer to the "Legal Proceedings" risk on page 44 of this MD&A.

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

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

12.2 Financial Risks and Risk Management

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

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

Liquidity	Credit
Commodity Prices	Interest Rates
Currency Exchange Rates	Credit Ratings

Liquidity Liquidity risk is the risk that the Company is unable to generate or obtain sufficient cash or its equivalents in a cost effective manner to fund its obligations as they come due. The Company is exposed to liquidity risk through, among other areas, PC Bank, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs, demand deposits from customers and the acceptance of 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.

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

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

Credit The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, 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.

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. 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.

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

13. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 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 Investments, Limited ("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. 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).

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, "Revenue from Contracts with Customers" 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. During 2021, $3 million (2020 – nominal) of interest expense was recognized in net interest expense and other financing charges and $4 million (2020 – nominal) of repayment was made on the financial liabilities to Choice Properties.

14. Critical Accounting Estimates and Judgments

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

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

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

14.1 Consolidation

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

14.2 Inventories

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

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

Judgments Made in Relation to Accounting Policies Applied Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGUs") for the purposes of testing fixed assets and right-of-use assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and 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.

14.4 Customer Loyalty Awards Programs

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

14.5 Impairment of Credit Card Receivables

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

- Movement of impairment measurement between the three stages of the ECL model, based on the assessment of the increase in credit risks on credit card receivables. The assessment of changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss experience and external credit scores;
- Thresholds for significant increase in credit risks based on changes in probability of default over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic condition, namely the unemployment rate. Management uses unemployment rate forecasts published by major Canadian Chartered Banks and the Conference Board of Canada to establish the base case scenario and other representative ranges of possible forecast scenarios.

14.6 Income and Other Taxes

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

14.7 Segment Information

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

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

14.8 Provisions

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

14.9 Leases

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

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

15. Accounting Standards

15.1 New 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 International Accounting Standards Board ("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.

15.2 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.

16. Strategic Update and Outlook[3]

Strategic Update

Two years into the pandemic, Loblaw's portfolio of businesses remains strong and well-positioned. With best-in-class assets, the Company continues to meet Canadians' everyday needs for food, health and wellness in an evolving landscape. Management's commitment to food and drug retail excellence comes with clarity and a sense of urgency to continue to deliver steady performance throughout 2022. This overarching priority is further strengthened by four strategic initiatives which are expected to drive incremental growth in the medium to long-term.

Retail Excellence Loblaw creates value through the disciplined execution of core retail operations and by leveraging its scale and strategic assets. Supported by ongoing process and efficiency initiatives, retail excellence activities focus on growing sales while improving gross margins and reducing operating costs. In 2022, the Company is focused on strategic buying and procurement opportunities to deliver reliability, selection and economies of scale to support its grocery and pharmacy network. Leveraging its customer loyalty program and billions of customer interactions across food, pharmacy, apparel, and financial services, Loblaw will increase its promotional effectiveness while delivering personalized value and unmatched service to Canadians. As announced in the third quarter of 2021, the Company also continues to optimize its retail network, to better serve customers and improve its overall profitability.

Strategic Growth Initiatives Loblaw continues to invest in targeted areas to further differentiate its portfolio of assets, generate competitive advantages in products, services and price, improve its operational efficiencies, and create new areas of growth. The four priority areas are: Digital Retail, Loblaw Media, *PC Optimum*™ and Connected Healthcare. The Company's Digital Retail platform delivered over $3.1 billion of sales in 2021 expanding its offering of food, front store pharmacy, prescriptions, Joe Fresh, and marketplace products. In 2022, the Company is focused on opportunities to optimize operational efficiencies particularly as they relate to delivery, and to offset the costs of e-commerce fulfillment through additional promotional and advertising strategies. The Loblaw Media platform presents the opportunity to expand advertising opportunities on the Company's digital platforms and in-stores, delivering an unmatched value proposition to vendors. The Company's *PC Optimum*™ loyalty program continues to evolve, with increasing digital engagement, more meaningful personalized offers, and an improving campaign return on investment while strengthening the loyalty loop and increasing share of customer wallet. Over the longer-term, Loblaw's Connected Healthcare strategy will grow its ecosystem by connecting patients and providers, underpinned by an unmatched network of pharmacies and healthcare professionals. In 2021, the rollout of tools, technology and centralized services allowed pharmacists to play an elevated role in the delivery of care, and the Company saw over 172% of growth in pharmacy services revenue. The Company will continue to expand the capability and reach of PC Health by building on the momentum of its virtual care visits via Maple Corporation and the recently announced partnership with Lifemark Health Group, Canada's largest physiotherapy and rehabilitation company.

Outlook[3]

Loblaw will continue to execute on retail excellence in its core grocery, pharmacy and apparel businesses while advancing its growth initiatives in 2022. In the third year of the pandemic, the Company's businesses remain well placed to service the everyday needs of Canadians. However, the Company cannot predict the precise impacts of COVID-19 and the current industry volatility on its 2022 financial results. Loblaw anticipates that in the first half of 2022 sales will benefit from the continued impact of the pandemic and elevated industry-wide inflation. As economies reopen and the Company starts to lap elevated 2021 inflationary prices and COVID-related pharmacy services, year on year revenue growth will be more challenged.

