Financial Results

Management's Statement of Responsibility for Financial Reporting

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

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

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

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

Toronto, Canada
February 20, 2019

[signed]
Galen G. Weston
Executive Chairman

[signed]
Darren Myers
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited

Opinion

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

- the consolidated balance sheets as at December 29, 2018 and December 30, 2017
- the consolidated statements of earnings for the 52 week years then ended
- the consolidated statements of comprehensive income for the 52 week years then ended
- the consolidated statements of changes in equity for the 52 week years then ended
- the consolidated statements of cash flows for the 52 week years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 29, 2018 and December 30, 2017, and its consolidated financial performance and its consolidated cash flows for the 52 week years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 "2018 Annual Report - Financial Review".
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2018 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 "2018 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 "2018 Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Independent Auditors' Report

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

KPMG LLP

Toronto, Canada
February 20, 2019

Chartered Professional Accountants, Licensed Public Accountants

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

Consolidated Statements of Earnings

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars except where otherwise indicated)	2018	2017(i)
Revenue	**$ 46,693**	$ 46,587
Cost of Merchandise Inventories Sold	**32,537**	32,913
Selling, General and Administrative Expenses	**12,233**	11,625
Operating Income	**$ 1,923**	$ 2,049
Net interest expense and other financing charges (note 7)	**564**	374
Earnings Before Income Taxes	**$ 1,359**	$ 1,675
Income taxes (note 8)	**606**	365
Net Earnings from Continuing Operations	**$ 753**	$ 1,310
Net Earnings from Discontinued Operations (note 6)	**47**	231
Net Earnings	**$ 800**	$ 1,541
Attributable to:		
Shareholders of the Company	**$ 766**	$ 1,517
Non-Controlling Interests	**34**	24
Net Earnings	**$ 800**	$ 1,541
Net Earnings per Common Share - Basic ($) (note 9)		
Continuing Operations	**$ 1.88**	$ 3.24
Discontinued Operations	**$ 0.12**	$ 0.58
Net Earnings per Common Share - Diluted ($) (note 9)		
Continuing Operations	**$ 1.87**	$ 3.21
Discontinued Operations	**$ 0.12**	$ 0.58
Weighted Average Common Shares Outstanding (millions) (note 9)		
Basic	**376.7**	393.8
Diluted	**379.3**	397.3

(i) Comparative figures have been restated (notes 2 and 6).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)		2018		2017(i)
Net Earnings from Continuing Operations	**$**	**753**	$	1,310
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment (loss) gain	**$**	**(2)**	$	3
Unrealized (loss) gain on cash flow hedges (note 30)		**(3)**		2
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 26)		**91**		(19)
Adjustment to fair value on transfer of investment properties (note 16)		**16**		—
Other comprehensive income (loss) from continuing operations	**$**	**102**	$	(14)
Comprehensive Income from Continuing Operations	**$**	**855**	$	1,296
Net Earnings from Discontinued Operations (note 6)	**$**	**47**	$	231
Other comprehensive income from discontinued operations		**5**		—
Comprehensive Income from Discontinued Operations	**$**	**52**	$	231
Total Comprehensive Income	**$**	**907**	$	1,527
Attributable to:				
Shareholders of the Company	**$**	**873**	$	1,503
Non-Controlling Interests		**34**		24
Total Comprehensive Income	**$**	**907**	$	1,527

(i) Comparative figures have been restated (notes 2 and 6).

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 at December 30, 2017	$7,445	$ 221	**$7,666**	**$5,280**	**$ 110**	$ 36	$ 2	$ —	**$ 38**	**$ 40**	**$13,134**
Impact of adopting IFRS 9 (note 2)	—	—	**—**	**(72)**	**—**	—	—	—	**—**	**—**	**(72)**
Restated balance as at December 31, 2017	$7,445	$ 221	**$7,666**	**$5,208**	**$ 110**	$ 36	$ 2	$ —	**$ 38**	**$ 40**	**$13,062**
Net earnings	$ —	$ —	**$ —**	**$ 766**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 34**	**$ 800**
Other comprehensive income (loss)	—	—	**—**	**91**	**—**	(2)	2	16	**16**	**—**	**107**
Total Comprehensive Income (Loss)	$ —	$ —	**$ —**	**$ 857**	**$ —**	$ (2)	$ 2	$ 16	**$ 16**	**$ 34**	**$ 907**
Common shares purchased and cancelled (note 24)	(381)	—	**(381)**	**(886)**	**—**	—	—	—	**—**	**—**	**(1,267)**
Net effect of equity-based compensation (notes 24 and 27)	98	—	**98**	**(11)**	**(3)**	—	—	—	**—**	**—**	**84**
Shares purchased and held in trust (note 24)	(12)	—	**(12)**	**(24)**	**—**	—	—	—	**—**	**—**	**(36)**
Shares released from trust (note 27)	12	—	**12**	**25**	**—**	—	—	—	**—**	**—**	**37**
Discontinued operations (note 6)	—	—	**—**	**(144)**	**8**	—	(5)	—	**(5)**	**(9)**	**(150)**
Dividends declared per common share – $1.155 (note 24)	—	—	**—**	**(433)**	**—**	—	—	—	**—**	**—**	**(433)**
Dividends declared per preferred share – $1.325 (note 24)	—	—	**—**	**(12)**	**—**	—	—	—	**—**	**—**	**(12)**
Tax impact on conversion of Class C LP Units (note 6)	—	—	**—**	**—**	**(8)**	—	—	—	**—**	**—**	**(8)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(6)**	**(6)**
	$ (283)	$ —	**$ (283)**	**$ (628)**	**$ (3)**	$ (2)	$ (3)	$ 16	**$ 11**	**$ 19**	**$ (884)**
Balance at December 29, 2018	$7,162	$ 221	**$7,383**	**$4,580**	**$ 107**	$ 34	$ (1)	$ 16	**$ 49**	**$ 59**	**$12,178**

(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	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance at December 31, 2016	$ 7,692	$ 221	**$ 7,913**	**$ 4,944**	**$ 112**	$ 33	$ —	**$ 33**	**$ 26**	**$13,028**
Impact of adopting IFRS 15 (note 2)	—	—	**—**	**31**	**—**	—	—	**—**	**—**	**31**
Impact of change in accounting policy (note 2)	—	—	**—**	**36**	**—**	—	—	**—**	**—**	**36**
Restated balance as at January 1, 2017	$ 7,692	$ 221	**$ 7,913**	**$ 5,011**	**$ 112**	$ 33	$ —	**$ 33**	**$ 26**	**$13,095**
Net earnings(i)	$ —	$ —	**$ —**	**$ 1,517**	**$ —**	$ —	$ —	**$ —**	**$ 24**	**$ 1,541**
Other comprehensive income (loss)	—	—	**—**	**(19)**	**—**	3	2	**5**	**—**	**(14)**
Total Comprehensive Income (Loss)	$ —	$ —	**$ —**	**$ 1,498**	**$ —**	$ 3	$ 2	**$ 5**	**$ 24**	**$ 1,527**
Common shares purchased and cancelled (note 24)	(301)	—	**(301)**	**(790)**	**—**	—	—	**—**	**—**	**(1,091)**
Net effect of equity-based compensation (notes 24 and 27)	48	—	**48**	**—**	**(2)**	—	—	**—**	**—**	**46**
Shares purchased and held in trust (note 24)	(13)	—	**(13)**	**(35)**	**—**	—	—	**—**	**—**	**(48)**
Shares released from trust (note 27)	19	—	**19**	**29**	**—**	—	—	**—**	**—**	**48**
Dividends declared per common share – $1.070 (note 24)	—	—	**—**	**(421)**	**—**	—	—	**—**	**—**	**(421)**
Dividends declared per preferred share – $1.325 (note 24)	—	—	**—**	**(12)**	**—**	—	—	**—**	**—**	**(12)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	**—**	**(10)**	**(10)**
	$ (247)	$ —	**$ (247)**	**$ 269**	**$ (2)**	$ 3	$ 2	**$ 5**	**$ 14**	**$ 39**
Balance at December 30, 2017	$ 7,445	$ 221	**$ 7,666**	**$ 5,280**	**$ 110**	$ 36	$ 2	**$ 38**	**$ 40**	**$13,134**

(i) Comparative figures have been restated (notes 2 and 6).

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017[(i)]
Assets		
Current Assets		
Cash and cash equivalents (note 10)	**$ 1,065**	$ 1,798
Short term investments (note 10)	**94**	546
Security deposits (note 10)	**800**	—
Accounts receivable (note 11)	**1,198**	1,188
Credit card receivables (note 12)	**3,329**	3,100
Inventories (note 13)	**4,803**	4,438
Prepaid expenses and other assets	**304**	224
Assets held for sale (note 14)	**44**	33
Total Current Assets	**$ 11,637**	$ 11,327
Fixed Assets (note 15)	**5,931**	10,669
Equity Accounted Joint Ventures	**—**	19
Investment Properties (note 16)	**234**	276
Intangible Assets (note 17)	**7,798**	8,251
Goodwill (note 18)	**3,942**	3,922
Deferred Income Tax Assets (note 8)	**144**	134
Franchise Loans Receivable (note 30)	**78**	166
Other Assets (note 19)	**389**	383
Total Assets	**$ 30,153**	$ 35,147
Liabilities		
Current Liabilities		
Bank indebtedness (note 33)	**$ 56**	$ 110
Trade payables and other liabilities	**5,302**	5,233
Loyalty liability (note 20)	**228**	349
Provisions (note 21)	**165**	283
Income taxes payable	**131**	128
Short term debt (note 12)	**915**	640
Long term debt due within one year (note 22)	**1,647**	1,635
Associate interest	**260**	263
Total Current Liabilities	**$ 8,704**	$ 8,641
Provisions (note 21)	**152**	169
Long Term Debt (note 22)	**6,379**	9,542
Trust Unit Liability	**—**	972
Deferred Income Tax Liabilities (note 8)	**1,947**	1,989
Other Liabilities (note 23)	**793**	700
Total Liabilities	**$ 17,975**	$ 22,013
Equity		
Share Capital (note 24)	**$ 7,383**	$ 7,666
Retained Earnings	**4,580**	5,280
Contributed Surplus (note 27)	**107**	110
Accumulated Other Comprehensive Income	**49**	38
Total Equity Attributable to Shareholders of the Company	**$ 12,119**	$ 13,094
Non-Controlling Interests	**59**	40
Total Equity	**$ 12,178**	$ 13,134
Total Liabilities and Equity	**$ 30,153**	$ 35,147

(i) Certain comparative figures have been restated (note 2).

Contingent Liabilities (note 32).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 29, 2018 and December 30, 2017 (millions of Canadian dollars)		2018		2017[i]
Operating Activities				
Net earnings	**$**	**800**	$	1,541
Add (Deduct):				
Income taxes (notes 6 and 8)		**664**		449
Net interest expense and other financing charges (notes 6 and 7)		**880**		525
Adjustment to fair value of investment properties		**43**		—
Depreciation and amortization		**1,592**		1,568
Asset impairments, net of recoveries		**103**		97
Gain on disposition of gas bar operations		**—**		(501)
Change in provisions (notes 6 and 21)		**(176)**		233
PC Optimum program (note 20)		**—**		165
	$	**3,906**	$	4,077
Change in non-cash working capital		**(619)**		132
Change in credit card receivables (note 12)		**(327)**		(174)
Income taxes paid		**(511)**		(866)
Interest received		**31**		17
Other		**21**		23
Cash Flows from Operating Activities	**$**	**2,501**	$	3,209
Investing Activities				
Fixed asset purchases	**$**	**(1,010)**	$	(979)
Intangible asset additions (note 17)		**(324)**		(280)
Acquisition of CREIT, net of cash acquired (note 6)		**(1,619)**		—
Cash assumed on initial consolidation of franchises (note 5)		**18**		26
Cash disposed of related to Discontinued Operations (note 6)		**(52)**		—
Change in short term investments (note 10)		**452**		(305)
Change in security deposits (note 10)		**(800)**		—
Proceeds from disposal of assets		**122**		17
Proceeds from disposition of gas bar operations		**—**		540
Other		**(83)**		(53)
Cash Flows used in Investing Activities	**$**	**(3,296)**	$	(1,034)
Financing Activities				
Change in bank indebtedness	**$**	**(54)**	$	(5)
Change in short term debt (note 12)		**275**		(25)
Long Term Debt (note 22)				
Issued		**4,880**		686
Retired		**(2,715)**		(450)
Interest paid		**(801)**		(471)
Dividends paid on common and preferred shares		**(440)**		(327)
Common Share Capital				
Issued (note 27)		**78**		41
Purchased and held in trust (note 24)		**(36)**		(48)
Purchased and cancelled (note 24)		**(1,082)**		(1,091)
Other		**(37)**		5
Cash Flows from (used in) Financing Activities	**$**	**68**	$	(1,685)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$**	**(6)**	$	(6)
Change in cash and cash equivalents	**$**	**(733)**	$	484
Cash and cash equivalents, beginning of period		**1,798**		1,314
Cash and Cash Equivalents, End of Period	**$**	**1,065**	$	1,798

(i) Certain comparative figures have been restated (note 2).
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, 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 50.4% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited ("Wittington"). The remaining common shares are widely held.

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

As at December 29, 2018, the Company has two reportable operating segments: Retail and Financial Services (see note 35).

Note 2. Significant Accounting Policies

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

These consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on February 20, 2019.

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

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

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

The consolidated financial statements are presented in Canadian dollars.

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended December 29, 2018 and December 30, 2017 both contained 52 weeks. The next 53 week year will occur in fiscal 2020.

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

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

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

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

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

Prior to the reorganization, Choice Properties' Trust Units ("Units") held by unitholders other than the Company were presented as a liability as the Units are redeemable for cash at the option of the holder, subject to certain restrictions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Choice Properties qualifies as a "mutual fund trust" under the Income Tax Act (Canada). The Trustees intend to distribute all taxable income directly earned by Choice Properties to unitholders and to deduct such distributions for income tax purposes. Legislation relating to the federal income taxation of Specified Investment Flow Through trusts or partnerships ("SIFT") provide that certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and that the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as return of capital should generally not be subject to tax.

Under the SIFT rules, the taxation regime will not apply to a real estate investment trust ("REIT") that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). Choice Properties has reviewed the SIFT rules and has assessed its interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, Choice Properties has determined that it meets the REIT Conditions.

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

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

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

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

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

The Company implemented IFRS 9, "Financial Instruments" ("IFRS 9"), replacing International Accounting Standard 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

Prior to December 31, 2017, under IAS 39, credit card receivables are considered past due when a cardholder has not made a payment by the contractual due date, taking into account a grace period. The amount of credit card receivables that fall within the grace period is considered current. Credit card receivables past due but not impaired are those receivables that are either less than 90 days past due or whose past due status is reasonably expected to be remedied. Any credit card receivables with a payment that is contractually 180 days in arrears, or where the likelihood of collection is considered remote, is written off.

