innovate
execute
optimize

Loblaw
COMPANIES LIMITED

LOBLAW COMPANIES LIMITED 2015 ANNUAL REPORT

Loblaw at a glance

JANUARY 2, 2016

A portfolio of strong, complementary and independent businesses

RETAIL

shoppers drug mart | market | discount | emerging | joe fresh

FINANCIAL SERVICES

PC financial

CHOICE PROPERTIES REIT

choice properties REIT

Our Purpose – *Live Life Well*®

Loblaw Companies Limited ("Loblaw" or the "Company") is Canada's food and pharmacy leader and the majority unitholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Loblaw – and its portfolio of grocery, health and beauty, financial services and apparel businesses – provides Canadians with an unparalleled mix of value, assortment and convenience, and offers Canadians three of the top consumer brands in *President's Choice*®, *Life Brand*®, and *no name*®.

Loblaw's purpose – *Live Life Well* – supports the needs and well-being of Canadians who make one billion visits each year to the Company's network of corporate and independently operated stores in communities across the country. Loblaw is positioned to meet and exceed those needs in many ways: convenient locations that span the value spectrum from Discount to specialty; full-service pharmacies; no-fee banking; affordable fashion and family apparel.

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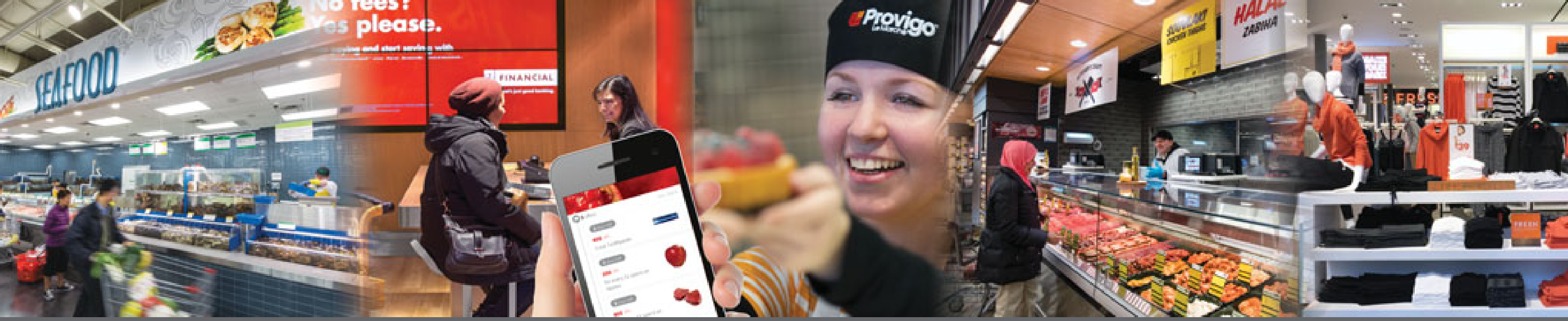


innovate execute optimize

Loblaw continued to innovate and execute throughout 2015, introducing new products and services that delivered the best in food, and health and beauty to our customers. Equally important, we continued to build the foundation required to fully optimize our portfolio of strong, complementary and independent businesses.

This year's report explores some of the important initiatives that we are focused on to improve our position and better serve Canadians as Canada's largest retailer.

Optimizing Our Network

WE CONTINUE TO OPTIMIZE OUR PORTFOLIO OF ASSETS, LEVERAGING TECHNOLOGY TO IMPROVE THE EFFICIENCY OF OUR STORE NETWORK AND SUPPLY CHAIN, GIVING CUSTOMERS INCREASED ACCESS TO OUR PRODUCTS AND SERVICES, AND TAKING ADVANTAGE OF GROWTH OPPORTUNITIES.

Synergies

Following the completion of the acquisition of Shoppers Drug Mart, the Company established a target to generate $300 million in net synergies.