The Company expects:

- its Retail business to grow earnings faster than sales;
- Earnings per Common Share growth in the low double digits, with higher growth in the first half of the year;
- to invest approximately $1.4 billion in capital expenditures, net of proceeds from property disposals, reflecting incremental store and distribution network investments; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

17. Non-GAAP Financial Measures

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

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

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

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

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

				2021 (12 weeks)				2020 (13 weeks)
For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 12,486**	**$ 360**	**$ (89)**	**$ 12,757**	$ 13,043	$ 320	$ (77)	$ 13,286
Cost of merchandise inventories sold	**8,627**	**78**	**—**	**8,705**	9,211	67	—	9,278
Gross profit	**$ 3,859**	**$ 282**	**$ (89)**	**$ 4,052**	$ 3,832	$ 253	$ (77)	$ 4,008
Adjusted gross profit	**$ 3,859**	**$ 282**	**$ (89)**	**$ 4,052**	$ 3,832	$ 253	$ (77)	$ 4,008

				2021 (52 weeks)				2020 (53 weeks)
For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$52,269**	**$ 1,182**	**$ (281)**	**$ 53,170**	$ 51,859	$ 1,097	$ (242)	$ 52,714
Cost of merchandise inventories sold	**36,228**	**208**	**—**	**36,436**	36,559	166	—	36,725
Gross profit	**$ 16,041**	**$ 974**	**$ (281)**	**$ 16,734**	$ 15,300	$ 931	$ (242)	$ 15,989
Adjusted gross profit	**$ 16,041**	**$ 974**	**$ (281)**	**$ 16,734**	$ 15,300	$ 931	$ (242)	$ 15,989

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

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

			2021 (12 weeks)			2020[4] (13 weeks)
For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Consolidated**	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 747**			$ 348
Add impact of the following:						
Non-controlling interests			**(28)**			46
Net interest (recovery)/expense and other financing charges			**(29)**			166
Income taxes			**15**			142
Operating income	**$ 636**	**$ 69**	**$ 705**	$ 649	$ 53	$ 702
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 117**	**$ —**	**$ 117**	$ 117	$ —	$ 117
Fair value adjustment on fuel and foreign currency contracts	**6**	**—**	**6**	(7)	—	(7)
Gain on sale of non-operating properties	**—**	**—**	**—**	(8)	—	(8)
Fair value adjustment on non-operating properties	**(2)**	**—**	**(2)**	9	—	9
Restructuring and other related costs	**(8)**	**—**	**(8)**	8	—	8
Adjusting Items	**$ 113**	**$ —**	**$ 113**	$ 119	$ —	$ 119
Adjusted operating income	**$ 749**	**$ 69**	**$ 818**	$ 768	$ 53	$ 821
Depreciation and amortization	**612**	**11**	**623**	600	9	609
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(117)**	**—**	**(117)**	(117)	—	(117)
Adjusted EBITDA	**$ 1,244**	**$ 80**	**$ 1,324**	$ 1,251	$ 62	$ 1,313

For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**2021 (52 weeks)**			2020[4] (53 weeks)		
	Retail	**Financial Services**	**Consolidated**	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 1,875**			$ 1,108
Add impact of the following:						
Non-controlling interests			**101**			84
Net interest expense and other financing charges			**495**			742
Income taxes			**466**			431
Operating income	**$ 2,713**	**$ 224**	**$ 2,937**	$ 2,231	$ 134	$ 2,365
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 506**	**$ —**	**$ 506**	$ 509	$ —	$ 509
Restructuring and other related costs	**13**	**—**	**13**	38	—	38
Fair value adjustment on non-operating properties	**(2)**	**—**	**(2)**	9	—	9
Gain on sale of non-operating properties	**(12)**	**—**	**(12)**	(9)	—	(9)
Fair value adjustment on fuel and foreign currency contracts	**(13)**	**—**	**(13)**	5	—	5
Adjusting Items	**$ 492**	**$ —**	**$ 492**	$ 552	$ —	$ 552
Adjusted operating income	**$3,205**	**$ 224**	**$ 3,429**	$ 2,783	$ 134	$ 2,917
Depreciation and amortization	**2,623**	**41**	**2,664**	2,571	25	2,596
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(506)**	**—**	**(506)**	(509)	—	(509)
Adjusted EBITDA	**$5,322**	**$ 265**	**$ 5,587**	$ 4,845	$ 159	$ 5,004

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

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

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. Only restructuring activities that are publicly announced related to these initiatives are considered adjusting items.