As at December 31, 2017 and thereafter, under IFRS 9, 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 required PC Bank to apply significant judgments, assumptions and estimations (see note 3 "Impairment of Credit Card Receivables").

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

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

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

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

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

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

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

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

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

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

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

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

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

Gains and losses on disposal of fixed assets are determined by comparing the fair value of proceeds from disposal with the net book value of the assets and are recognized net, in operating income.

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
Assets held under financing leases	Lesser of term of the lease[(i)] and useful life[(ii)]

(i) If it is reasonably certain that the Company will obtain ownership by the end of the lease term, assets under finance leases would be depreciated over the life of the asset.

(ii) Same basis as owned assets.

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

Fixed assets 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 At inception of an arrangement, the Company determines whether the arrangement is or contains a lease. A contract contains a lease if the fulfillment of the arrangement depends upon a specific asset and if the arrangement conveys a right to control the use of the underlying asset. The right to control the use of the underlying asset was met when any of the following conditions are present:

- the Company had the ability or right to operate the asset or direct others to operate the asset while obtaining or controlling more than an insignificant amount of the output of the asset;
- the Company had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output of the asset; and
- facts and circumstances indicated that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

As a lessee, the Company classified leases that substantially transferred all the risk and rewards as a finance lease. Finance lease assets and liabilities are recognized at the lower of the fair value of the leased asset or the present value of the minimum lease payments, discounted at the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Operating leases are not recognized on the balance sheets. Operating lease payments are recognized in SG&A on a straight-line basis over the lease term.

As a lessor, the Company recognizes rental income from operating leases on a straight-line basis over the lease term.

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

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

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

Joint Arrangements The Company, through Choice Properties, and prior to the reorganization, owns investments under joint arrangements. Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on Choice Properties' rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

Joint Ventures A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Choice Properties' investment in a joint venture is recorded using the equity method and is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize Choice Properties' share of the profit or loss and other comprehensive income of the joint venture. The Company's share of the joint venture's profit or loss is recognized in the Company's operating income.

The financial statements of the equity-accounted investment are prepared for the same reporting period as Choice Properties. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company's.

A joint venture is considered to be impaired if there is objective evidence of impairment, as a result of one or more events that occurred after initial recognition of the joint venture, and that event has a negative impact on the future cash flows of the joint venture that can be reliably estimated.

Joint Operations A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The financial statements of the joint operations are prepared for the same reporting period as Choice Properties. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company's. The Company recognizes its proportionate share of assets, liabilities, revenues and expenses of the joint operations.

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 and 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 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 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. 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. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU or CGU grouping on a pro-rata basis. Impairment losses and reversals are recognized in SG&A.

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

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

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

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

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

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

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

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

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
Security deposits	Fair value through profit and loss
Franchise loans receivable	Amortized cost
Certain other assets	Amortized cost / fair value through profit and loss
Certain long term investments	Fair value through other comprehensive income
Bank indebtedness	Amortized cost
Trade payables and other liabilities	Amortized cost
Short term debt	Amortized cost
Long term debt	Amortized cost
Trust Unit Liability	Fair value through profit and loss
Certain other liabilities	Amortized cost
Derivatives	Fair value through profit and loss / fair value through other comprehensive income

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

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

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

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

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

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

Gains and losses on fair value through profit or loss 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 fair value through profit or loss financial assets are recorded in net earnings.

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

Type	Valuation Approach
Cash and cash equivalents, short term investments, security deposits, accounts receivable, credit card receivables, bank indebtedness, trade payables and other liabilities and short term debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise loans receivable	The carrying amount approximates fair value as fluctuations in the forward interest rates would not have significant impacts on the valuation and the provisions recorded for all impaired receivables.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: • Quoted market prices or dealer quotes for similar instruments; and • The fair value 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, Trust Unit Liability 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 implemented IFRS 9 replacing IAS 39 on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

Prior to December 31, 2017, under IAS 39, an assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the estimated future cash flows occur after their initial recognition and the loss can be reliably measured. If such objective evidence has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial assets' original effective interest rate. Impairment losses are recorded in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to an event occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statement of earnings. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

As at December 31, 2017 and thereafter, under IFRS 9, a forward-looking ECL model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended 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 models applied to financial assets require judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. Consideration of how changes in economic factors affect ECLs will be determined on a probability-weighted basis.

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

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

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

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

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

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

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

The fair values of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations (assets). For plans that result in a net defined benefit asset, the recognized asset is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan (the "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.

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 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 Unit Options, Restricted Units ("RUs"), Performance Units ("PUs"), and Trustee Deferred Units ("DUs") issued by Choice Properties, and certain DSUs are accounted for as cash-settled awards.

Choice Properties' Unit Options have a five to ten year term, vest 25% cumulatively on each anniversary date of the grant and are exercisable at the designated Unit price, which is based on the greater of the volume weighted average trading price of a Unit for 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 is valued separately using a Black-Scholes option pricing model, and includes the following assumptions:

- The expected distribution yield is estimated based on the expected annual distribution prior to the balance sheet date and the closing Unit price as at the balance sheet date;
- The expected Unit price volatility is estimated based on the average volatility of investment grade entities in the Standard & Poor's/ Toronto Stock Exchange ("TSX") REIT Index 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 balance sheet 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 expectations of option holder behaviour.

RUs entitle certain employees to receive the value of the RU award in cash or Units at the end of the applicable vesting period, which is usually three years in length. The RU plan provides for the crediting of additional RUs in respect of distributions paid on Units for the period when an RU is outstanding. The fair value of each RU granted is measured based on the market value of a Unit at the balance sheet date.

PUs entitle certain employees to receive the value of the PU award in cash or Units at the end of the applicable performance period, which is usually three years in length, based on Choice Properties achieving certain performance conditions. The PU plan provides for the crediting of additional PUs in respect of distributions paid on Units for the period when a PU is outstanding. The fair value of each PU granted is measured based on the market value of a Unit at the balance sheet date.

Members of the Choice Properties' Board of Trustees, who are not management of Choice Properties, are required to receive a portion of their annual retainer in the form of DUs and may also elect to receive up to 100% of their remaining fees in DUs. Distributions paid earn fractional DUs, which are treated as additional awards. DUs vest upon grant. The fair value of each DU granted is measured based on the market value of a Unit at the balance sheet date.

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

Unit-Based Compensation Prior to the reorganization, Unit-Settled Restricted Units ("URUs") were accounted for as cash-settled awards. URUs entitle certain employees to receive the value of the URU award in Units at the end of the applicable vesting period, which is generally three to five years in length. The URUs are subject to vesting conditions and disposition restrictions. The fair value of each URU granted is measured based on the market value of a Unit at the balance sheet date, less a discount to account for the disposition restrictions.

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

Accounting Standards Implemented

On December 31, 2017, the Company implemented IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts on implementation of IFRS 15 and IFRS 9 on the Company's consolidated financial statements are described below.

IFRS 15 In 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers", replacing IAS 18, "Revenue" ("IAS 18"), IAS 11, "Construction Contracts", and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the standard on December 31, 2017 and applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 30, 2017 or were completed on or before January 1, 2017 do not require restatement. Refer to the Revenue Recognition policy for significant accounting policies under IFRS 15.

The implementation of IFRS 15 did not have a significant impact on the Company's Retail, Financial Services or Choice Properties segment revenue streams, including its franchise arrangements with non-consolidated stores. IFRS 15 impacted the allocation of revenue that is deferred in relation to the Company's customer loyalty award programs. Under IAS 18 and related interpretations, revenue was allocated to the customer loyalty awards using the residual fair value method. Under this method, a portion of the consideration equaling the fair value of the points was allocated to the loyalty awards and deferred until the points were ultimately redeemed. The residual consideration was allocated to the goods and services sold and recognized as revenue. Under IFRS 15, consideration is allocated between the loyalty awards and the goods and services on which the awards were earned, based on their relative stand-alone selling prices. Using this relative fair value approach, the amount allocated to the loyalty points and recorded as deferred revenue will be, on average, lower than the amounts allocated under the residual value method. 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.

In addition, in the fourth quarter of 2017, the Company recorded a charge before income taxes of $189 million under IAS 18 and related interpretations, related to the revaluation of the existing loyalty liability for outstanding points to reflect a higher anticipated redemption rate under the new *PC Optimum* program. Under IFRS 15, using the relative fair value approach, this revaluation of the loyalty liability decreased by $24 million, resulting in a charge before income taxes of $165 million.

The impact of the above changes on retained earnings as at January 1, 2017 and December 30, 2017 is as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at January 1, 2017	As at December 30, 2017
Loyalty liability	$ (43)	$ (64)
Income taxes payable	12	11
Deferred income tax liabilities	—	7
Retained earnings	31	46

The impact of this change on 52 weeks ended December 30, 2017 is as follows:

Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	December 30, 2017 (52 weeks)
Revenue	$ (3)
SG&A	(24)
Income taxes	6

The implementation of IFRS 15 had an impact on basic and diluted net earnings per share of $0.04 for 52 weeks ended December 30, 2017.

IFRS 9 In 2014, the IASB issued IFRS 9, “Financial Instruments”, replacing IAS 39, “Financial Instruments: Recognition and Measurement”, and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company implemented the new requirements for classification and measurement, impairment and general hedging on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. The Company also applied related amendments to IFRS 7, “Financial Instruments: Disclosures”. Refer to the Financial Instruments and Derivative Instruments policy for significant accounting policies under IFRS 9.

Classification and measurement IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities, with the exception of credit card receivables discussed below.

The following table summarizes the classification impacts upon adoption of IFRS 9:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Fair value through profit and loss(i)	Amortized cost
Short term investments	Fair value through profit and loss(i)	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Credit card receivables	Loans and receivables	Amortized cost
Security deposits	Fair value through profit and loss(i)	Fair value through profit and loss
Franchise loans receivable	Loans and receivables	Amortized cost
Certain other assets(ii)	Loans and receivables	Amortized cost / fair value through profit and loss
Certain long term investments	Available-for-sale	Fair value through other comprehensive income
Bank indebtedness	Other liabilities	Amortized cost
Trade payables and other liabilities	Other liabilities	Amortized cost
Short term debt	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost
Trust Unit Liability	Fair value through profit and loss(iii)	Fair value through profit and loss
Certain other liabilities	Other liabilities	Amortized cost
Derivatives	Fair value through profit and loss(iii)	Fair value through profit and loss / fair value through other comprehensive income

(i) Financial instruments designated at fair value through profit and loss.

(ii) Certain other assets include mortgages, notes and loans receivable which are classified as either amortized cost or fair value through profit and loss.

(iii) Financial instruments required to be classified at fair value through profit and loss.

Impairment IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking ECL model. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the increase in credit risks of a financial instrument. Refer to the Impairment of Financial Assets policy for details of each stage.

The ECL model had a significant impact on PC Bank's impairment of credit card receivables. The Company revised certain inputs of the ECL model since the implementation of IFRS 9 in the first quarter of 2018 and has retrospectively applied the impact of these revisions with no impact to earnings. As a result of the refinements, the cumulative impact arising from the ECL model on the impairment of credit card receivables as at December 31, 2017 was as follows:

Consolidated Balance Sheets Increase (Decrease) (millions of Canadian dollars)	As at December 31, 2017
Credit card receivables	$ (98)
Deferred income tax assets	26
Income taxes payable	4
Deferred income tax liabilities	(4)
Retained earnings	(72)

The Company also applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Company. The Company adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required 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. The provision matrix and ECL models applied do not have a material impact on trade receivables and other financial assets of the Company.

General hedging IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in Note 30 "Financial Instruments" and Note 31 "Financial Risk Management".

Changes to Significant Accounting Policies

Certain significant accounting policies are changed or added to reflect impacts to the presentation and measurement of the Company's annual consolidated financial statements.

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.

The Company elected to change the measurement of investment properties from the cost model to the fair value model retrospectively with restatement. Refer to the Investment Properties policy for the fair value policy. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses.

The Company applied this change in accounting policy retrospectively in the second quarter of 2018. The impacts to the Company's comparative consolidated balance sheets are as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at December 30, 2017	As at January 1, 2017
Investment properties	$ 41	$ 41
Deferred income tax liabilities	5	5
Retained earnings	36	36

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 and Fixed 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 for impairment. Judgment is further required to determine appropriate groupings of CGUs, for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each retail location is a separate CGU for the purposes of fixed asset impairment testing. For the purpose of goodwill and indefinite life intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and indefinite life intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

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

Impairment of Franchise Loans Receivable and Certain Other Financial Assets

Judgments Made in Relation to Accounting Policies Applied Management reviews franchise loans receivable, trade receivables and certain other assets relating to the Company's franchise business at each balance sheet date utilizing judgment to determine whether a triggering event has occurred requiring an impairment test to be completed.

Key Sources of Estimation Management determines the initial fair value of its franchise loans and certain other financial assets using discounted cash flow models. The process of assessing the recoverability of these loans and certain other financial assets requires management to make estimates of a long term nature regarding discount rates, projected revenues and margins, as applicable. These estimates are derived from past experience, actual operating results and budgets.

Customer Loyalty Awards Programs

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

Impairment of Credit Card Receivables

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

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

Fair Value of Investment Properties

Key Sources of Estimation The fair value of investment properties is dependent on available comparable transactions, future cash flows over the holding period, and discount rates and capitalization rates applicable to those assets. The review of anticipated cash flow involves assumptions relating to occupancy, market rental rates, net operating expenses, and residual value. In addition to reviewing anticipated cash flows, management assesses changes in the business climate and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

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, gas bars, 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, onerous lease arrangements 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.

Note 4. Future Accounting Standards

The future accounting standard noted below will impact the Company's business processes, internal controls over financial reporting, data systems, and IT, as well as financing and compensation arrangements. As a result, the Company has developed a comprehensive project plan to guide the implementation.

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

Substantially all of the Company's operating leases are real estate leases for retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and IT equipment. The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are mainly related to non-consolidated franchisees, ancillary tenants and gas bar land.

As a lessee, the Company will recognize right-of-use assets and lease liabilities primarily for its operating leases of real estate properties, vehicles and equipment. The depreciation expense on right-of-use assets and interest expense on lease liabilities will replace rent expense, previously recognized on a straight-line basis under IAS 17 over the term of a lease. No significant impacts are expected for the Company's existing finance leases.

As an intermediate lessor, the Company will reassess the classification of its subleases by reference to the right-of-use assets arising from the head lease and will recognize a corresponding finance lease receivable if the reassessment concludes that the sublease is a finance lease. No significant impacts are expected for leases where the Company is the lessor.