A key driver of our financial plan, we have made significant progress, generating $242 million in net synergies in 2015. The synergies achievements were the result of a relentless focus on the optimization of our product costs across the Company, the refinement and expansion of our enhanced food offer pilots in Shoppers Drug Mart and improved assortment of the health and beauty offer in a number of our grocery stores. Building on these successes, we expect to successfully complete our $300 million synergy target in 2016.

Technology

2015 marked the completion of the implementation of the SAP information technology system across all of our Food retail corporate and franchise banners, a significant milestone that will help accelerate the optimization of our entire food-retailing network. We also continued to invest in our growing ecommerce programs, enabling services such as: our increasingly popular Click & Collect online food shopping service; beautyboutique.ca, which extends our prestige beauty lines to Canadians wherever they live and shop; and joefresh.com, our fast-growing distribution channel for stylish and affordable family apparel.

Dynamic Supply Chain

We are determined to make our 27 distribution centers part of the most responsive and customer-centric supply chain in North America. The recent completion of a common information technology system for all Food retail banners will enable key initiatives to harmonize business processes, allow the dynamic flow of product, and otherwise optimize the efficiency of our national distribution system.

Strategic Locations

Making it easier for customers to find us requires not necessarily a bigger, but a better retail network. We will continue to optimize our footprint to reflect urbanization and other demographic trends while carefully managing total capital costs.

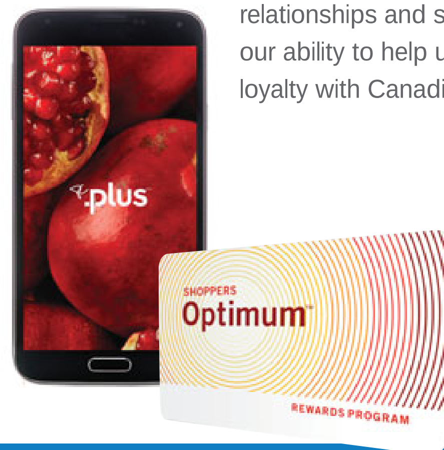
Our Colleagues

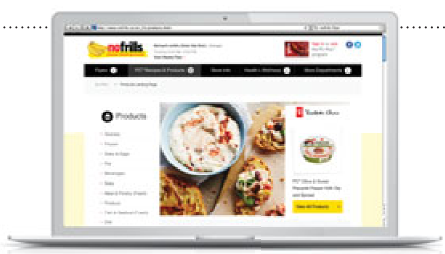
Colleagues are the key to success in businesses that depend on earning the satisfaction and loyalty of our customers every day. That is why we have identified culture as a strategic business priority, one which helps to ensure we do the right things to harness the energy, enthusiasm and talents of all colleagues.

An engaged workforce and a winning culture are essential for achieving our Company purpose and business goals. A strong emphasis on training and development helps our people achieve personal satisfaction and growth, and contributes meaningfully to our future success. Our colleagues are becoming more actively engaged in creating a winning culture focused on achieving our shared Company purpose – *Live Life Well*.

Loyalty Programs

With more than 20 million members between them, the *PC Plus* and *Optimum* programs are two of the leading loyalty programs in Canada and key to building stronger one-to-one relationships with our customers. We continue to look at new ways to increase the value of our points systems, create broader and deeper relationships and strengthen our ability to help us build loyalty with Canadians.





Omni-Channel

More and more Canadians are shopping online and, increasingly, they are looking for the kind of everyday products and services offered by our retail businesses. We continue to invest to improve and expand our omni-channel presence. We are committed to providing a seamless, one-to-one experience no matter how, when or where our customers wish to shop with us, and we gain new insights into their needs and preferences with every transaction.

Health Care

As Canada's population ages, governments are searching for new ways to control costs. With a national network of more than 1,750 pharmacies, we are well positioned to play a larger role in health care delivery and help Canadians better manage their health care needs.

Delivering Solid Results

2015 RESULTS REFLECT THE SUCCESSFUL EXECUTION OF A FINANCIAL PLAN THROUGH WHICH WE MAINTAINED STABLE TRADING, ACHIEVED $242 MILLION IN NET SYNERGIES, GAINED INCREMENTAL EFFICIENCIES AND ACHIEVED OUR DELEVERAGING TARGET.