In the fourth quarter of 2021, the Company recovered approximately $8 million of restructuring and other related recoveries related to the previously announced closure of two distribution centres in Laval and Ottawa. The recovery is due to a true-up in estimate of restructuring charges. The year-to-date restructuring and other related charges were $13 million. The Company is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Volumes from the distribution centre in Laval will be transferred to Cornwall and the Company expects to incur additional restructuring costs in 2022 related to these closures.

Fair value adjustment on non-operating properties The Company measures non-operating properties, which are investment properties and assets held for sale that were transferred from investment properties, at fair value. Under the fair value model, non-operating properties are initially measured at cost and subsequently measured at fair value. Fair value using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and terminal capitalization rates. Gains and losses arising from changes in the fair value are recognized in operating income in the period in which they arise.

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

Gain/loss on sale of non-operating properties In 2021, the Company record a gain related to the sale of non-operating properties of $12 million. In 2020, the Company disposed of non-operating properties to a third party and recorded a gain of $9 million related to the sale.

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

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**2021 (12 weeks)**	2020 (13 weeks)	**2021 (52 weeks)**	2020 (53 weeks)
Net interest (recovery)/expense and other financing charges	**$ (29)**	$ 166	**$ 495**	$ 742
Recovery related to Glenhuron	**189**	—	**189**	—
Adjusted net interest expense and other financing charges	**$ 160**	$ 166	**$ 684**	$ 742

Recovery related to Glenhuron In the fourth quarter of 2021, the Company recorded a recovery of $301 million related to the Supreme Court's decision on Glenhuron. Of the total recovery, $173 million was recorded in net interest and other financing charges and $128 million was recorded in income taxes. In addition, interest of $16 million, before taxes was recorded in respect of interest income earned on expected cash tax refunds.

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

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

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[(4)] (13 weeks)	**2021 (52 weeks)**	2020[(4)] (53 weeks)
Adjusted operating income[(i)]	**$ 818**	$ 821	**$ 3,429**	$ 2,917
Adjusted net interest expense and other financing charges[(i)]	**160**	166	**684**	742
Adjusted earnings before taxes	**$ 658**	$ 655	**$ 2,745**	$ 2,175
Income taxes	**$ 15**	$ 142	**$ 466**	$ 431
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes[(ii)]	**25**	33	**127**	149
Recovery related to Glenhuron	**128**	—	**128**	—
Adjusted income taxes	**$ 168**	$ 175	**$ 721**	$ 580
Effective tax rate	**2.0 %**	26.5 %	**19.1 %**	26.6 %
Adjusted effective tax rate	**25.5 %**	26.7 %	**26.3 %**	26.7 %

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

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

Recovery related to Glenhuron In the fourth quarter of 2021, the Company recorded a recovery of $301 million related to the Supreme Court's decision on Glenhuron. Of the total recovery, $173 million was recorded in net interest and other financing charges and $128 million was recorded in income taxes. In addition, interest of $16 million, before taxes was recorded in respect of interest income earned on expected cash tax refunds.

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

For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[4] (13 weeks)	**2021 (52 weeks)**	2020[4] (53 weeks)
Net earnings attributable to shareholders of the Company	**$ 747**	$ 348	**$ 1,875**	$ 1,108
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(12)
Net earnings available to common shareholders of the Company	**$ 744**	$ 345	**$ 1,863**	$ 1,096
Net earnings attributable to shareholders of the Company	**$ 747**	$ 348	**$ 1,875**	$ 1,108
Adjusting items (refer to the following table)	**(229)**	86	**48**	403
Adjusted net earnings attributable to shareholders of the Company	**$ 518**	$ 434	**$ 1,923**	$ 1,511
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(12)
Adjusted net earnings attributable to shareholders of the Company	**$ 515**	$ 431	**$ 1,911**	$ 1,499
Diluted weighted average common shares outstanding (millions)	**338.1**	353.8	**341.8**	358.2

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

	2021 (12 weeks)		2020[4] (13 weeks)		**2021 (52 weeks)**		2020[4] (53 weeks)	
For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars/ Canadian dollars)	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
As reported	**$ 744**	**$ 2.20**	$ 345	$ 0.98	**$ 1,863**	**$ 5.45**	$ 1,096	$ 3.06
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 87**	**$ 0.25**	$ 86	$ 0.23	**$ 372**	**$ 1.09**	$ 373	$ 1.03
Fair value adjustment on fuel and foreign currency contracts	**4**	**0.01**	(5)	(0.01)	**(10)**	**(0.03)**	4	0.01
Fair value adjustment on non-operating properties	**(1)**	**—**	7	0.02	**(1)**	**—**	7	0.02
Restructuring and other related costs	**(6)**	**(0.02)**	5	0.02	**10**	**0.03**	27	0.08
Loss (gain) on sale of non-operating properties	**—**	**—**	(7)	(0.02)	**(10)**	**(0.03)**	(8)	(0.02)
Recovery related to Glenhuron	**(313)**	**$ (0.92)**	—	—	**(313)**	**$ (0.92)**	—	—
Adjusting items	**$ (229)**	**$ (0.68)**	$ 86	$ 0.24	**$ 48**	**$ 0.14**	$ 403	$ 1.12
Adjusted[i]	**$ 515**	**$ 1.52**	$ 431	$ 1.22	**$ 1,911**	**$ 5.59**	$ 1,499	$ 4.18

(i) The comparative for Adjusted Diluted Net Earnings per Common Share has been restated due to rounding.