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

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

- grandfather the definition of a lease for existing contracts at the date of initial application;
- exclude certain short-term leases from IFRS 16 lease accounting;
- use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

While the standard was adopted on December 30, 2018, the Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, data systems, IT, and financing and compensation arrangements. The Company has implemented a lease management system and is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at December 30, 2018.

Based on the information available as at February 20, 2019, as a result of the initial application of IFRS 16 as at December 30, 2018, Management anticipates recognizing approximately $7.5 billion to $8.0 billion of right-of-use assets and $9.0 billion to $9.5 billion of lease liabilities, inclusive of current finance leases, on its consolidated balance sheet, and derecognizing approximately $300 million of deferred rent obligation from its consolidated balance sheet, with the difference, net of the deferred tax impact, recorded in opening retained earnings. Certain other balance sheet accounts will be impacted by amounts required to be reclassified on the adoption of IFRS 16.

The actual impacts of the initial application of IFRS 16 may vary from the estimates provided for the following reasons:

- the Company has not finalized the assessment and testing of applicable internal controls over financial reporting; and
- the new accounting policies and critical accounting estimates and judgments are subject to change until the Company issues its first quarter report to shareholders for the 12 weeks ending March 23, 2019.

Note 5. Business Acquisitions

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

The following table summarizes the amounts recognized for the assets acquired, the liabilities assumed and the non-controlling interests recognized at the acquisition dates:

(millions of Canadian dollars)	**2018**	2017
Net Assets Acquired:		
Cash and cash equivalents	**$ 18**	$ 26
Inventories	**66**	73
Fixed assets	**78**	81
Trade payables and other liabilities(i)	**(36)**	(43)
Other liabilities(i)	**(114)**	(132)
Non-controlling interests	**(12)**	(5)
Total Net Assets Acquired	**$ —**	$ —

(i) On consolidation, Trade payables and other liabilities and Other Liabilities eliminate against existing Accounts receivable, Franchise Loans Receivable and franchise investments held by the Company.

Note 6. Discontinued Operations

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

Following the reorganization, the Company no longer retained its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties in its consolidated financial statements. As a result, for the annual periods ended December 29, 2018 and December 30, 2017, the Choice Properties segment, net of eliminations, has been presented as Discontinued Operations. The operations of Choice Properties were not previously classified as discontinued operations or as assets held for sale. The classification as Discontinued Operations occurred at October 31, 2018, which is the date of the reorganization. Accordingly, the comparative consolidated statement of earnings and comprehensive income were re-presented separately between Continuing and Discontinued Operations. Unless otherwise specified, all other notes to the consolidated financial statements include amounts from both Continuing and Discontinued Operations.

The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and the Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant (see note 34).

All transactions between the Retail and the Choice Properties segments prior to the reorganization were fully eliminated in the consolidated financial statements. The Company has presented the results of Continuing Operations to reflect the on-going presentation of transactions between the Retail segment and Choice Properties, including rent paid and lease surrender payments to Choice Properties, gains related to the sale leaseback of properties to Choice Properties and site intensification payments received from Choice Properties. The elimination of intercompany transactions prior to the spin-out have been reflected in Discontinued Operations.

The results of Discontinued Operations presented in the consolidated statements of earnings is as follows:

(millions of Canadian dollars)		**October 31, 2018**		2017
Revenue[(i)]	**$**	**933**	$	830
Selling, General and Administrative Expenses		**512**		364
Operating Income	**$**	**421**	$	466
Net interest expense and other financing charges[(ii)]		**316**		151
Earnings before Income Taxes	**$**	**105**	$	315
Income taxes		**58**		84
Earnings from Discontinued Operations	**$**	**47**	$	231

(i) Revenue includes $445 million (2017 – $533 million) of rental revenue, $164 million (2017 – $185 million) of cost recovery, and $10 million (2017 – $6 million) of lease surrender, recognized by Choice Properties generated from the Company. Costs recoveries related to Common Area Maintenance and properties are presented as an expense in SG&A.

(ii) Net interest expense and other financing charges primarily includes interest expense on long term debt, distributions to external unit holders of $113 million (2017 – $54 million) and a loss of $33 million (2017 – gain of $10 million) related to the fair value adjustment to the Trust Unit Liability.

The assets and liabilities disposed of in connection with Discontinued Operations are as follows:

(millions of Canadian dollars)	October 31, 2018
Cash and cash equivalents and short term investments	$ 52
Accounts receivable	66
Prepaid expenses and other assets	90
Fixed assets	4,770
Equity accounted joint ventures	740
Investment properties	4,819
Intangible assets	30
Goodwill	342
Deferred income tax assets	3
Other assets	330
	$ 11,242

(millions of Canadian dollars)	October 31, 2018
Trade payables and other liabilities	$ 370
Income taxes payable	19
Long term debt	7,222
Trust unit liability	3,071
Deferred income tax liabilities	414
Other liabilities	6
	$ 11,102

In addition to the assets and liabilities disposed of, the Company recognized an onerous contract liability of $10 million.

The assets and liabilities disposed of in connection with discontinued operations include the assets and liabilities of Canadian Real Estate Investment Trust ("CREIT") which were acquired by Choice Properties on May 4, 2018.

The Company's 2017 balance sheet included total assets and total liabilities of approximately $4.8 billion and $4.5 billion, respectively related to Choice Properties. Included in total assets were $4,645 million of fixed assets and included in liabilities was $3,411 million of long term debt and $972 million related to the Trust Unit Liability.

Choice Properties' Acquisition of CREIT

On May 4, 2018, Choice Properties acquired all the assets and assumed all the liabilities, including outstanding debt, of CREIT for total consideration of $3,708 million. The consideration was comprised of $1,652 million of cash and the issuance of 182,836,481 new Trust Units.

Also, concurrent with the closing of the acquisition, the Company, Choice Properties' controlling unitholder, converted all of its outstanding Class C LP Units with the face value of $925 million into Class B LP Units of Choice Properties Limited Partnership. Choice Properties issued to the Company 70,881,226 Class B LP Units upon the conversion and the shortfall in value of approximately $99 million was paid in cash. In connection with this conversion, the Company recognized capital gains income tax expense of $8 million in contributed surplus.

The purchase equation is based on management's best estimate of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The purchase price allocation at the acquisition date is as follows:

(millions of Canadian dollars)		As at May 4, 2018
Net Assets Acquired:		
Cash and cash equivalents	$	32
Accounts receivable and other assets		50
Mortgages, loans and notes receivable[(i)]		196
Equity accounted joint ventures		683
Investment properties		4,730
Intangible assets		30
Goodwill		342
Trade payables and other liabilities		(172)
Long term debt		(1,841)
Deferred income tax liabilities		(342)
Total Net Assets Acquired	$	3,708

(i) Included in Other Assets on consolidated balance sheets.

The assets and liabilities disposed of also include the goodwill associated with the acquisition of CREIT, of $342 million, which was generated on consolidation of Choice Properties and is attributable to deferred income tax liabilities recorded on temporary differences arising between the fair value of the investment properties acquired and their respective income tax bases for the Company's effective ownership interest in Choice Properties.

The net change in cash flows related to Discontinued Operations is as follows:

(millions of Canadian dollars)		**2018[(i)]**		2017
Cash flows from operations	**$**	**581**	$	501
Cash flows from (used in) investing		**(1,884)**		(255)
Cash flows from (used in) financing		**1,678**		46
Cash flows from discontinued operations	**$**	**375**	$	292

(i) Reflects the cash flows of Discontinued Operations up to the date of the reorganization, November 1, 2018.

Significant long term debt transactions of Choice Properties are described below:

Debentures The following table summarizes the debentures of Choice Properties issued or assumed in 2018. There were no debentures issued in 2017.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2018**
Choice Properties senior unsecured debentures			
– Series I(i)	3.01%	March 21, 2022	**$ 300**
– Series J(i)	3.55%	January 10, 2025	**350**
– Series K(ii)	3.56%	September 9, 2024	**550**
– Series L(ii)	4.18%	March 8, 2028	**750**
– Series A-C(iii)	3.68%	July 24, 2018	**125**
– Series B-C(iii)	4.32%	January 15, 2021	**100**
– Series C-C(iii)	2.56%	November 30, 2019	**100**
– Series D-C(iii)	2.95%	January 18, 2023	**125**
Total Debentures issued			**$ 2,400**

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus filed in 2018. Choice Properties filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to $2 billion of Units and debt securities, or any combination thereof, over a 25-month period under this prospectus.

(ii) The net proceeds from the issuance of Series K and L were held in escrow as a part of the financing for the acquisition of CREIT. During the second quarter of 2018, the Company completed the acquisition of CREIT and the proceeds were released from escrow.

(iii) Assumed by the Company in connection with the acquisition of CREIT.

The following table summarizes the debentures repaid in 2018 and 2017:

(millions of Canadian dollars except where otherwise indicated)		Interest Rate	Maturity Date	**Principal Amount 2018**	Principal Amount 2017
Choice Properties senior unsecured debentures	– Series A-C	3.68%	July 24, 2018	**$ 125**	$ —
Choice Properties senior unsecured debentures	– Series A	3.55%	July 5, 2018(i)	**400**	—
Choice Properties senior unsecured debentures	– Series 6	3.00%	April 20, 2017(ii)	**—**	200
Total Debentures, Unsecured Term Loan Facilities, and Medium Term Notes repaid				**$ 525**	$ 200

(i) Choice Properties Series A unsecured debentures were redeemed on February 12, 2018.

(ii) Choice Properties Series 6 unsecured debentures were redeemed on January 23, 2017.

Committed Credit Facilities The components of Choice Properties committed lines of credit were as follows:

		As at October 31, 2018		As at December 30, 2017	
(millions of Canadian dollars)	Maturity Date	**Available Credit**	**Drawn**	Available Credit	Drawn
Choice Properties Committed Bi-lateral Credit Facility(i)	December 21, 2018	**$ —**	**$ —**	$ 250	$ 250
Choice Properties Committed Syndicated Credit Facility(i)	July 5, 2022	**—**	**—**	500	311
Choice Properties Committed Syndicated Credit Facility(ii)	May 4, 2023	**1,500**	**375**	—	—
Total Committed Lines of Credit		**$ 1,500**	**$ 375**	$ 750	$ 561

(i) In the first half of 2018, Choice Properties repaid and cancelled the $250 million Committed Bi-lateral Credit Facility and the $500 million Committed Syndicated Credit Facility.

(ii) During the second quarter of 2018, Choice properties entered into a new syndicated $1,500 million senior unsecured committed revolving credit facility maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing of this credit facility is contingent on Choice Properties credit ratings from Dominion Bond Rating Service and Standard & Poor's remaining at "BBB".

Choice Properties has certain key financial covenants in its Debentures and the Choice Properties Credit Facilities, which include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by Choice Properties on an on-going basis to ensure compliance with the agreements. Throughout the year and up to the date of the completion of reorganization on November 1, 2018, Choice Properties was in compliance with each of the key financial covenants under these agreements.

Note 7. Net Interest Expense and Other Financing Charges

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

(millions of Canadian dollars)		2018		2017
Interest expense and other financing charges:				
Long term debt	$	333	$	336
Borrowings related to credit card receivables		41		30
Post-employment and other long term employee benefits (note 26)		11		9
Independent funding trusts		19		16
Bank indebtedness		8		6
Capitalized interest		(1)		—
	$	411	$	397
Interest income:				
Accretion income	$	(5)	$	(10)
Short term interest income		(18)		(13)
	$	(23)	$	(23)
Charge related to Glenhuron Bank Limited (note 8)	$	176	$	—
Net interest expense and other financing charges from Continuing Operations	$	564	$	374

Note 8. Income Taxes

The components of income taxes from Continuing Operations were as follows:

(millions of Canadian dollars)		2018		2017
Current income taxes:				
Current period	$	493	$	573
Charge related to Glenhuron Bank Limited		191		—
Adjustment in respect of prior periods		(86)		7
	$	598	$	580
Deferred income taxes:				
Origination and reversal of temporary differences	$	(83)	$	(194)
Effect of change in income tax rates		—		(15)
Adjustment in respect of prior periods		91		(6)
	$	8	$	(215)
Income taxes from Continuing Operations	$	606	$	365

On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to Glenhuron Bank Limited ("Glenhuron"), a wholly-owned Barbadian subsidiary of the Company that was wound up in 2013. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation.

On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, it recorded a charge during the third quarter of 2018 of $367 million, of which $176 million was recorded in interest and $191 million was recorded in income taxes. The Company believes that this provision will be sufficient to cover its ultimate liability if the appeal is unsuccessful.

In the third quarter of 2018, the Company made a cash payment of $235 million to fund the tax and interest owing in light of the decision of the Tax Court.

In the first quarter of 2018, voting control of the Company was acquired by a related group, which included Weston and Wittington, which resulted in certain adjustments in respect to prior periods for tax purposes during the first quarter of 2018.

Income tax (recoveries) expense recognized in Other Comprehensive Income was as follows:

(millions of Canadian dollars)	2018	2017
Net defined benefit plan actuarial (losses) gains (note 26)	**$ 33**	$ (7)
Adjustment to fair value on transfer of investment properties	**5**	—
Total income tax (recoveries) expense recognized in Other Comprehensive Income	**38**	(7)

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:

	2018	2017
Weighted average basic Canadian federal and provincial statutory income tax rate	**26.6 %**	26.7 %
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	**(0.9)%**	— %
Charge related to Glenhuron	**14.0 %**	— %
Non-deductible and non-taxable items	**4.1 %**	(4.5)%
Impact of income tax rate changes on deferred income tax balances	**— %**	(0.9)%
Adjustments in respect of prior periods	**0.8 %**	0.5 %
Effective income tax rate applicable to earnings before income taxes	**44.6 %**	21.8 %

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

(millions of Canadian dollars)	2018	2017
Deductible temporary differences	**$ 17**	$ 27
Income tax losses	**153**	142
Unrecognized deferred tax assets	**$ 170**	$ 169

The income tax losses expire in the years 2028 to 2038. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

Recognized deferred tax assets and liabilities Deferred tax assets and liabilities were attributable to the following:

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Trade payables and other liabilities	$ 53	$ 57
Other liabilities	355	370
Fixed assets	(554)	(512)
Goodwill and intangible assets	(1,786)	(1,908)
Other assets	49	53
Non-capital loss carryforwards (expiring 2033 to 2038)	41	29
Capital loss carryforwards	—	21
Other	39	35
Net deferred income tax liabilities	$ (1,803)	$ (1,855)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	$ 144	$ 134
Deferred income tax liabilities	(1,947)	(1,989)
Net deferred income tax liabilities	$ (1,803)	$ (1,855)

Note 9. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	2018	2017
Net earnings attributable to shareholders of the Company	$ 766	$ 1,517
Discontinued Operations (note 6)	(47)	(231)
Net earnings from continuing operations attributable to shareholders of the Company	$ 719	$ 1,286
Dividends on Preferred Shares in Equity (note 24)	(12)	(12)
Net earnings from continuing operations available to common shareholders	$ 707	$ 1,274
Weighted average common shares outstanding (in millions) (note 24)	376.7	393.8
Dilutive effect of equity-based compensation (in millions)	1.8	2.9
Dilutive effect of certain other liabilities (in millions)	0.8	0.6
Diluted weighted average common shares outstanding (in millions)	379.3	397.3
Net earnings per common share - Basic ($)		
Continuing Operations	$ 1.88	$ 3.24
Discontinued Operations	$ 0.12	$ 0.58
Net earning per common share - Diluted ($)		
Continuing Operations	$ 1.87	$ 3.21
Discontinued Operations	$ 0.12	$ 0.58

In 2018, 4,541,548 (2017 – 2,559,716) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share from continuing operations as they were anti-dilutive.