3.5%

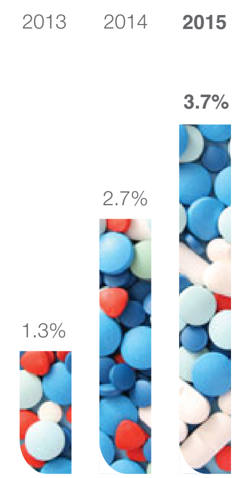
Food retail same store sales growth

4.7%

Drug retail front store same store sales growth

3.7%

Drug retail pharmacy same store sales growth



Forward-Looking Statements

This Annual Report for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, synergies and other benefits associated with the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), future liquidity, planned capital investments, and status and impact of information technology ("IT") systems implementation. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2016 is based on certain assumptions, including assumptions about anticipated cost savings, operating efficiencies and continued growth from current initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements. These risks and uncertainties include, but are not limited to, those discussed in section 1, Forward-Looking Statements, and section 12, Enterprise Risks and Risk Management, of Management's Discussion and Analysis in the 2015 Annual Report – Financial Review, and section 4 of the Company's 2015 Annual Information Form (for the year ended January 2, 2016).

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including, without limitation, the section entitled "Risks" in the Company's Annual Information Form (for the year ended January 2, 2016). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Annual Report. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

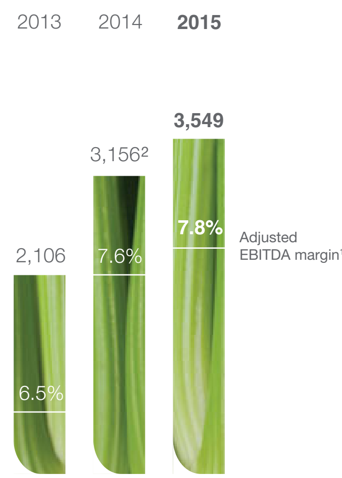
[1] Same store sales after excluding the impact of gas bar and the negative impact of a change in distribution model by a tobacco supplier.

26.4%

Adjusted retail segment gross profit percentage[1]

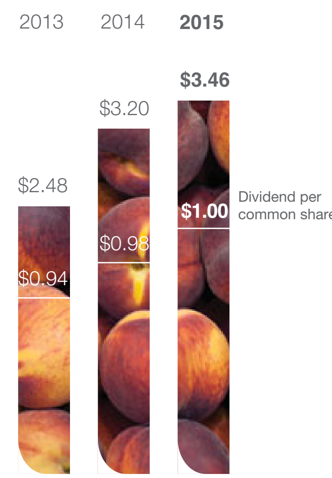
↑12.5%

Consolidated adjusted EBITDA[1] and adjusted EBITDA margin[1]
($ millions)



$3.46

Adjusted basic EPS[1] and dividend per share
($)

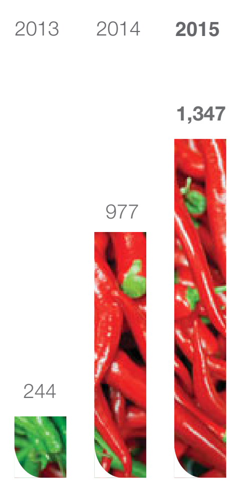


$1,241

Capital investments
($ millions)

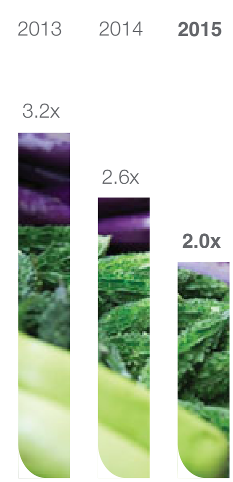
$1,347

Free cash flow[1]
($ millions)



2.0x

Retail debt to adjusted EBITDA[1]



[1] See the Non-GAAP Financial Measures section of the 2015 Annual Report – Financial Review.
[2] Excluding the impact of the 53rd week in 2014.