Free Cash Flow(2) The following table reconciles, by reportable operating segments, free cash flow to cash flows from operating activities as reported in the consolidated statements of cash flows for the periods ended as indicated. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

				2021 (12 weeks)				2020 (13 weeks)
For the periods ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Consolidated**	Retail	Financial Services	Eliminations(i)	Consolidated
Cash flows from (used in) operating activities	**$ 1,193**	**$ (186)**	**$ 17**	**$ 1,024**	$ 1,399	$ (44)	$ 25	$ 1,380
Less:								
Capital investments	**381**	**11**	**—**	**392**	413	5	—	418
Interest paid	**58**	**—**	**17**	**75**	46	—	25	71
Lease payments, net	**294**	**—**	**—**	**294**	285	—	—	285
Free cash flow(2)	**$ 460**	**$ (197)**	**$ —**	**$ 263**	$ 655	$ (49)	$ —	$ 606

(i) Interest paid is included in cash flows used in operating activities under the Financial Services segment.

				2021 (52 weeks)				2020 (53 weeks)
For the years ended January 1, 2022 and January 2, 2021 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Consolidated**	Retail	Financial Services	Eliminations(i)	Consolidated
Cash flows from (used in) operating activities	**$ 4,775**	**$ (16)**	**$ 68**	**$ 4,827**	$ 4,424	$ 683	$ 84	$ 5,191
Less:								
Capital investments	**1,154**	**29**	**—**	**1,183**	1,193	31	—	1,224
Interest paid	**271**	**—**	**68**	**339**	252	—	84	336
Lease payments, net	**1,346**	**—**	**—**	**1,346**	1,384	—	—	1,384
Free cash flow(2)	**$2,004**	**$ (45)**	**$ —**	**$ 1,959**	$ 1,595	$ 652	$ —	$ 2,247

(i) Interest paid is included in cash flows from (used in) operating activities under the Financial Services segment.

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

- ***Retail Debt to Retail Adjusted EBITDA*** Retail segment total debt divided by Retail segment adjusted EBITDA for the last four quarters. Please refer to section "7.2 Liquidity and Capital Structure" of this MD&A.
- ***Adjusted Return on Equity*** Adjusted net earnings available to common shareholders of the Company for the last four quarters divided by average total equity attributable to common shareholders of the Company. Please refer to section "7.4 Financial Condition" of this MD&A.
- ***Adjusted Return on Capital*** Tax-effected adjusted operating income for the last four quarters divided by average capital where capital is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments. Please refer to section "7.4 Financial Condition" of this MD&A.

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

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

The below summary reconciles the non-GAAP financial measures as previously reported in 2020 and 2019 to those reported under the new policy starting in the first quarter of 2021:

	12 weeks ended March 21, 2020			12 weeks ended June 13, 2020			16 weeks ended October 3, 2020			13 weeks ended January 2, 2021			53 weeks ended January 2, 2021		
(millions of Canadian dollars)	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated
Adjusted Operating income - previously reported	$ 691	$ 3	$ 694	$ 502	$ 34	$ 536	$ 840	$ 44	$ 884	$ 787	$ 53	$ 840	$2,820	$ 134	$2,954
Add (deduct) impact of the following:															
Fixed asset and other related Impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (17)	$ —	$ (17)	$ (17)	$ —	$ (17)
Restructuring and other related costs	(4)	—	(4)	(8)	—	(8)	(6)	—	(6)	(2)	—	(2)	(20)	—	(20)
Adjusting Items	$ (4)	$ —	$ (4)	$ (8)	$ —	$ (8)	$ (6)	$ —	$ (6)	$ (19)	$ —	$ (19)	$ (37)	$ —	$ (37)
Adjusted operating income - Restated	$ 687	$ 3	$ 690	$ 494	$ 34	$ 528	$ 834	$ 44	$ 878	$ 768	$ 53	$ 821	$2,783	$ 134	$ 2,917
Depreciation and amortization	589	5	594	593	5	598	789	6	795	600	9	609	2,571	25	2,596
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	(119)	(118)	—	(118)	(155)	—	(155)	(117)	—	(117)	(509)	—	(509)
Adjusted EBITDA - Restated	$ 1,157	$ 8	$1,165	$ 969	$ 39	$1,008	$1,468	$ 50	$ 1,518	$1,251	$ 62	$ 1,313	$4,845	$ 159	$5,004