Note 10. Cash and Cash Equivalents, Short Term Investments and Security Deposits

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

Cash and Cash Equivalents

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Cash	$ 539	$ 516
Cash equivalents:		
Government treasury bills	323	232
Bankers' acceptances	117	649
Corporate commercial paper	86	401
Total cash and cash equivalents	$ 1,065	$ 1,798

Short Term Investments

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Government treasury bills	$ 26	$ 40
Bankers' acceptances	50	295
Corporate commercial paper	17	209
Other	1	2
Total short term investments	$ 94	$ 546

Security Deposits

Security deposits relate to funds held by the Company for repayment of the $800 million debenture, which was subsequently repaid on December 31, 2018 (note 22).

Note 11. Accounts Receivable

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

(millions of Canadian dollars)	As at December 29, 2018				As at December 30, 2017			
	0-90 days	91-180 days	> 180 days	Total	0-90 days	91-180 days	> 180 days	Total
Accounts receivable	$ 1,077	$ 53	$ 68	$ 1,198	$ 1,091	$ 42	$ 55	$ 1,188

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

(millions of Canadian dollars)	2018	2017
Allowances, beginning of year	$ (52)	$ (71)
Net write-off	22	19
Allowances, end of year	$ (30)	$ (52)

Credit risk associated with accounts receivable is discussed in note 31.

Note 12. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at December 29, 2018**	As at December 30, 2017
Gross credit card receivables	**$ 3,496**	$ 3,147
Allowance for credit card receivables	**(167)**	(47)
Credit card receivables	**$ 3,329**	$ 3,100
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust®* (note 22)	**$ 750**	$ 900
Securitized to Other Independent Securitization Trusts	**915**	640
Total securitized to independent securitization trusts	**$ 1,665**	$ 1,540

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 the co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle Credit Card Trust® ("Eagle")* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The Company has arranged letters of credit on behalf of PC Bank for the benefit of the independent securitization trusts (see note 33).

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 2018, with their respective maturity dates extended to 2020 and with all other terms and conditions remaining substantially the same.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at December 29, 2018 were $110 million (December 30, 2017 – $160 million).

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 29, 2018 and throughout 2018.

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

(millions of Canadian dollars)				**As at December 29, 2018**				As at December 30, 2017
	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	**$ 3,280**	**$ 187**	**$ 29**	**$ 3,496**	$ 2,951	$ 169	$ 27	$ 3,147

The following is a continuity of the Company's allowance for credit card receivables:

	As at December 29, 2018			
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of the year per IAS 39	$ —	$ —	$ —	$ 47
IFRS 9 Adjustment(i)	—	—	—	98
Balance, beginning of the year per IFRS 9	$ 51	$ 71	$ 23	$ 145
Increase / (Decrease) during the period:				
Transfers(ii)				
To Stage 1	26	(26)	—	—
To Stage 2	(4)	6	(2)	—
To Stage 3	(1)	(14)	15	—
New loans originated(iii)	9	14	3	26
Net remeasurements(iv)	(19)	29	80	90
Write-offs	—	—	(120)	(120)
Recoveries	—	—	26	26
Balance, end of year	$ 62	$ 80	$ 25	$ 167

(i) Allowance at the beginning of 2018 includes the impact of the implementation of IFRS 9 (note 2).
(ii) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.
(iii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.
(iv) New remeasurement of loss allowance includes impact from changes in loan balances and credit quality during the year.

Credit card receivables are assessed collectively for impairment by applying the three-stage approach (see note 2).

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

Note 13. Inventories

For inventories recorded as at December 29, 2018, the Company recorded an inventory provision of $37 million (December 30, 2017 – $39 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 2018 and 2017.

Note 14. Assets Held for Sale and Disposition

The Company classifies certain assets, primarily land and buildings, that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in the Company's retail business segment. In 2018 the Company recorded a nominal loss (2017 – $1 million gain) from the sale of these assets. Impairment charges of $3 million were recognized on these properties during 2018 (2017 – $2 million).

In 2017, the Company sold its gas bar operations, for proceeds of approximately $540 million, to Brookfield Business Partners L.P. ("Brookfield"). The Company recorded a pre-tax gain on sale of $501 million (post-tax gain of $432 million), net of related costs, in SG&A. As a result of the transaction, Brookfield has become a strategic partner to the Company and will offer the Company's *PC Optimum* program at the gas bars. In addition, the gas bars operate at certain properties that are either owned by the Company or leased by the Company from Choice Properties or third-party landlords. As a result of the transaction, Brookfield leases or sub-leases these properties from the Company.

Note 15. Fixed Assets

The following are continuities of the cost and the accumulated depreciation of fixed assets for the years ended December 29, 2018 and December 30, 2017:

	2018						
(millions of Canadian dollars)	Land	Buildings and Building Improvements	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	$ 1,975	$ 8,151	$ 7,090	$ 2,054	$ 936	$ 518	$ 20,724
Additions[i]	22	66	289	117	20	506	1,020
Business acquisitions (note 5)	—	—	78	—	—	—	78
Disposals	(27)	(53)	(66)	(14)	(6)	—	(166)
Discontinued Operations (note 6)	(1,732)	(5,009)	(6)	(12)	—	(92)	(6,851)
Net transfer to assets held for sale	(15)	(15)	—	—	—	—	(30)
Net transfer to investment properties (note 16)	(43)	(23)	—	(3)	—	—	(69)
Transfer from assets under construction	50	210	250	18	—	(528)	—
Balance, end of year	$ 230	$ 3,327	$ 7,635	$ 2,160	$ 950	$ 404	$ 14,706
Accumulated depreciation							
Balance, beginning of year	$ 2	$ 3,159	$ 5,333	$ 1,062	$ 491	$ 8	$ 10,055
Depreciation	—	196	419	153	45	—	813
Impairment losses	—	78	26	19	3	(5)	121
Reversal of impairment losses	(1)	(24)	(3)	(11)	—	—	(39)
Disposals	(1)	(18)	(45)	(20)	—	—	(84)
Discontinued Operations (note 6)	(1)	(2,072)	(4)	(3)	—	(1)	(2,081)
Net transfer to assets held for sale	—	(1)	—	—	—	—	(1)
Net transfer to investment properties (note 16)	—	(6)	—	(3)	—	—	(9)
Balance, end of year	$ (1)	$ 1,312	$ 5,726	$ 1,197	$ 539	$ 2	$ 8,775
Carrying amount as at: December 29, 2018	$ 231	$ 2,015	$ 1,909	$ 963	$ 411	$ 402	$ 5,931

(i) Additions include $31 million of asset retirement obligations.

			2017				
(millions of Canadian dollars)	Land	Buildings and Building Improvements	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	$ 1,912	$ 7,921	$ 6,634	$ 1,950	$ 919	$ 530	$ 19,866
Additions	21	50	226	96	15	557	965
Business acquisitions (note 5)	—	—	81	1	—	—	82
Disposals	(2)	(1)	(35)	(14)	—	—	(52)
Net transfer to assets held for sale	—	(93)	(49)	(3)	—	—	(145)
Net transfer from investment properties (note 16)	1	5	—	—	2	—	8
Transfer from assets under construction	43	269	233	24	—	(569)	—
Balance, end of year	$ 1,975	$ 8,151	$ 7,090	$ 2,054	$ 936	$ 518	$ 20,724
Accumulated depreciation							
Balance, beginning of year	$ —	$ 2,970	$ 5,024	$ 896	$ 409	$ 8	$ 9,307
Depreciation	—	204	373	161	64	—	802
Impairment losses	1	17	18	21	18	—	75
Reversal of impairment losses	—	(8)	(2)	(2)	—	—	(12)
Disposals	—	(1)	(34)	(13)	—	—	(48)
Net transfer to assets held for sale	—	(25)	(46)	(1)	—	—	(72)
Net transfer from investment properties (note 16)	1	2	—	—	—	—	3
Balance, end of year	$ 2	$ 3,159	$ 5,333	$ 1,062	$ 491	$ 8	$ 10,055
Carrying amount as at: December 30, 2017	$ 1,973	$ 4,992	$ 1,757	$ 992	$ 445	$ 510	$ 10,669

Assets Held under Finance Leases The Company leases various land and buildings, and equipment and fixtures under a number of finance lease arrangements. As at December 29, 2018, the net carrying amount of leased land and buildings was $385 million (December 30, 2017 – $424 million), and the net carrying amount of leased equipment and fixtures was $17 million (December 30, 2017 – $21 million).

Assets under Construction The cost of additions to properties under construction for the year ended December 29, 2018 was $506 million (December 30, 2017 – $557 million). Included in this amount are capitalized borrowing costs of $4 million (2017 – $2 million), with a weighted average capitalization rate of 4.0% (2017 – 3.5%).

Security and Assets Pledged As at December 29, 2018, no fixed assets were encumbered by mortgages. As at December 30, 2017, fixed assets with a carrying amount of $187 million were encumbered by mortgages of $81 million.

Fixed Asset Commitments As at December 29, 2018, the Company had entered into commitments of $233 million (December 30, 2017 – $143 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses and Reversals For the year ended December 29, 2018, the Company recorded $114 million (2017 – $60 million) of impairment losses on fixed assets in respect of 42 CGUs (2017 – 21 CGUs) in the retail operating segment. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 5% (2017 – 29%) of impaired CGUs had carrying values which were $9 million (2017 – $11 million) greater than their fair value less costs to sell. The remaining 95% (2017 – 71%) of impaired CGUs had carrying values which were $105 million (2017 – $48 million) greater than their value in use.

For the year ended December 29, 2018, the Company recorded $39 million (2017 – $12 million) of impairment reversals on fixed assets in respect of 25 CGUs (2017 – seven CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. No (2017 – 57%) CGUs with impairment reversals had fair value less costs to sell greater than their carrying values (2017 – $6 million). All (2017 – 43%) of CGUs with impairment reversals had value in use which were $39 million (2017 – $5 million) greater than 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. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were 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 the relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at December 29, 2018 (December 30, 2017 – 8.0% to 8.5%).

Additional impairment losses of $7 million (2017 – $5 million) were incurred related to store closures, renovations and conversions of retail locations. Impairment losses are recorded where the carrying amount of the retail location exceeds its recoverable amount.

In 2017, the Company recorded $7 million of impairment losses on its fixed assets relating to the announced closures of approximately 22 unprofitable retail locations across a range of banners and formats and $3 million related to other restructuring plans.

Note 16. Investment Properties

The following are continuities of investment properties for the years ended December 29, 2018 and December 30, 2017:

(millions of Canadian dollars)		**2018**		2017[(i)]
Balance, beginning of year	**$**	**276**	$	261
Adjustment to fair value of investment properties		**(47)**		(2)
Additions		**41**		32
Business acquisitions (note 6)		**4,730**		—
Disposals		**(23)**		(7)
Discontinued Operations (note 6)		**(4,819)**		—
Impairment losses		**(6)**		(1)
Net transfer from (to) fixed assets[(ii)] (note 15)		**81**		(5)
Net transfer (to) from assets held for sale		**(5)**		1
Other		**6**		(3)
Balance, end of year	**$**	**234**	$	276

(i) Certain comparative figures have been restated (note 2).

(ii) Includes fair value gain of $21 million related to transfer of fixed assets to investment properties.

During 2018, the Company recognized in operating income $2 million (2017 – $2 million) of rental income and incurred direct operating costs of $1 million (2017 – $2 million) related to its investment properties. In addition, the Company recognized direct operating costs of $3 million (2017 – $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 capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. At December 29, 2018, the pre-tax discount rates used in the valuations for investment properties ranged from 8.25% to 8.75% (December 30, 2017 – 7.50% to 9.50%) and the terminal capitalization rates ranged from 6.25% to 9.00% (December 30, 2017 – 6.75% to 8.75%).

Note 17. Intangible Assets

The following are continuities of the cost and the accumulated amortization of intangible assets for the years ended December 29, 2018 and December 30, 2017:

	2018									
(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	**$**	**3,485**	**$**	**20**	**$**	**2,434**	**$**	**6,011**	**$**	**11,950**
Additions		**4**		**—**		**312**		**8**		**324**
Business acquisitions		**30**		**—**		**—**		**25**		**55**
Disposals		**—**		**—**		**(5)**		**(2)**		**(7)**
Discontinued Operations (note 6)		**(30)**		**—**		**—**		**—**		**(30)**
Balance, end of year	**$**	**3,489**	**$**	**20**	**$**	**2,741**	**$**	**6,042**	**$**	**12,292**
Accumulated amortization										
Balance, beginning of year	**$**	**—**	**$**	**20**	**$**	**1,574**	**$**	**2,105**	**$**	**3,699**
Amortization		**—**		**—**		**264**		**524**		**788**
Disposal		**—**		**—**		**(4)**		**(1)**		**(5)**
Impairment losses		**—**		**—**		**11**		**1**		**12**
Balance, end of year	**$**	**—**	**$**	**20**	**$**	**1,845**	**$**	**2,629**	**$**	**4,494**
Carrying amount as at: December 29, 2018	**$**	**3,489**	**$**	**—**	**$**	**896**	**$**	**3,413**	**$**	**7,798**

	2017									
(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	$	3,475	$	20	$	2,172	$	5,976	$	11,643
Additions		10		—		262		8		280
Business acquisitions		—		—		—		27		27
Balance, end of year	$	3,485	$	20	$	2,434	$	6,011	$	11,950
Accumulated amortization										
Balance, beginning of year	$	—	$	20	$	1,300	$	1,578	$	2,898
Amortization		—		—		245		525		770
Impairment losses		—		—		29		2		31
Balance, end of year	$	—	$	20	$	1,574	$	2,105	$	3,699
Carrying amount as at: December 30, 2017	$	3,485	$	—	$	860	$	3,906	$	8,251

Indefinite Life Intangible Assets Indefinite life intangible assets are comprised of brand names, trademarks, import purchase quotas and certain liquor licenses. The brand names and trademarks are a result of the Company's acquisition of Shoppers Drug Mart and T&T Supermarket Inc. The Company expects to renew the registration of the brand names, trademarks, import purchase quotas and liquor licenses at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, the Company assessed these intangibles to have indefinite useful lives.