Delivering on Our Purpose

GUIDED BY OUR PURPOSE AND STRATEGIC FRAMEWORK, LOBLAW IS DELIVERING THE BEST IN FOOD EXPERIENCE, BEST IN HEALTH AND BEAUTY, OPERATIONAL EXCELLENCE AND GROWTH.

LOBLAW IS INCREASINGLY BECOMING A NUTRITION, HEALTH, AND WELLNESS PARTNER FOR CANADIANS, ANCHORED BY OUR PURPOSE – *LIVE LIFE WELL*.

Fellow Shareholders,

Guided by our purpose and strategic framework, Loblaw is delivering the best in food experience, best in health and beauty, operational excellence and growth. The entire organization has made significant progress against this framework over the last twelve months. As you will discover in this year's Annual Report, 2015 has been a story of continued innovation and execution, and of providing great products and services to our customers. Today, the infrastructure and process investments are in place to optimize our network and leverage the shared potential of our strong, independent and complementary businesses.

This past year we remained focused on better serving our customers. We rolled out Click & Collect to 39 locations, bringing Canada's most exciting food to customers at an unmatched level of convenience. At the same time, we delivered the best in health and beauty at Shoppers Drug Mart, where we introduced an improved fresh food offering at 29 locations, launched beautyboutique.ca, and extended enhanced prestige cosmetics to 40 *beautyBoutiques*. Behind the scenes we have also been very busy making progress in delivering operational excellence and growth. We completed the roll-out of our SAP information technology platform to all corporate and franchise Food Retail stores, and created a more robust loyalty platform with improvements to *PC Plus* and the launch of personalized digital offers through *My Optimum My Rewards*.

As we reach the second year anniversary of Shoppers Drug Mart joining our organization, we are very pleased with the work that our colleagues have done to combine and optimize the two companies. Our teams have built mutual trust through steady progress, improving our systems, our processes and our talent. We continue to work together and to learn, leveraging each other's strengths to improve our customer proposition and better serve Canadians.

Financial Plan

Our future growth and success are anchored by our financial plan, and we executed well against it in 2015. We maintained a stable trading platform by delivering strong same store sales and stable margins in a highly competitive grocery environment and in a Drug retail business that saw negative pressure from health care reform. Against our target to generate $300 million in net synergies related to the acquisition of Shoppers Drug Mart, we have already realized $242 million and remain ahead of our initial plan. We maintained our focus on identifying and realizing incremental efficiencies in our Food retailing businesses and will continue this focus in 2016. We also reduced total adjusted debt, achieving the deleveraging target set following the acquisition of Shoppers Drug Mart. As a result, in the fourth quarter of 2015, we began to return excess free cash flow to shareholders under a common share repurchase program.

On a comparative consolidated basis, we increased revenue by $3.6 billion or 8.5 per cent in 2015, reflecting growth in all of our businesses. We delivered $3.46 in adjusted net earnings per share, up 13.1 per cent from the previous year. This increase was driven primarily by an improvement in the underlying performance of our Retail segment, including positive

IN THE FOURTH QUARTER OF 2015, WE BEGAN TO RETURN EXCESS FREE CASH FLOW TO SHAREHOLDERS UNDER A COMMON SHARE REPURCHASE PROGRAM.

WE WILL STRENGTHEN OUR LOYALTY PLATFORMS, DELIVERING PERSONALIZED VALUE BY KNOWING, ENGAGING AND REWARDING OUR CUSTOMERS.

WE WILL INVEST TO ENSURE THAT CUSTOMERS HAVE OMNI-CHANNEL ACCESS TO ALL OF OUR MAJOR PRODUCT AND SERVICE OFFERINGS.

same store sales in both Food and Drug retail and an increase in profit driven by sales, effective management of expenses, and the positive contribution of synergies realized to date.