(millions of Canadian dollars)	12 weeks ended March 23, 2019			12 weeks ended June 15, 2019			16 weeks ended October 5, 2019			12 weeks ended December 28, 2019			52 weeks ended December 28, 2019		
	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated
Adjusted Operating income - previously reported	$529	$ 50	$ 579	$ 669	$ 42	$ 711	$ 838	$ 36	$ 874	$ 670	$ 62	$ 732	$ 2,706	$ 190	$2,896
Add (deduct) impact of the following:															
Fixed asset and other related Impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (75)	$ —	$ (75)	$ (75)	$ —	$ (75)
Restructuring and other related costs	(12)	—	(12)	(16)	—	(16)	(21)	(1)	(22)	(23)	(1)	(24)	(72)	(2)	(74)
Pension annuities and buy-outs	(10)	—	(10)	—	—	—	—	—	—	—	—	—	(10)	—	(10)
Certain prior period items	—	—	—	15	—	15	—	—	—	7	—	7	22	—	22
Adjusting Items	$ (22)	$ —	$ (22)	$ (1)	$ —	$ (1)	$ (21)	$ (1)	$ (22)	$ (91)	$ (1)	$ (92)	$ (135)	$ (2)	$ (137)
Adjusted operating income - Restated	$507	$ 50	$ 557	$ 668	$ 42	$ 710	$ 817	$ 35	$852	$ 579	$ 61	$640	$2,571	$ 188	$2,759
Depreciation and amortization	575	5	580	575	5	580	771	4	775	581	8	589	2,502	22	2,524
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	(119)	(116)	—	(116)	(157)	—	(157)	(116)	—	(116)	(508)	—	(508)
Adjusted EBITDA - Restated	$963	$ 55	$ 1,018	$1,127	$ 47	$1,174	$1,431	$ 39	$1,470	$ 1,044	$ 69	$1,113	$ 4,565	$ 210	$4,775

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

	12 weeks ended March 21, 2020		12 weeks ended June 13, 2020		16 weeks ended October 3, 2020		13 weeks ended January 2, 2021		53 weeks ended January 2, 2021	
(millions of Canadian dollars/ Canadian dollars)	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
Adjusted - As previously reported	$ 352	$ 0.97	$ 266	$ 0.74	$ 464	$ 1.30	$ 445	$ 1.26	$ 1,527	$ 4.26
Add (deduct) impact of the following:										
Fixed asset and other related impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ (13)	$(0.04)	$ (13)	$ (0.04)
Restructuring and other related costs	(3)	—	(6)	(0.02)	(5)	(0.02)	(1)	—	(15)	(0.04)
Adjusting items	$ (3)	$ —	$ (6)	$(0.02)	$ (5)	$(0.02)	$ (14)	$(0.04)	$ (28)	$ (0.08)
Adjusted - Restated	$ 349	$ 0.97	$ 260	$ 0.72	$ 459	$ 1.28	$ 431	$ 1.22	$ 1,499	$ 4.18

	12 weeks ended March 23, 2019		12 weeks ended June 15, 2019		16 weeks ended October 5, 2019		12 weeks ended December 28, 2019		52 weeks ended December 28, 2019	
(millions of Canadian dollars/ Canadian dollars)	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
Adjusted - As previously reported	$ 290	$ 0.78	$ 373	$ 1.01	$ 458	$ 1.25	$ 395	$ 1.09	$ 1,516	$ 4.12
Add (deduct) impact of the following:										
Fixed asset and other related impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ (56)	$ (0.15)	$ (56)	$ (0.15)
Restructuring and other related costs	(9)	(0.02)	(12)	(0.03)	(15)	(0.04)	(18)	(0.05)	(54)	(0.15)
Pension annuities and buy-outs	(7)	(0.02)	—	—	—	—	—	—	(7)	(0.02)
Statutory corporate income tax rate change	—	—	4	0.01	—	—	—	—	4	0.01
Reserve release related to 2014 tax audit	—	—	—	—	8	0.02	—	—	8	0.02
Certain prior period items	—	—	11	0.03	—	—	5	0.01	16	0.04
Adjusting items	$ (16)	$ (0.04)	$ 3	$ 0.01	$ (7)	$ (0.02)	$ (69)	$ (0.19)	$ (89)	$ (0.25)
Adjusted - Restated	$ 274	$ 0.74	$ 376	$ 1.02	$ 451	$ 1.23	$ 326	$ 0.90	$ 1,427	$ 3.87

This policy change did not impact previously reported Retail segment gross profit, Retail segment adjusted gross profit and Retail segment adjusted gross profit percentage or adjusted net interest (recovery)/expense and other financing charges, as reported in the Company's 2020 annual and interim MD&A.

Non-GAAP Financial Measures - Selected Quarterly and Three Year Summary Reconciliations to GAAP Measures

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following table provides a reconciliation of adjusted EBITDA to operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company reported for the quarters and years ended as indicated.