The Company completed its annual impairment tests for indefinite life intangible assets and concluded there was no impairment.

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 18).

Software Software is comprised of software purchases and development costs. There were no capitalized borrowing costs included in 2018 (2017 – nil). In 2017, the Company recorded impairment losses of $29 million, which included $22 million related to the impairment of certain IT assets that support the existing loyalty programs as a result of the customer loyalty awards program.

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

Note 18. Goodwill

The following is a continuity of the cost and the accumulated impairment of goodwill for the years ended December 29, 2018 and December 30, 2017:

(millions of Canadian dollars)	**2018**	2017
Cost		
Balance, beginning of year	**$ 4,916**	$ 4,889
Business acquisitions[(i)]	**362**	27
Discontinued Operations (note 6)	**(342)**	—
Balance, end of year	**$ 4,936**	$ 4,916
Accumulated amortization and 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	**$ 3,942**	$ 3,922

(i) Includes goodwill of $342 million associated with the acquisition of CREIT (note 6).

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

(millions of Canadian dollars)	**As at December 29, 2018**	As at December 30, 2017
Shoppers Drug Mart	**$ 2,972**	$ 2,952
Market	**375**	375
Discount	**459**	459
T&T Supermarket Inc.	**129**	129
All other	**7**	7
Carrying amount of goodwill	**$ 3,942**	$ 3,922

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are considered to be Level 3 in the fair value hierarchy.

The weighted average cost of capital was determined to be 7.0% to 9.3% (December 30, 2017 – 7.0%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of comparable public traded companies.

Cash flow projections have been discounted using a rate derived from the Company's after-tax weighted average cost of capital. At December 29, 2018, the after-tax discount rate used in the recoverable amount calculations was 7.0% to 9.3% (December 30, 2017 – 7.0%). The pre-tax discount rate was 9.5% to 12.7% (December 30, 2017 – 9.6%).

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using an estimated long term growth rate of 2.0% (December 30, 2017 – 2.0%). The budgeted EBITDA growth was based on the Company's three year strategic plan approved by the Board.

Note 19. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)		**As at December 29, 2018**		As at December 30, 2017
Sundry investments and other receivables	**$**	**31**	$	56
Accrued benefit plan asset (note 26)		**225**		147
Mortgages, loans and notes receivable		**—**		29
Other		**133**		177
Total Other Assets	**$**	**389**	$	409
Current portion of mortgages, loans and notes receivable(i)		**—**		26
Other Assets	**$**	**389**	$	383

(i) Current portion of mortgages, loans and notes receivable are included in prepaid expenses and other assets in the consolidated balance sheets.

Note 20. Customer Loyalty Awards Program Liability

The carrying amount of the liability associated with the Company's customer loyalty awards programs ("loyalty liability") was as follows:

(millions of Canadian dollars)		**As at December 29, 2018**		As at December 30, 2017
Loyalty liability	**$**	**228**	$	349

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.

In 2018, the Company launched the *PC Optimum* program, which combined the *Shoppers Optimum* and *PC Plus* rewards programs into one program. As a result, the Company recorded a charge of $165 million in 2017, related to the revaluation of the existing *Shoppers Optimum* liability for outstanding points to reflect a higher anticipated redemption rate under the new program.

Note 21. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, onerous lease arrangements, legal claims and the Loblaw Card Program. The following is a continuity of provisions for the years ended December 29, 2018 and December 30, 2017:

(millions of Canadian dollars)	**2018**	2017
Provisions, beginning of year	**$ 452**	$ 219
Additions	**114**	354
Payments	**(217)**	(93)
Reversals	**(32)**	(28)
Provisions, end of year	**$ 317**	$ 452

(millions of Canadian dollars)	**As at December 29, 2018**	As at December 30, 2017
Recorded on the consolidated balance sheets as follows:		
Current portion of provisions	**$ 165**	$ 283
Non-current portion of provisions	**152**	169
Total provisions	**$ 317**	$ 452

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. The Company recorded a charge of $107 million associated with the Loblaw Card Program in 2017. In 2018, the Company recorded an additional charge of $4 million. The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages (see note 32).

Restructuring and other related costs In 2017, the Company eliminated approximately 500 corporate and store-support positions and finalized a plan that resulted in the closure of 22 unprofitable retail locations across a range of banners and formats. The Company recorded a charge of $123 million associated with this restructuring in the fourth quarter of 2017, which included $109 million for severance and lease related costs, $7 million for asset impairments and $7 million related to other costs.

In addition, in 2017 the Company recorded $20 million in severance and other related charges and $3 million for asset impairments as a result of other restructuring plans approved in the fourth quarter of 2017 and a charge of $19 million related to an adjustment of onerous contract provisions related to previously announced restructuring plans.

Note 22. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Unsecured Term Loan Facility		
0.13% + Prime, or 1.13% + Bankers' Acceptance, due 2019	**$ —**	$ 250
0.45% + Prime, or 1.45% + Bankers' Acceptance, due 2019	**—**	48
Debentures		
Loblaw Companies Limited Notes		
3.75%, due 2019	**800**	800
5.22%, due 2020	**350**	350
4.86%, due 2023	**800**	800
3.92%, due 2024	**400**	—
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
4.49%, due 2028	**400**	—
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(4)**	(19)
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
Shoppers Drug Mart Notes		
2.36%, due 2018	**—**	275
Choice Properties Senior Unsecured Debentures		
Series A 3.55%, due 2018	**—**	400
Series B 4.90%, due 2023	**—**	200
Series C 3.50%, due 2021	**—**	250
Series D 4.29%, due 2024	**—**	200
Series E 2.30%, due 2020	**—**	250
Series F 4.06%, due 2025	**—**	200
Series G 3.20%, due 2023	**—**	250
Series H 5.27%, due 2046	**—**	100
Series 7 3.00%, due 2019	**—**	200
Series 8 3.60%, due 2020	**—**	300
Series 9 3.60%, due 2021	**—**	200
Series 10 3.60%, due 2022	**—**	300
Long Term Debt Secured by Mortgage		
2.47% – 5.49%, due 2018 – 2029 (note 15)	**—**	81
Guaranteed Investment Certificates		
0.85% – 3.78%, due 2019 – 2023	**1,141**	852
Independent Securitization Trust		
2.91%, due 2018	**—**	400
2.23%, due 2020	**250**	250
2.71%, due 2022	**250**	250
3.10%, due 2023	**250**	—
Independent Funding Trusts	**536**	551
Finance Lease Obligations	**535**	568
Choice Properties Credit Facilities	**—**	561
Transaction costs and other	**(13)**	(21)
Total long term debt	**$ 8,026**	$ 11,177
Less amount due within one year	**1,647**	1,635
Long Term Debt	**$ 6,379**	$ 9,542

Significant long term debt transactions are described below.

Debentures The following table summarizes the debentures issued in 2018.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Loblaw Companies Limited Notes(i)	3.92%	June 10, 2024	**$ 400**
Loblaw Companies Limited Notes(ii)	4.49%	December 11, 2028	**400**
Total Debentures issued			**$ 800**

(i) On December 10, 2018, the Company issued debentures of $400 million bearing interest at a rate of 3.92%, maturing June 10, 2024.

(ii) On December 10, 2018, the Company issued debentures of $400 million bearing interest at a rate of 4.49%, maturing December 11, 2028.

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

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2018
Shoppers Drug Mart Notes	2.36%	May 24, 2018	**$ 275**
Loblaw Companies Limited Term Loan(i)	Variable	March 28, 2019	**48**
Loblaw Companies Limited Term Loan(ii)	Variable	March 29, 2019	**250**
Total Debentures and Term Loans repaid			**$ 573**

(i) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.

(ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.

There were no debentures issued or repaid in 2017.

Subsequent to the end of 2018, the Company redeemed, at par, the $800 million debenture bearing interest at 3.75% with an original maturity date of March 12, 2019 (note 10). As a result of this repayment the Company has recorded an early repayment premium charge of $3 million in net interest expense and other financial charges.

During the second quarter of 2018, the Company repaid the remaining mortgage balance of $72 million at maturity.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2018 and 2017:

(millions of Canadian dollars)	2018	2017
Balance, beginning of year	**$ 852**	$ 928
GICs issued	**495**	76
GICs matured	**(206)**	(152)
Balance, end of year	**$ 1,141**	$ 852

Independent Securitization Trust The notes issued by *Eagle* are debentures, which are collateralized by PC Bank's credit card receivables (see note 12). The Company has arranged letters of credit for the benefit of the *Eagle* notes issued prior to 2015 and outstanding as at December 29, 2018 (see note 33).

In 2018, *Eagle* issued $250 million of senior and subordinated term notes with a maturity date of July 17, 2023 at a weighted average interest rate of 3.10%. In connection with this issuance, $250 million of bond forward agreements were settled, resulting in a realized fair value loss of $1 million, in Other Comprehensive Income, and a net effective interest rate of 3.15% on the *Eagle* notes issued.

In the fourth quarter of 2018, $400 million 2.91% of senior and subordinated term notes issued by *Eagle* matured and were repaid.

Independent Funding Trusts As at December 29, 2018, the independent funding trusts had drawn $536 million (December 30, 2017 – $551 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

Committed Credit Facilities The Company has a $1.0 billion committed credit facility with a maturity date of June 10, 2021. These facilities contain certain financial covenants (see note 25). As at December 29, 2018 and December 30, 2017, there were no amounts drawn under the committed credit facility.

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

(millions of Canadian dollars)	**As at December 29, 2018**	As at December 30, 2017
Loblaw Companies Limited Notes	**$ 800**	$ —
Choice Properties Notes	**—**	400
Shoppers Drug Mart Notes	**—**	275
Guaranteed Investment Certificates	**274**	193
Independent Securitization Trust	**—**	400
Independent Funding Trust	**536**	—
Finance Lease Obligations	**37**	44
Long term debt secured by mortgage	**—**	73
Choice Properties Credit Facility	**—**	250
Long term debt due within one year	**$ 1,647**	$ 1,635

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

(millions of Canadian dollars)	**As at December 29, 2018**
2019	**$ 1,647**
2020	**1,127**
2021	**269**
2022	**360**
2023	**1,153**
Thereafter	**3,483**
Total Long Term Debt (excludes transaction costs)	**$ 8,039**

See note 30 for the fair value of long term debt.

Reconciliation of Long Term Debt The following table reconciles the changes in cash flows from financing activities for long term debt:

(millions of Canadian dollars)		**2018**		2017
Total Long Term Debt, beginning of period	**$**	**11,177**	$	10,870
Business acquisitions (note 6)	**$**	**1,841**	$	—
Long Term Debt issuances(i)(ii)		**4,880**	$	686
Long Term Debt repayments(ii)(iii)		**(2,715)**		(450)
Discontinued Operations (note 6)		**(7,222)**		—
Total cash flow from Long Term Debt Financing Activities	**$**	**(3,216)**	$	236
Finance Lease additions, net of disposals	**$**	**14**	$	16
Other non-cash changes		**51**		55
Total non-cash Long Term Debt activities	**$**	**65**	$	71
Total Long Term Debt, end of period	**$**	**8,026**	$	11,177

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

(ii) Includes net issuances or repayments from the Choice Properties' credit facilities depending on the activity in the period.

(ii) Includes repayments on Finance Lease Obligations of $83 million (2017 – $94 million).

Note 23. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)		**As at December 29, 2018**		As at December 30, 2017
Net defined benefit plan obligation (note 26)	**$**	**294**	$	325
Other long term employee benefit obligation		**109**		108
Deferred lease obligation		**315**		140
Fair value of acquired leases		**54**		65
Equity-based compensation liability (note 27)		**2**		4
Other		**19**		58
Other liabilities	**$**	**793**	$	700

Note 24. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at December 29, 2018 and December 30, 2017.

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

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

	December 29, 2018 (52 weeks)			December 30, 2017 (52 weeks)		
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**		**Common Share Capital**	Number of Common Shares		Common Share Capital
Issued and outstanding, beginning of period	**386,293,941**	**$**	**7,460**	400,829,870	$	7,713
Issued for settlement of stock options	**2,081,235**		**98**	1,019,610		48
Purchased and cancelled(i)	**(16,584,209)**		**(381)**	(15,555,539)		(301)
Issued and outstanding, end of period	**371,790,967**	**$**	**7,177**	386,293,941	$	7,460
Shares held in trust, beginning of period	**(780,938)**	**$**	**(15)**	(1,105,620)	$	(21)
Purchased for future settlement of RSUs and PSUs	**(582,500)**		**(12)**	(686,000)		(13)
Released for settlement of RSUs and PSUs (note 27)	**628,711**		**12**	1,010,682		19
Shares held in trust, end of period	**(734,727)**	**$**	**(15)**	(780,938)	$	(15)
Issued and outstanding, net of shares held in trust, end of period	**371,056,240**	**$**	**7,162**	385,513,003	$	7,445
Weighted average outstanding, net of shares held in trust (note 9)	**376,747,429**			393,764,159		

(i) Common shares purchased and cancelled as at December 29, 2018 does not include the shares repurchased from the automatic share purchase plan. Common shares purchased and cancelled as at December 30, 2017 includes 22,012 shares held in escrow that were transferred and cancelled 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 second quarters of 2018 and 2017, the Board raised the quarterly dividend by $0.025 to $0.295 and by $0.01 to $0.27 per common share, respectively.

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

	2018(i)	2017
Dividends declared per share ($):		
Common Share	**$ 1.155**	$ 1.070
Second Preferred Share, Series B	**$ 1.325**	$ 1.325

(i) The fourth quarter dividends for 2018 of $0.295 per share declared on common shares were payable on December 30, 2018 and subsequently paid on December 31, 2018. The fourth quarter dividends for 2018 of $0.33125 per share declared on Second Preferred Shares, Series B were payable and paid on December 31, 2018.

(millions of Canadian dollars)	**2018**	2017
Dividends declared:		
Common Share	**$ 433**	$ 421
Second Preferred Share, Series B (note 9)	**12**	12
Total dividends declared	**$ 445**	$ 433

Subsequent to the end of the year, the Board declared a quarterly dividend of $0.295 per common share, payable on April 1, 2019 to shareholders of record on March 15, 2019 and a dividend on the Second Preferred Shares, Series B of $0.33125 per share payable on March 31, 2019 to shareholders of record on March 15, 2019.

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

(millions of Canadian dollars except where otherwise indicated)	**2018**	2017
Common shares repurchased under the NCIB for cancellation (number of shares)	**16,584,209**	15,533,527
Cash consideration paid	**$ 1,082**	$ 1,091
Premium charged to Retained Earnings(i)	**886**	790
Reduction in Common Share Capital(ii)	**381**	301
Common shares repurchased under the NCIB and held in trust (number of shares)	**582,500**	686,000
Cash consideration paid	**$ 36**	$ 48
Premium charged to Retained Earnings	**24**	35
Reduction in Common Share Capital	**12**	13

(i) Includes $126 million related to the automatic share purchase plan, as described below.

(ii) Includes $59 million related to the automatic share purchase plan, as described below.

In the second quarter of 2018, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 18,952,573 of the Company's common shares, representing approximately 5% of outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of December 29, 2018, the Company has purchased 8,477,182 common shares under its current NCIB.

In the fourth quarter of 2018, the Company entered into an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its current NCIB. Under the Company's ASPP, the Company's broker may purchase common shares at times when the Company ordinarily would not be active in the market. As at December 29, 2018, an obligation to repurchase shares of approximately $185 million was recognized under the ASPP in trade payable and other liabilities. Subsequent to the end of the year, the Company has completed this ASPP and repurchased 2,927,733 shares.

Note 25. Capital Management

In order to manage its capital structure, the Company, among other activities, may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB, issue new shares or issue or repay long term debt with the objective of:

- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future development of the business;
- minimizing the after-tax cost of its capital while taking into consideration current and future industry, market and economic risks and conditions;
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to manage the long term capital investments of the business;
- returning an appropriate amount of capital to shareholders; and
- targeting an appropriate leverage and capital structure for the Company and each of its reportable operating segments.

The Company has policies in place which govern debt financing plans and risk management strategies for liquidity, interest rates and foreign exchange. These policies outline measures and targets for managing capital, including a range for leverage consistent with the desired credit rating. Management and the Audit Committee regularly review the Company's compliance with, and performance against, these policies. In addition, management regularly reviews these policies to ensure they remain consistent with the risk tolerance acceptable to the Company.

The following table summarizes the Company's total capital under management:

(millions of Canadian dollars)	**As at December 29, 2018**	As at December 30, 2017
Bank indebtedness	**$ 56**	$ 110
Short term debt	**915**	640
Long term debt due within one year	**1,647**	1,635
Long term debt	**6,379**	9,542
Certain other liabilities	**48**	41
Total debt	**$ 9,045**	$ 11,968
Equity attributable to shareholders of the Company	**12,119**	13,094
Total capital under management	**$ 21,164**	$ 25,062

Short Form Base Shelf Prospectus Filings During 2017, the Company filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to $2 billion of unsecured debentures and/or preferred shares subject to the availability of funding in the capital markets.

During 2017, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to $1 billion of notes over a 25-month period.

Covenants and Regulatory Requirements The Company is subject to certain key financial and non-financial covenants under its existing Credit Facility, unsecured term loan facilities, certain debentures and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at December 29, 2018 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework, which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8.0%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio. PC Bank is also subject to the OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio ("LCR") standard. As at the end of 2018 and throughout the year, PC Bank has met all applicable regulatory requirements.

Note 26. Post-Employment and Other Long Term Employee Benefits

The Company sponsors a number of pension plans, including registered defined benefit pension plans, registered defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company under these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian chartered bank.

The Company's Pension Committee oversees the Company's pension plans. The Pension Committee is responsible for assisting the Board in fulfilling its general oversight responsibilities for the plans. The Pension Committee assists the Board with oversight of management's administration of the plans, pension investment and monitoring responsibilities, and compliance with legal and regulatory requirements.

The Company's defined benefit pension plans are primarily funded by the Company, predominantly non-contributory and the benefits are, in general, based on career average earnings subject to limits. The funding is based on a solvency valuation for which the assumptions may differ from the assumptions used for accounting purposes as detailed in this note.

The Company also offers certain other defined benefit plans other than pension plans. These other defined benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for these other defined benefits are those who retire at certain ages having met certain service requirements. The majority of other defined benefit plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company's defined benefit pension plans and other defined benefit plans expose it to a number of actuarial risks, such as longevity risk, interest rate risk and market risk.

In Canada, the Company also has a national defined contribution plan for salaried employees. All newly hired salaried employees are only eligible to participate in this defined contribution plan.

The Company also contributes to various MEPPs, which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements.

The Company expects to make contributions in 2019 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:

	2018		2017	
(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	**$ (1,471)**	**$ —**	$ (1,780)	$ —
Present value of unfunded obligations	**(134)**	**(148)**	(145)	(154)
Total present value of defined benefit obligation	**$ (1,605)**	**$ (148)**	$ (1,925)	$ (154)
Fair value of plan assets	**1,694**	**—**	1,916	—
Total funded status of surpluses (obligations)	**$ 89**	**$ (148)**	$ (9)	$ (154)
Assets not recognized due to asset ceiling	**(10)**	**—**	(15)	—
Total net defined benefit plan surpluses (obligations)	**$ 79**	**$ (148)**	$ (24)	$ (154)
Recorded on the consolidated balance sheets as follows:				
Other Assets (note 19)	**$ 225**	**$ —**	$ 147	$ —
Other Liabilities (note 23)	**$ (146)**	**$ (148)**	$ (171)	$ (154)

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

	2018			2017		
(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	**$ 1,916**	**$ —**	**$ 1,916**	$ 1,947	$ —	$ 1,947
Employer contributions	**43**	**—**	**43**	55	—	55
Employee contributions	**4**	**—**	**4**	3	—	3
Benefits paid	**(62)**	**—**	**(62)**	(75)	—	(75)
Interest income	**66**	**—**	**66**	77	—	77
Actuarial (loss) gains in other comprehensive income	**(41)**	**—**	**(41)**	142	—	142
Settlements(i)	**(228)**	**—**	**(228)**	(229)	—	(229)
Other	**(4)**	**—**	**(4)**	(4)	—	(4)
Fair value, end of year	**$ 1,694**	**$ —**	**$ 1,694**	$ 1,916	$ —	$ 1,916
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 1,925**	**$ 154**	**$ 2,079**	$ 1,904	$ 171	$ 2,075
Current service cost	**58**	**5**	**63**	57	6	63
Interest cost	**69**	**5**	**74**	77	6	83
Benefits paid	**(72)**	**(8)**	**(80)**	(82)	(6)	(88)
Employee contributions	**2**	**—**	**2**	3	—	3
Actuarial (gains) losses in other comprehensive (loss) income	**(150)**	**(8)**	**(158)**	183	(23)	160
Settlements(i)	**(227)**	**—**	**(227)**	(217)	—	(217)
Balance, end of year	**$ 1,605**	**$ 148**	**$ 1,753**	$ 1,925	$ 154	$ 2,079

(i) Settlements relate to annuity purchases and pension buy-outs.

In 2018 and 2017, the Company completed several annuity purchases with respect to former employees. These activities are designed to reduce the Company's defined benefit pension plan obligations and decrease future risks and volatility associated with these obligations. The Company paid $228 million (2017 – $229 million) from the impacted plans' assets to settle $227 million (2017 – $217 million) of pension obligations and recorded settlement charges of $1 million (2017 – $12 million) in SG&A. The settlement charges resulted from the difference between the amount paid for the annuity purchases and pension buy-outs and the value of the Company's defined benefit plan obligations related to these annuity purchases and buy-outs at the time of the settlement.

Subsequent to the year ended 2018, the Company completed several annuity purchases and paid $187 million from the impacted plans' assets to settle $177 million on pension obligations and management expects to record settlement charges of $10 million in SG&A.

For 2018, the actual return on plan assets was $25 million (2017 – $219 million).

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

- Active plan participants 57% (2017 – 55%);
- Deferred plan participants 9% (2017 – 10%); and
- Retirees 34% (2017 – 35%).

During 2019, the Company expects to contribute approximately $74 million (2018 – contributed $44 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

The net cost recognized in earnings before income taxes for the Company's defined benefit pension plans and other defined benefit plans was as follows:

	2018			2017		
(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	**$ 58**	**$ 5**	**$ 63**	$ 57	$ 6	$ 63
Interest cost on net defined benefit plan obligations	**3**	**5**	**8**	—	6	6
Settlement charges[(i)]	**1**	**—**	**1**	12	—	12
Other	**4**	**—**	**4**	4	—	4
Net post-employment defined benefit cost	**$ 66**	**$ 10**	**$ 76**	$ 73	$ 12	$ 85

(i) Relates to annuity purchases and pension buy-outs.

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

	2018			2017		
(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**	$ (142)	$ —	$ (142)
Experience adjustments	**4**	**2**	**6**	19	(28)	(9)
Actuarial (gains) losses from change in financial assumptions	**(154)**	**(10)**	**(164)**	164	5	169
Change in liability arising from asset ceiling	**(7)**	**—**	**(7)**	8	—	8
Total net actuarial (gains) losses recognized in other comprehensive income (loss) before income taxes	**$ (116)**	**$ (8)**	**$ (124)**	$ 49	$ (23)	$ 26
Income tax expenses (recoveries) on actuarial (gains) losses (note 8)	**31**	**2**	**33**	(13)	6	(7)
Actuarial (gains) losses net of income tax (recoveries) expenses	**$ (85)**	**$ (6)**	**$ (91)**	$ 36	$ (17)	$ 19

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

	2018			2017		
(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	**$ 19**	**$ (79)**	**$ (60)**	$ (30)	$ (56)	$ (86)
Net actuarial (gains) losses recognized in the year before income taxes	**(116)**	**(8)**	**(124)**	49	(23)	26
Cumulative amount, end of year	**$ (97)**	**$ (87)**	**$ (184)**	$ 19	$ (79)	$ (60)

Composition of Plan Assets The defined benefit pension plan assets are held in trust and consisted of the following asset categories:

(millions of Canadian dollars, except where otherwise indicated)		**2018**			2017	
Equity securities						
Canadian - pooled funds	**$**	**49**	**3%**	$	79	4%
Foreign - pooled funds		**446**	**26%**		713	37%
Total Equity Securities	**$**	**495**	**29%**	$	792	41%
Debt securities						
Fixed income securities:						
- government	**$**	**439**	**26%**	$	439	23%
- corporate		**155**	**9%**		131	7%
Fixed income pooled funds(i):						
- government		**277**	**16%**		404	21%
- corporate		**10**	**1%**		10	1%
Total Debt Securities	**$**	**881**	**52%**	$	984	52%
Other investments		**121**	**7%**		117	6%
Cash and cash equivalents		**197**	**12%**		23	1%
Total	**$**	**1,694**	**100%**	$	1,916	100%

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

As at December 29, 2018 and December 30, 2017, 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):

	2018		2017	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	**4.00%**	**4.00%**	3.50%	3.50%
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	**3.50%**	**3.50%**	4.00%	3.75%
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 December 29, 2018 is 17.8 years (December 30, 2017 – 17.7 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at the end of the year was estimated at 4.50% and is expected to remain at 4.50% at the end of 2019 and thereafter.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2018 (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	**4.00%**	**3.50%**	**4.00%**	**3.50%**
Impact of:				
1% increase	**$ (268)**	**$ (28)**	**$ (18)**	**$ —**
1% decrease	**$ 323**	**$ 27**	**$ 22**	**$ —**
Expected growth rate of health care costs			**4.50%**	**4.50%**
Impact of:				
1% increase	**n/a**	**n/a**	**$ 16**	**$ 1**
1% decrease	**n/a**	**n/a**	**$ (13)**	**$ (1)**

n/a – not applicable

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

Multi-Employer Pension Plans

During 2018, the Company recognized an expense of $66 million (2017 – $66 million) in operating income, which represents the contributions made in connection with MEPPs. During 2019, 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 54,000 (2017 – 54,000) employees as members. Included in the 2018 expense described above are contributions of $65 million (2017 – $65 million) to CCWIPP.

Post-Employment and Other Long Term Employee Benefit Costs

The net cost recognized in earnings before income taxes for the Company's post-employment and other long term employee benefit plans was as follows:

(millions of Canadian dollars)		**2018**		2017
Net post-employment defined benefit cost(i)	**$**	**76**	$	85
Defined contribution costs(ii)		**25**		22
Multi-employer pension plan costs(iii)		**66**		66
Total net post-employment benefit costs	**$**	**167**	$	173
Other long term employee benefit costs(iv)		**28**		28
Net post-employment and other long term employee benefit costs	**$**	**195**	$	201
Recorded on the consolidated statement of earnings as follows:				
Selling, general and administrative expenses (note 28)	**$**	**184**	$	192
Net interest expense and other financing charges (note 7)		**11**		9
Net post-employment and other long term employee benefit costs	**$**	**195**	$	201

(i) Includes settlement charges of $1 million (2017 – $12 million) related to annuity purchases and pension buy-outs.
(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 (2017 – $3 million) of net interest expense and other financing charges.

Note 27. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, RSU, PSU, DSU and EDSU plans was $49 million during 2018 (2017 – $53 million). The expense was recognized in operating income.

The carrying amount of the Company's equity-based compensation arrangements including Loblaw Stock Option, RSU, PSU, DSU, EDSU plans, and the unit-based compensation plans of Choice Properties, were recorded on the consolidated balance sheets as follows:

(millions of Canadian dollars)		**As at December 29, 2018**		As at December 30, 2017
Trade payables and other liabilities	**$**	**—**	$	11
Other liabilities (note 23)		**2**		4
Contributed surplus		**107**		110

During 2018, the Company cancelled stock options and granted new stock options at an adjusted share price to "make-whole" stock option holders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties. In addition, the Company issued additional RSUs, PSUs, DSUs, and EDSUs to "make-whole" unit holders as a result of the spin-out. These "make-whole" arrangements were not considered modifications to the Company's equity-based compensation plans and as a result had no impact on the Company's financial statements.

The following are details related to the equity-based compensation plans of the Company:

Stock Option Plan The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options up to 28,137,162 common shares.

The following is a summary of the Company's stock option plan activity:

	2018			2017		
	Options (number of shares)		**Weighted Average Exercise Price / Share**	Options (number of shares)		Weighted Average Exercise Price / Share
Outstanding options, beginning of year	**7,487,774**	**$**	**53.77**	7,322,358	$	48.93
Granted	**9,672,806**	**$**	**53.26**	1,584,407	$	70.02
Exercised	**(2,081,235)**	**$**	**38.87**	(1,019,610)	$	39.98
Forfeited/cancelled	**(7,569,714)**	**$**	**59.36**	(399,381)	$	64.74
Outstanding options, end of year	**7,509,631**	**$**	**51.60**	7,487,774	$	53.77
Options exercisable, end of year	**3,033,156**	**$**	**45.14**	3,847,491	$	43.57

During 2018, the Company cancelled all 6,725,773 stock options and granted 8,013,333 stock options at an adjusted share price to "make-whole" stock option holders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

	2018 Outstanding Options				**2018 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**
$27.37 – $54.30	**2,968,083**	**2.1**	**$**	**42.74**	**2,253,523**	**$**	**40.56**
$54.31 – $57.83	**1,954,149**	**6.1**	**$**	**55.79**	**28,111**	**$**	**57.06**
$57.84 – $65.46	**2,587,399**	**4.7**	**$**	**58.59**	**751,522**	**$**	**58.42**
	7,509,631		**$**	**51.60**	**3,033,156**	**$**	**45.14**

During 2018, the Company issued common shares on the exercise of stock options with a weighted average market share price of $65.45 (2017 – $70.98). The Company received cash consideration of $78 million (2017 – $41 million) related to the exercise of these options.