(unaudited) ($ millions)					**2021**					2020[(4)]	2019[(4)]
	First Quarter (12 weeks)	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**Total (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (13 weeks)	Total (53 weeks)	Total (52 weeks)
Net earnings attributable to shareholders of the Company	**$ 316**	**$ 378**	**$ 434**	**$ 747**	**$1,875**	$ 243	$ 172	$ 345	$ 348	$ 1,108	$ 1,081
Add impact of the following:											
Non-controlling interests	**19**	**56**	**54**	**(28)**	**101**	33	(10)	15	46	84	50
Net interest (recovery)/ expense and other financing charges	**160**	**161**	**203**	**(29)**	**495**	172	176	228	166	742	747
Income taxes	**122**	**157**	**172**	**15**	**466**	93	66	130	142	431	392
Operating income	**$ 617**	**$ 752**	**$ 863**	**$ 705**	**$2,937**	$ 541	$ 404	$ 718	$ 702	$2,365	$2,270
Add (deduct) impact of the following:											
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 117**	**$ 117**	**$ 155**	**$ 117**	**$ 506**	$ 119	$ 118	$ 155	$ 117	$ 509	$ 508
Restructuring and other related costs	**4**	**8**	**9**	**(8)**	**13**	15	9	6	8	38	—
Gain on sale of non-operating properties	**(5)**	**—**	**(7)**	**—**	**(12)**	—	—	(1)	(8)	(9)	(12)
Fair value adjustment on fuel and foreign currency contracts	**(8)**	**(3)**	**(8)**	**6**	**(13)**	15	(3)	—	(7)	5	—
Fair value adjustment on non-operating properties	**—**	**—**	**—**	**(2)**	**(2)**	—	—	—	9	9	(7)
Adjusting items	**$ 108**	**$ 122**	**$ 149**	**$ 113**	**$ 492**	$ 149	$ 124	$ 160	$ 119	$ 552	$ 489
Adjusted operating income	**$ 725**	**$ 874**	**$1,012**	**$ 818**	**$3,429**	$ 690	$ 528	$ 878	$ 821	$2,917	$2,759
Depreciation and amortization	**610**	**614**	**817**	**623**	**2,664**	594	598	795	609	2,596	2,524
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(117)**	**(117)**	**(155)**	**(117)**	**(506)**	(119)	(118)	(155)	(117)	(509)	(508)
Adjusted EBITDA	**$1,218**	**$1,371**	**$1,674**	**$1,324**	**$5,587**	$ 1,165	$1,008	$ 1,518	$ 1,313	$5,004	$4,775

(i) Depreciation and amortization for the calculation of adjusted EBITDA excludes the amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to GAAP net interest expense and other financing charges reported for the periods ended as indicated.

(unaudited) (millions of Canadian dollars)	**2021** **(52 weeks)**	2020 (53 weeks)	2019 (52 weeks)
Net interest expense and other financing charges	**$ 495**	$ 742	$ 747
Recovery related to Glenhuron	**189**	—	—
Adjusted net interest expense and other financing charges	**$ 684**	$ 742	$ 747

Adjusted Income Taxes and Adjusted Effective Tax Rate The following table reconciles the effective tax rate applicable to adjusted earnings before taxes to the GAAP effective tax rate applicable to earnings before taxes as reported for the periods ended as indicated.

(unaudited) (millions of Canadian dollars)	**2021** **(52 weeks)**	2020[4] (53 weeks)	2019[4] (52 weeks)
Adjusted operating income[i]	**$ 3,429**	$ 2,917	$ 2,759
Adjusted net interest expense and other financing charges[i]	**684**	742	747
Adjusted earnings before taxes	**$ 2,745**	$ 2,175	$ 2,012
Income taxes	**$ 466**	$ 431	$ 392
Add (deduct) impact of the following:			
Tax impact of items included in adjusted earnings before taxes[ii]	**127**	149	131
Recovery related to Glenhuron	**128**	—	—
Adjusted income taxes	**$ 721**	$ 580	$ 523
Effective tax rate	**19.1 %**	26.6 %	25.7%
Adjusted effective tax rate	**26.3 %**	26.7 %	26.0%

(i) See reconciliations of adjusted operating income and adjusted net interest expense and other financing charges above.
(ii) See the adjusted EBITDA table and the adjusted net interest expense and other financing charges table above for a complete list of items excluded from adjusted earnings before taxes.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share The following tables reconcile adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to GAAP net earnings available to common shareholders of the Company and diluted net earnings per common share as reported for the quarters and years ended as indicated.