The fair value of stock options granted during 2018 was $15 million (2017 – $15 million). The assumptions used to measure the fair value of options granted during 2018 and 2017 under the Black-Scholes valuation model at date of grant were as follows:

	2018	2017
Expected dividend yield	**1.8%**	1.5%
Expected share price volatility	**15.2% – 21.0%**	16.0% – 18.2%
Risk-free interest rate	**1.9% – 2.3%**	0.9% – 1.7%
Expected life of options	**3.9 – 6.3 years**	3.8 – 6.3 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at December 29, 2018 was 9.0% (December 30, 2017 – 10.0%).

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

(Number of awards)	2018	2017
RSUs, beginning of year	**824,705**	858,106
Granted	**528,614**	337,846
Reinvested	**7,954**	4,418
Settled	**(277,698)**	(323,894)
Forfeited	**(59,300)**	(51,771)
RSUs, end of year	**1,024,275**	824,705

The fair value of RSUs granted during 2018 was $24 million (2017 – $24 million).

During 2018, as a result of the spin-out of Choice Properties the Company granted additional 164,322 RSUs to "make-whole" RSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

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

(Number of awards)	2018	2017
PSUs, beginning of year	**631,528**	965,863
Granted	**434,692**	404,150
Reinvested	**5,409**	3,152
Settled	**(355,618)**	(687,007)
Forfeited	**(41,066)**	(54,630)
PSUs, end of year	**674,945**	631,528

The fair value of PSUs granted during 2018 was $15 million (2017 – $16 million).

During 2018, as a result of Choice Properties spin-out the Company granted additional 114,778 PSUs to "make-whole" PSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

Settlement of Awards from Shares Held in Trust During 2018, the Company settled RSUs and PSUs totaling 633,316 (2017 – 1,010,901), of which 628,711 (2017 – 1,010,682) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 24). The settlements resulted in a $12 million (2017 – $19 million) increase to share capital and a net increase of $25 million (2017 – $29 million) to retained earnings.

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

(Number of awards)	2018	2017
DSUs outstanding, beginning of year	**220,672**	188,202
Granted	**78,860**	29,289
Reinvested	**2,917**	3,181
Settled	**(6,120)**	—
DSUs outstanding, end of year	**296,329**	220,672

The fair value of DSUs granted during 2018 was $2 million (2017 – $2 million).

During 2018, as a result of the spin-out of Choice Properties the Company granted additional 47,027 DSUs to "make-whole" DSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

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

(Number of awards)	2018	2017
EDSUs outstanding, beginning of year	**47,294**	35,559
Granted	**11,402**	16,558
Reinvested	**578**	686
Settled	**(13,801)**	(5,509)
EDSUs outstanding, end of year	**45,473**	47,294

The fair value of EDSUs granted during 2018 was nominal (2017 – $1 million).

During 2018, as a result of the spin-out of Choice Properties the Company granted additional 7,868 EDSUs to "make-whole" EDSU unitholders for the decline in the Company's share price as a result of the spin-out of the Company's equity interest in Choice Properties.

Note 28. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2018	2017
Wages, salaries and other short term employment benefits	**$ 5,748**	$ 5,385
Post-employment benefits (note 26)	**159**	167
Other long term employee benefits (note 26)	**25**	25
Equity-based compensation	**47**	51
Capitalized to fixed assets	**(54)**	(46)
Total employee costs	**$ 5,925**	$ 5,582

Note 29. Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, and other assets under operating or finance lease arrangements. Substantially all of the retail store leases have renewal options for additional terms. The contingent rents under certain of the retail store leases are based on a percentage of retail sales. The Company also has properties which are sub-leased to third parties.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

Operating Leases – As Lessee Future minimum lease payments relating to the Company's operating leases are as follows:

	Payments due by year						**As at December 29, 2018**	As at December 30, 2017[(i)]
(millions of Canadian dollars)	2019	2020	2021	2022	2023	Thereafter	**Total**	Total
Operating lease payments	$ 1,229	$ 1,195	$ 1,140	$ 1,073	$ 978	$ 4,372	**$ 9,987**	$ 4,698
Sub-lease income	(67)	(42)	(34)	(31)	(29)	(93)	**(296)**	(273)
Net operating lease payments	$ 1,162	$ 1,153	$ 1,106	$ 1,042	$ 949	$ 4,279	**$ 9,691**	$ 4,425

(i) Comparative figures have not been restated to conform with current year presentation and thus exclude lease commitments with Choice Properties.

During 2018, the Company recorded $1,234 million (2017 – $1,214 million) as an expense included in the statement of earnings in respect of operating leases. In addition, contingent rent recognized as an expense in respect of operating leases totaled $2 million (2017 – $1 million) and sub-lease income earned totaled $60 million (2017 – $107 million), which is recognized in operating income. Contingent rent recognized as income in respect of sub-leased operating leases in 2018 was $3 million (2017 – $3 million).

Operating Leases – As Lessor Future minimum lease payments to be received by the Company relating to properties that are leased to third parties are as follows:

	Payments to be received by year						As at December 29, 2018	As at December 30, 2017(i)
(millions of Canadian dollars)	2019	2020	2021	2022	2023	Thereafter	**Total**	Total
Net operating lease income	$ 6	$ 6	$ 6	$ 6	$ 5	$ 12	**$ 41**	$ 680

(i) Comparative figure has not been restated to conform with current year presentation.

As at December 29, 2018, the Company leased certain owned land and buildings with a cost of $340 million (December 30, 2017 – $2,974 million) and related accumulated depreciation of $65 million (December 30, 2017 – $796 million). For the year ended December 29, 2018, rental income was $198 million (2017 – $76 million) and contingent rent was $1 million (2017 – $2 million), both of which were recognized in operating income.

Finance Leases – As Lessee Future minimum lease payments relating to the Company's finance leases are as follows:

	Payments due by year						As at December 29, 2018	As at December 30, 2017
(millions of Canadian dollars)	2019	2020	2021	2022	2023	Thereafter	**Total**	Total
Finance lease payments	$ 77	$ 71	$ 65	$ 64	$ 62	$ 594	**$ 933**	$ 914
Less future finance charges	(39)	(33)	(31)	(29)	(27)	(239)	**(398)**	(346)
Present value of minimum lease payments	$ 38	$ 38	$ 34	$ 35	$ 35	$ 355	**$ 535**	$ 568

During 2018, contingent rent recognized by the Company as an expense in respect of finance leases was $2 million (2017 – $1 million).

Certain assets classified as finance leases have been sub-leased by the Company to third parties. The future sub-lease income relating to these sub-lease agreements are as follows:

	Payments to be received by year						As at December 29, 2018	As at December 30, 2017
(millions of Canadian dollars)	2019	2020	2021	2022	2023	Thereafter	**Total**	Total
Sub-lease income	$ 5	$ 4	$ 2	$ 2	$ 2	$ 16	**$ 31**	$ 59

During 2018, the sub-lease income earned under finance leases was $5 million (2017 – $15 million).

Note 30. Financial Instruments

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long term debt.

The Company measures financial assets and financial liabilities under fair value hierarchy (see note 2).

				As at December 29, 2018				As at December 30, 2017
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets								
Amortized cost:								
Franchise loans receivable	**$ —**	**$ —**	**$ 78**	**$ 78**	$ —	$ —	$ 166	$ 166
Certain other assets[(i)]	**—**	**—**	**16**	**16**	—	3	23	26
Fair value through other comprehensive income:								
Certain long term investments[(i)]	**50**	**—**	**—**	**50**	20	—	—	20
Derivatives included in prepaid expenses and other assets	**—**	**1**	**—**	**1**	—	—	—	—
Fair value through profit and loss:								
Derivatives included in prepaid expenses and other assets	**2**	**11**	**—**	**13**	6	—	2	8
Financial liabilities								
Amortized cost:								
Long term debt	**—**	**8,653**	**—**	**8,653**	—	12,103	—	12,103
Certain other liabilities[(i)]	**—**	**—**	**13**	**13**	—	—	18	18
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	**—**	**5**	**—**	**5**	—	1	—	1
Fair value through profit and loss:								
Trust Unit Liability	**—**	**—**	**—**	**—**	972	—	—	972
Derivatives included in trade payables and other liabilities	**11**	**—**	**3**	**14**	—	10	—	10

(i) Certain 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 2018, the Company recognized a gain of $6 million (2017 – loss of $6 million) in operating income on financial instruments designated as amortized cost. In addition, during 2018, a net loss of $3 million (2017 – net loss of $9 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Franchise Loans Receivable and Franchise Investments The value of Loblaw franchise loans receivable of $78 million (December 30, 2017 – $166 million) was recorded in the consolidated balance sheet. In 2018, the Company recorded a gain of $3 million (2017 – $8 million gain) in operating income related to these loans receivable.

The value of Loblaw franchise investments of $14 million (December 30, 2017 – $20 million) was recorded in other assets. During 2018, the Company recorded a gain of $2 million (2017 – $2 million gain) in operating income related to these investments.

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 2018, a loss of $5 million (2017 – gain of $4 million) was recorded in operating income related to these derivatives. In addition, a corresponding liability of $3 million was included in trade payables and other liabilities as at December 29, 2018 (December 30, 2017 – $2 million asset included in prepaid expenses and other assets). As at December 29, 2018, a 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

Securities Investments PC Bank holds investments which are considered part of the liquid securities required to be held to meet its LCR. As at December 29, 2018, the fair value of available for sale investments of $50 million (December 30, 2017 – $20 million) was included in other assets. During 2018, PC Bank recorded a nominal unrealized fair value gain (2017 – nominal loss) in other comprehensive income related to these investments.

Other Derivatives The Company uses bond forwards and interest rate swaps, to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. The following is a summary of the fair values recognized in the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's other derivatives:

						December 29, 2018
(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	**$**	**1**	**$**	**2**	**$**	**—**
Bond Forwards[(i)]		**(4)**		**(5)**		**1**
Interest Rate Swaps		**(1)**		**(1)**		**—**
Total derivatives designated as cash flow hedges	**$**	**(4)**	**$**	**(4)**	**$**	**1**
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	**$**	**11**	**$**	**—**	**$**	**21**
Other Non-Financial Derivatives		**(11)**		**—**		**(20)**
Total derivatives not designated in a formal hedging relationship	**$**	**—**	**$**	**—**	**$**	**1**
Total derivatives	**$**	**(4)**	**$**	**(4)**	**$**	**2**

(i) As a result of the issuance of Eagle notes, bond forward agreements with a notional value of $250 million were settled in 2018, resulting in a realized fair value loss of $1 million recorded in OCI (see note 22).

						December 30, 2017
(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[(i)]						
Foreign Exchange Forwards	$	(1)	$	(3)	$	1
Bond Forwards[(ii)]		—		6		—
Total derivatives designated as cash flow hedges	$	(1)	$	3	$	1
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	$	(10)	$	—	$	(23)
Other Non-Financial Derivatives		3		—		—
Total derivatives not designated in a formal hedging relationship	$	(7)	$	—	$	(23)
Total derivatives	$	(8)	$	3	$	(22)

(i) Includes interest rate swap agreements with a notional value of $100 million. During 2017, a nominal unrealized fair value loss was recorded in OCI relating to these agreements.

(ii) Bond forward agreements with a notional value of $200 million were settled in 2017, resulting in realized fair value gain of $6 million recorded in OCI.

Note 31. Financial Risk Management

As a result of holding and issuing financial instruments, the Company is exposed to liquidity, credit and market risk. The following is a description of those risks and how the exposures are managed:

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

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

The following are the undiscounted contractual maturities of significant financial liabilities as at December 29, 2018:

	2019	2020	2021	2022	2023	Thereafter	Total(i)
Derivative Financial Liabilities							
Foreign exchange forward contracts	$ 336	$ —	$ —	$ —	$ —	$ —	$ 336
Non-Derivative Financial Liabilities							
Bank Indebtedness	56	—	—	—	—	—	56
Short term debt(ii)	915	—	—	—	—	—	915
Long term debt including interest payments(iii)	2,002	1,447	562	645	1,414	5,436	11,506
Other liabilities	2	3	3	—	—	—	8
	$ 3,311	$ 1,450	$ 565	$ 645	$ 1,414	$ 5,436	$ 12,821

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

(ii) These are obligations owed to independent securitization trusts which are collateralized by the Company's credit card receivables (see note 12).

(iii) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as of December 29, 2018.

Credit The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, franchise loans receivable, pension assets held in the Company's defined benefit plans and accounts receivable, including amounts due from franchisees, government, prescription sales and third-party drug plans, 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, short term investments and security deposits is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments.

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

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

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 and Unit 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 $3 million to net interest expense and other financing charges.

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

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities. The Company estimates that based on the outstanding derivative contracts held by the Company as at December 29, 2018, a 10% decrease in relevant energy prices, with all other variables held constant, would result in a loss of $5 million on earnings before income taxes.

Note 32. Contingent Liabilities

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

There are a number of uncertainties involved in such matters, individually or in aggregate, and as such, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect on the Company's reputation, operations, financial condition or performance in future periods. It is not currently possible to predict the outcome of the Company's legal actions and proceedings with certainty. Management regularly assesses its position on the adequacy of accruals or provisions related to such matters and will make any necessary adjustments.

The following is a description of the Company's significant legal proceedings:

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice ("Superior Court") against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately $2 billion in damages. The Company believes this proceeding 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 July 2017, the Superior Court dismissed the action and the plaintiffs appealed. The decision of the Ontario Court of Appeal, released December 20, 2018, upheld the Superior Court's dismissal of the action. Costs awarded in respect of the original motion was reduced by 30%. The Company anticipates that the plaintiff's will seek leave to appeal to the Supreme Court of Canada.

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 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 2018 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 part of its response to this issue, the Company announced the Loblaw Card Program pursuant to which the Company offered a $25 Loblaw Card to eligible customers. The Loblaw Card can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of $107 million associated with the Loblaw Card Program in 2017. In 2018, the Company recorded an additional charge of $4 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.

As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. The Company believes this proceeding 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.

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements, lease agreements in connection with business or asset acquisitions or dispositions, and other types of commercial agreements. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or in respect of future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. In addition, the terms of these indemnification provisions vary in amount and certain indemnification provisions do not provide for a maximum potential indemnification amount. Indemnity amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. As a result, the Company is unable to reasonably estimate its total maximum potential liability in respect of indemnification provisions. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 33. Financial Guarantees

The Company established letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and guarantees with a gross potential liability of approximately $317 million as at December 29, 2018 (December 30, 2017 – $342 million). In addition, the Company has provided to third parties the following significant guarantees:

Associate Guarantees The Company has arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at December 29, 2018, the Company's maximum obligation in respect of such guarantees was $580 million (December 30, 2017 – $580 million) with an aggregate amount of $466 million (December 30, 2017 – $509 million) in available lines of credit allocated to the Associates by the various banks. As at December 29, 2018, Associates had drawn an aggregate amount of $56 million (December 30, 2017 – $110 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

Independent Funding Trusts The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheet of the Company (see note 22). As at December 29, 2018 the Company has agreed to provide a credit enhancement of $64 million (December 30, 2017 – $64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2017 – 10%) of the principal amount of loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to the Company's franchisees. As well, each franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that a franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate, approximately $12 million (December 30, 2017 – $15 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of $3 million (December 30, 2017 – $3 million).

Glenhuron Bank Limited Surety Bond In connection with the Canada Revenue Agency's reassessment of the Company on certain income earned by Glenhuron (see note 8), the Company arranged for a surety bond to the Ministry of Finance in order to appeal the reassessments. As a result of the decision of the Tax Court of Canada and incremental payments, the amount of the surety bond has been reduced to $46 million (2017 – $149 million).

Cash Collateralization As at December 29, 2018, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $103 million (December 30, 2017 – $102 million), of which $2 million (December 30, 2017 – $3 million) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at December 29, 2018, the guarantee on behalf of PC Bank to MasterCard® was USD $190 million (December 30, 2017 – USD $190 million).

The Company had in place an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of $11 million (December 30, 2017 – $76 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 $89 million (December 30, 2017 – $62 million), which represented approximately 10% (2017 – 10%) of the securitized credit card receivables amount (see note 12).

Note 34. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 50.4% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies that he controls, including Wittington, which owns a total of 81,465,025 of Weston's common shares, representing approximately 53.1% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,096,189 of the Company's common shares, representing approximately 1.4% of the Company's outstanding common shares.

In the fourth quarter of 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties (see note 6).

Following the reorganization, the Company no longer retains its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements. The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and all current agreements and arrangements, including The Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant, representing approximately 68% of Choice Properties' annual base rent revenue and 59% of its gross leasable area as at December 29, 2018 (December 30, 2017 – 88% and 88% respectively).

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

Transactions with Related Parties:

(millions of Canadian dollars)	Transaction Value 2018	2017
Included in Cost of Merchandise Inventories Sold		
Inventory purchases from a subsidiary of Weston	**$ 649**	$ 652
Inventory sold to a subsidiary of Weston	**2**	2
Inventory purchases from a related party(i)	**30**	28
Operating Income		
Transactions with Weston		
Cost sharing agreements with Parent(ii)	**$ 42**	$ 35
Net administrative services provided by Parent(iii)	**19**	23
Lease of office space from a subsidiary of Wittington	**4**	4
Lease of office space to a subsidiary of Wittington	**—**	2
Transactions with Choice Properties		
Rental expenses paid to Choice Properties(iv)	**$ 742**	$ 718
Property management and other administration fees paid to Choice Properties	**1**	1
Lease surrender payments	**10**	6
Service agreement fees received from Choice Properties	**(2)**	(3)
Net other income received from Choice Properties(v)	**(6)**	(4)
Gain on sale of properties to Choice Properties(vi)	**(6)**	(7)

(i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at December 29, 2018 was $3 million (December 30, 2017 – $6 million).

(ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.

(iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information systems, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.

(iv) Rental expenses paid to Choice Properties include base rent of $543 million (2017 – $533 million) and operating expenses of $199 million (2017 – $185 million).

(v) Net other income received from Choice Properties include site intensification payments received from Choice Properties of $6 million (2017 – $6 million). Included in certain investment properties sold to Choice Properties is excess land with development potential. Choice Properties will compensate the Company, over time, with 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). The Company did not make any development capital payments to Choice Properties during the year ended December 29, 2018 (2017 – $2 million).

(vi) Prior to the spin-out, the Company disposed of one investment property to Choice Properties for a sale price of $2 million and a loss on sale of $2 million was recognized and eliminated on consolidation. Since November 1, 2018, the Company disposed three investment properties to Choice Properties for an aggregate purchase price of $55 million and recognized a gain of $8 million. These properties were leased back by the Company and were classified as operating leases.

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

(millions of Canadian dollars)	**As at December 29, 2018**	As at December 30, 2017
Weston(i)	**$ 36**	$ 48
Choice Properties(ii)	**2**	(22)

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

(ii) Balances relate to distribution and other receivables, net of note and other payables.

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.

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)	**2018**	2017
Salaries, director fees and other short term employee benefits	**$ 6**	$ 6
Equity-based compensation	**10**	9
Total compensation	**$ 16**	$ 15

Other Transactions and Agreements with Choice Properties

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

Services Agreement The Company provides Choice Properties with administrative and other support services.

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

Sublease Administration Agreement On July 17, 2017, in connection with the Company's sale of substantially all of its gas bar operations, Choice Properties agreed to provide the Company with certain administrative services in respect of the subleases to Brookfield on a fee for service basis for an initial five-year term with automatic one-year renewals.

Letters of Credit As at December 29, 2018, letters of credit totaling $3 million were posted by the Company with the province of Ontario and City of Toronto on behalf of Choice Properties related to deferral of land transfer tax on properties acquired from the Company (December 30, 2017 – $5 million).

Distributions on Choice Properties LP Units Prior to the spin-out and the acquisition of CREIT by Choice Properties, the Company held all the Exchangeable Units and Class C LP Units issued by Choice Properties. For the year ended December 29, 2018, the Company received distributions totaling $238 million (2017 – $278 million) on the Units held.

Trust Unit Distributions For the year ended December 29, 2018, the Company received distributions of $13 million (2017 – $16 million) on the Units held.

Acquisitions During 2017, the Company acquired certain gas bar capital assets with a fair value of $35 million from Choice Properties, for cash, in order to facilitate the sale of substantially all of the Company's gas bar operations to Brookfield. The gas bar capital assets were leased to the Company as part of the respective tenant leases between the Choice Properties and the Company. The tenant leases between Choice Properties and the Company related to these investment properties remained substantially unchanged.

Commitments The following is a summary of the Company's commitments to Choice Properties as of December 29, 2018:

	Payments due by year						**As at December 29, 2018**
(millions of Canadian dollars)	2019	2020	2021	2022	2023	Thereafter	**Total**
Operating lease payments	$ 535	$ 541	$ 549	$ 555	$ 534	$ 2,516	**$ 5,230**

Note 35. Segment Information

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and 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. The Retail segment is Choice Properties' largest tenant and all transactions, including but not limited to rental payments, with Choice Properties are included in segment results. Prior to July 17, 2017, the Retail segment also included gas bar operations; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, deposit taking services and telecommunication services. As a result of the wind-down of *PC Financial* banking services, the Financial Services segment no longer offers personal banking 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.

Post spin-out of Choice Properties, the chief operating decision maker evaluates Retail segment performance on a Continuing Operations basis. The Company has restated the financial results of the Retail segment on a Continuing Operations basis, to include amounts paid between the Company and Choice Properties in the current and comparative period. The Company's current and comparative period Retail segment results include rent paid to Choice Properties, gains related to the sale leaseback of properties to Choice Properties and site intensification payments received from Choice Properties. In addition, the Retail segment no longer includes depreciation and amortization on properties owned by Choice Properties previously treated as own use fixed assets.

Information for each reportable operating segment is included below:

				December 29, 2018 (52 weeks)				December 30, 2017(3)(4) (52 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$ 45,836**	**$ 1,082**	**$ (225)**	**$ 46,693**	$ 45,867	$ 953	$ (233)	$ 46,587
Operating Income	$ 1,717	$ 206	$ —	$ 1,923	$ 1,843	$ 206	$ —	$ 2,049
Net interest expense and other financing charges	495	69	—	564	318	56	—	374
Earnings before Income Taxes	**$ 1,222**	**$ 137**	**$ —**	**$ 1,359**	$ 1,525	$ 150	$ —	$ 1,675
Operating Income	**$ 1,717**	**$ 206**	**$ —**	**$ 1,923**	$ 1,843	$ 206	$ —	$ 2,049
Depreciation and Amortization	1,487	10	—	1,497	1,444	10	—	1,454
Adjusting items(iii)	649	(20)	—	629	566	(24)	—	542
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(521)	—	—	(521)	(524)	—	—	(524)
Adjusted EBITDA(iii)	$ 3,332	$ 196	$ —	$ 3,528	$ 3,329	$ 192	$ —	$ 3,521
Depreciation and Amortization(iv)	966	10	—	976	920	10	—	930
Adjusted Operating Income	**$ 2,366**	**$ 186**	**$ —**	**$ 2,552**	$ 2,409	$ 182	$ —	$ 2,591

(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 $426 million (2017 – $393 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 $521 million (2017 – $524 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)	2018 (52 weeks)	2017(5) (52 weeks)
Food retail	**$ 32,969**	$ 33,288
Drug retail		
Pharmacy	**$ 6,030**	$ 5,959
Front Store	**6,837**	6,620
	$ 12,867	$ 12,579
Retail Total	**$ 45,836**	$ 45,867
Financial Services	**1,082**	953
Eliminations(i)	**(225)**	(233)
Total	**$ 46,693**	$ 46,587

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

(millions of Canadian dollars)	As at December 29, 2018	As at December 30, 2017
Total Assets		
Retail	**$ 25,796**	$ 30,233
Financial Services	**4,357**	3,837
Choice Properties(i)	**—**	9,924
Consolidation and Eliminations(i)	**—**	(8,847)
Total	**$ 30,153**	$ 35,147

(i) Choice Properties and Consolidation and Eliminations are presented consistent with prior year segment reporting and include amounts related to properties treated as own use prior to the spin-out.

(millions of Canadian dollars)	2018	2017
Additions to Fixed Assets and Intangible Assets		
Retail	**$ 1,013**	$ 985
Financial Services	**57**	41
Discontinued Operations	**264**	233
Total	**$ 1,334**	$ 1,259

Three Year Summary(1)

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

For the years ended December 29, 2018 and December 30, 2017 and December 31, 2016 (millions of Canadian dollars except where otherwise indicated)		**2018**		2017(3)(4)		2016(4)
Consolidated Results of Operations						
Revenue	**$**	**46,693**	$	46,587	$	46,295
Revenue growth		**0.2%**		0.6%		2.0%
Operating Income	**$**	**1,923**	$	2,049	$	1,675
Adjusted EBITDA(2)		**3,528**		3,521		3,333
Adjusted EBITDA margin(2)		**7.6%**		7.6%		7.2%
Net interest expense and other financing charges	**$**	**564**	$	374	$	380
Adjusted net interest expense and other financing charges(2)		**387**		374		380
Net earnings		**800**		1,541		990
Continuing Operations		**753**		1,310		918
Discontinued Operations		**47**		231		72
Net earnings attributable to shareholders of the Company from continuing operations		**719**		1,286		911
Net earnings available to common shareholders of the Company		**754**		1,505		971
Continuing Operations		**707**		1,274		899
Discontinued Operations		**47**		231		72
Adjusted net earnings available to common shareholders of the Company(2)		**1,746**		1,797		1,655
Continuing Operations		**1,539**		1,585		1,471
Discontinued Operations		**207**		212		184
Consolidated Per Common Share ($)						
Diluted net earnings	**$**	**1.99**	$	3.79	$	2.37
Continuing Operations	**$**	**1.87**	$	3.21	$	2.20
Discontinued Operations	**$**	**0.12**	$	0.58	$	0.17
Adjusted diluted net earnings(2)	**$**	**4.60**	$	4.52	$	4.05
Continuing Operations	**$**	**4.06**	$	3.99	$	3.60
Discontinued Operations	**$**	**0.54**	$	0.53	$	0.45
Dividends						
Dividends declared per common share ($)	**$**	**1.155**	$	1.070	$	1.030
Consolidated Financial Position and Cash Flows						
Cash and cash equivalents and short term investments(i)	**$**	**1,159**	$	2,344	$	1,555
Cash flows from operating activities(i)		**2,501**		3,209		3,519
Capital investments(i)		**1,334**		1,259		1,224
Free cash flow(2)(i)		**670**		1,651		1,821
Financial Measures						
Retail debt to retail adjusted EBITDA(2)(ii)		**1.9x**		1.9x		1.7x
Adjusted return on equity(2)(ii)		**12.6%**		12.6%		12.9%
Adjusted return on capital(2)(ii)		**9.8%**		9.8%		8.8%

Three Year Summary(1)

For the years ended December 29, 2018 and December 30, 2017 and December 31, 2016 (millions of Canadian dollars except where otherwise indicated)	2018	2017(3)(4)	2016(4)
Retail Results of Operations			
Sales	**$ 45,836**	$ 45,867	$ 45,384
Operating Income	**1,717**	1,843	1,500
Adjusted gross profit(2)	**13,459**	13,053	12,262
Adjusted gross profit %(2)	**29.4%**	28.5%	27.0%
Adjusted EBITDA(2)	**$ 3,332**	$ 3,329	$ 3,145
Adjusted EBITDA margin(2)	**7.3%**	7.3%	6.9%
Depreciation and amortization	**$ 1,487**	$ 1,444	$ 1,422
Retail Operating Statistics			
Food retail same-store sales growth	**1.1%**	0.6%	1.1%
Drug retail same-store sales growth	**2.4%**	3.0%	4.0%
Drug retail same-store pharmacy sales growth	**1.2%**	3.1%	2.9%
Drug retail same-store front store sales growth	**3.5%**	2.9%	5.0%
Total retail square footage (in millions)	**70.4**	70.3	70.2
Number of corporate stores	**550**	559	565
Number of franchise stores	**535**	534	533
Number of Associate-owned drug stores	**1,337**	1,334	1,326
Financial Services Results of Operations			
Revenue	**$ 1,082**	$ 953	$ 911
Earnings before income taxes	**137**	150	124
Financial Services Operating Measures and Statistics			
Average quarterly net credit card receivables	**$ 3,073**	$ 2,908	$ 2,769
Credit card receivables	**3,329**	3,100	2,926
Allowance for credit card receivables	**167**	47	52
Annualized yield on average quarterly gross credit card receivables	**13.1%**	13.2%	13.5%
Annualized credit loss rate on average quarterly gross credit card receivables	**3.1%**	3.7%	4.3%

(i) Comparative figures are inclusive of Discontinued Operations.
(ii) 2016 comparative figures are inclusive of Discontinued Operations.

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 140 of the Company's 2018 Annual Report.
(2) See Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis for the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
(3) Comparative figures have been restated as a result of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 2 in the Company's 2018 Annual Report.
(4) Comparative figures have been restated to conform with current year presentation.