(unaudited) ($ millions)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**2021 Total (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (13 weeks)	2020(4) Total (53 weeks)	2019(4) Total (52 weeks)
As reported	**$ 313**	**$ 375**	**$ 431**	**$ 744**	**$1,863**	$ 240	$ 169	$ 342	$ 345	$1,096	$1,069
Add (deduct) impact of the following(i):											
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 86**	**$ 86**	**$ 113**	**$ 87**	**$ 372**	$ 87	$ 87	$ 113	$ 86	$ 373	$ 373
Restructuring and other related costs	**3**	**5**	**8**	**(6)**	**10**	11	6	5	5	27	—
Fair value adjustment on fuel and foreign currency contracts	**(6)**	**(2)**	**(6)**	**4**	**(10)**	11	(2)	—	(5)	4	—
Fair value adjustment on non-operating properties	**—**	**—**	**—**	**(1)**	**(1)**	—	—	—	7	7	(5)
Gain on sale of non-operating properties	**(4)**	**—**	**(6)**	**—**	**(10)**	—	—	(1)	(7)	(8)	(10)
Recovery related to Glenhuron	**—**	**—**	**—**	**(313)**	**(313)**	—	—	—	—	—	—
Adjusting items	**$ 79**	**$ 89**	**$ 109**	**$ (229)**	**$ 48**	$ 109	$ 91	$ 117	$ 86	$ 403	$ 358
Adjusted(i)	**$ 392**	**$ 464**	**$ 540**	**$ 515**	**$ 1,911**	$ 349	$ 260	$ 459	$ 431	$1,499	$1,427

(i) Net of income taxes and non-controlling interests, as applicable.

(unaudited) ($)	2021 First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)	2020[4] First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (13 weeks)	Total (53 weeks)	2019[4] Total (52 weeks)
As reported	**$ 0.90**	**$ 1.09**	**$ 1.27**	**$ 2.20**	**$ 5.45**	$ 0.66	$ 0.47	$ 0.96	$ 0.98	$ 3.06	$ 2.90
Add (deduct) impact of the following[i]:											
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 0.25**	**$ 0.25**	**$ 0.33**	**$ 0.25**	**$ 1.09**	$ 0.24	$ 0.25	$ 0.31	$ 0.23	$ 1.03	$ 1.01
Restructuring and other related costs	**0.01**	**0.01**	**0.03**	**(0.02)**	**0.03**	0.03	0.01	0.01	0.02	0.08	—
Fair value adjustment on fuel and foreign currency contracts	**(0.02)**	**—**	**(0.02)**	**0.01**	**(0.03)**	0.03	(0.01)	—	(0.01)	0.01	—
Fair value adjustment on non-operating properties	**—**	**—**	**—**	**—**	**—**	—	—	—	0.02	0.02	(0.01)
Gain on sale of non-operating properties	**(0.01)**	**—**	**(0.02)**	**—**	**(0.03)**	—	—	—	(0.02)	(0.02)	(0.03)
Recovery related to Glenhuron	**—**	**—**	**—**	**(0.92)**	**(0.92)**	—	—	—	—	—	—
Adjusting items	**$ 0.23**	**$ 0.26**	**$ 0.32**	**$(0.68)**	**$ 0.14**	$ 0.30	$ 0.25	$ 0.32	$ 0.24	$ 1.12	$ 0.97
Adjusted[i]	**$ 1.13**	**$ 1.35**	**$ 1.59**	**$ 1.52**	**$ 5.59**	$ 0.97	$ 0.72	$ 1.28	$ 1.22	$ 4.18	$ 3.87
Diluted weighted average common shares outstanding (millions)	**348.2**	**342.9**	**340.1**	**338.1**	**341.8**	361.2	359.5	358.0	353.8	358.2	368.4

(i) Net of income taxes and non-controlling interests, as applicable.

18. Additional Information

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

February 23, 2022
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 147 of the Company's 2021 Annual Report.
(2) See Section 17 "Non-GAAP Financial Measures", which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
(3) To be read in conjunction with Section 1 "Forward-Looking Statements".
(4) Certain figures have been restated due to the non-GAAP financial measures policy change. See section 17 "Non-GAAP Financial Measures."
(5) Compound Average Growth Rate ("CAGR") is the measure of annualized growth over a period longer than one year. CAGR as disclosed by the Company is the mean annual growth rate over a two year period, 2019 to 2021.
(6) 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.
(7) Certain figures have been restated to conform with current year presentation.

Financial Results

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Management's Statement of Responsibility for Financial Reporting

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

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

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

The Board of Directors, acting through an Audit Committee comprised solely of directors who are independent, 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:

				2021				2020
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations[(i)]**	**Total**	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.

Glossary of Terms

Term	Definition
Adjusted diluted net earnings per common share	Adjusted net earnings available to common shareholders including the effects of all dilutive instruments divided by the diluted weighted average number of common shares outstanding during the period (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA	Adjusted operating income before depreciation and amortization (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA margin	Adjusted EBITDA divided by sales (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted income tax	Income taxes adjusted for the tax impact of items included in adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted effective tax rate	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings attributable to shareholders of the Company	Net earnings attributable to shareholders of the Company adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings available to common shareholders of the Company	Adjusted net earnings attributable to shareholders of the Company less preferred dividends (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net interest expense and other financing charges	Net interest expense and other financing charges adjusted for items that are not necessarily reflective of the Company's ongoing net financing costs (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted operating income	Operating income adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on capital	Tax-effected adjusted operating income divided by average capital (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on equity	Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Annualized credit loss rate on average quarterly gross credit card receivables	Total credit card losses year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Annualized yield on average quarterly gross credit card receivables	Interest earned on credit card receivables year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Average article price	The year over year growth in Food retail revenue over the average number of articles sold in the Company's stores in the quarter. AAP is calculated by dividing Sales in Scope by Article Count for the timeframe chosen.
Basic net earnings per common share	Net earnings available to common shareholders divided by the weighted average number of common shares of the Company outstanding during the period.
Capital under management	Total debt plus total equity attributable to shareholders of the Company.
Capital Investments	Fixed asset additions and intangible asset additions (see notes 14 and 16 of the Company's Consolidated Financial Statements).
Control brand	A brand and associated trademark that is owned by the Company for use in connection with its own products and services.
Conversion	A store that changes from one Company banner to another Company banner.
Diluted net earnings per common share	Net earnings available to common shareholders of the Company adjusted for the impact of dilutive items divided by the weighted average number of common shares outstanding during the period adjusted for the impact of dilutive items.
Diluted weighted average common shares outstanding	Weighted average number of common shares outstanding including the effects of all dilutive instruments.
Free Cash Flow	Cash flows from operating activities less intangible asset additions, fixed asset purchases, interest paid and net lease payments (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Net earnings attributable to shareholders of the Company	Net earnings less non-controlling interests.
Net earnings available to common shareholders of the Company	Net earnings attributable to shareholders of the Company less preferred dividends.
Operating income	Net earnings before net interest expense and other financing charges and income taxes.
Renovation	A capital investment in a store resulting in no significant change to the store square footage.
Retail debt to retail adjusted EBITDA	Retail segment total debt (see Section 7.2 "Liquidity and Capital Structure" of the Company's Management Discussion and Analysis) divided by Retail segment adjusted EBITDA.
Retail segment adjusted gross profit	Retail segment gross profit, adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Retail segment adjusted gross profit percentage	Retail segment adjusted gross profit divided by Retail segment sales.
Retail segment gross profit	Retail segment sales less cost of merchandise inventories sold.
Same-store sales	Retail segment sales from the same location for stores in operation in that location in both comparable periods excluding sales from a store that has undergone a major expansion/contraction in the period.
Total equity attributable to common shareholders of the Company	Total equity less preferred shares outstanding and non-controlling interests.
Total equity attributable to shareholders of the Company	Total equity less non-controlling interests.
Total retail square footage	Total retail square footage includes corporate, franchised stores and associate-owned drug stores.
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the period the common shares were outstanding to the total time in that period.

Corporate Profile

National Head Office and Store Support Centre
Loblaw Companies Limited
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Brampton, Canada L6Y 5S5
Tel: (905) 459-2500
Fax: (905) 861-2206
Website: loblaw.ca

Stock Exchange Listing and Symbol
The Company's common shares and second preferred shares are listed on the Toronto Stock Exchange and trade under the symbols "L" and "L.PR.B.", respectively.

Common Shares
At year-end 2021, Galen G. Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 52.7% of the Company's common shares.

At year-end 2021, there were 333,527,369 common shares issued and outstanding.

The average daily trading volume of the Company's common shares for 2021 was 556,212

Preferred Shares
At year-end 2021, there were 9,000,000 second preferred shares, Series B issued and outstanding.

The average daily trading volume of the Company's second preferred shares, Series B for 2021 was 6,224.

Trademarks
Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited, its subsidiaries or the licensor and where used in this report, are marked with ™ or ® symbols, or written in italics.

Company Dividend Policy
The Company's dividend policy states: the declaration and payment of dividends and the amount thereof on the Company's common shares are at the discretion of the Board of Directors which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time.

Common Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payments dates for 2022 are:

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

Normal Course Issuer Bid
The Company has a Normal Course Issuer Bid on the Toronto Stock Exchange.

Value of Common Shares
For capital gains purposes, the valuation day (December 22, 1971) cost base for the Company is $0.958 per common share. The value on February 22, 1994 was $7.67 per common share.

Investor Relations
Shareholders, security analysts and investment professionals should direct their requests to Investor Relations at the Company's National Head Office or by e-mail at investor@loblaw.ca.

Registrar and Transfer Agent
Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1

Toll free: 1-800-564-6253 (Canada and U.S.)
Fax (416) 263-9394
Toll free fax: 1-888-453-0330
International direct dial: (514) 982-7555

To change your address, eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank.

Annual General Meeting
The 2022 Annual Meeting of Shareholders of Loblaw Companies Limited will be held virtually via a live webcast on Thursday, May 5, 2022 at 11:00 a.m. (EDT).

The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investors section of the Company's website (loblaw.ca).

Preferred Shares, Series B Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated payment dates for 2022 are:

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

Ce rapport est disponible en français.

loblaw.ca

pcexpress.ca

shoppersdrugmart.ca

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pcfinancial.ca

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wellwise.ca

Apps

PC Express™

PC Optimum™

PC Health

Shoppers Drug Mart®

PC Financial®

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