President's Choice Financial also performed well with Revenue and adjusted EBITDA increasing 4.8 per cent and 1.2 per cent respectively in 2015. We introduced several innovative financial products and services to the market, including the PC Financial World Elite MasterCard®, Canada's first no-fee premium card.

Choice Properties expanded its portfolio through the acquisition of 47 additional properties, increasing its real estate by 2.7 million square feet and posting an 8.8 per cent increase in revenue and a 9.8 per cent increase in adjusted funds from operations.

Innovate, Execute, Optimize

The implementation of SAP in our corporate and franchise Food stores was completed in 2015. With SAP now in place, our focus has turned from execution to optimization. Beginning in 2016 we will use the system to realize cost-savings, improve the efficiency of our supply chain, and reduce the complexity of running our business, enabling our colleagues to better serve customers.

At the same time, we are focused on building our businesses in four areas of growth that will optimize our competitive position amid the economic and demographic shifts affecting our country, both now and in the years ahead.

We will invest to ensure Canadians have **Omni-channel** access to all of our major product and service offerings. Our ambition is to create a seamless brand and product experience across multiple channels – one that keeps customers coming back no matter how, when or where they wish to shop with us. In the year ahead, we will advance our omni-channel initiatives, continuing the roll-out of Click & Collect, reaching more customers through joefresh.com, and expanding our assortment on beautyboutique.ca. These omni-channel initiatives provide the opportunity to drive incremental sales, build customer loyalty and grow our business.

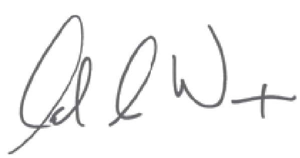
Today, **Loyalty** programs are also a vital part of the retail landscape. Among them, *PC Plus* and *Optimum* are two of the most successful, with more than 20 million members. We believe that the greatest opportunity still lies ahead and we will strengthen our loyalty platforms, delivering personalized value by knowing, engaging and rewarding our customers.

With immigration fueling the growth of Canada's population, our **Multicultural** expertise represents another defining competitive advantage and significant growth opportunity. We are leveraging capabilities in T&T Supermarkets, Arz, and Quality Natural Foods to upgrade facilities, develop new store-in-store concepts, and expand our fast-growing multicultural control brands throughout our Market and Discount divisions. It is through that depth of offering that our Company will better meet the needs of Canada's growing multicultural population.

As these and other trends continue to influence our customers, it is our colleagues who remain the closest link in how we serve them every day. Our success depends on their ability to earn the satisfaction and loyalty of Canadians every time they step into one of our stores. That is why we have identified our **Culture** as a strategic priority and, in 2015, articulated three key principles that underpin our ideal culture: Be Authentic, Build Trust, and Make Connections. We have also aligned our entire organization around a common set of four CORE values: Care, Ownership, Respect, and Excellence. Already well established at Shoppers Drug Mart, we quickly realized that these values are just as relevant across each of our six distinct divisions. As we begin the journey of bringing our culture and values to life in our stores, we believe that harnessing the energy and enthusiasm of our colleagues is one of the most meaningful ways we can better serve our customers.

HARNESSING THE ENERGY AND ENTHUSIASM OF OUR COLLEAGUES IS ONE OF THE MOST MEANINGFUL WAYS WE CAN BETTER SERVE OUR CUSTOMERS.

Aligned to our strategic framework, built on the strengths of our colleagues, and focused on the customer, all of these initiatives are an expression of our purpose – *Live Life Well*. By remaining true to that purpose, we will keep finding better ways to serve Canadians, and in so doing, accrue long-term value for shareholders in the years to come.

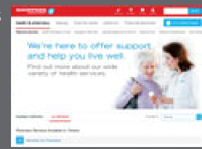


GALEN G. WESTON
Executive Chairman & President

RETAIL

Online renewals

Refilling prescriptions online is making it easier for patients to adhere to medications.



Compliance packaging

Our compliance pack helps patients organize their multiple medications and remain adherent.

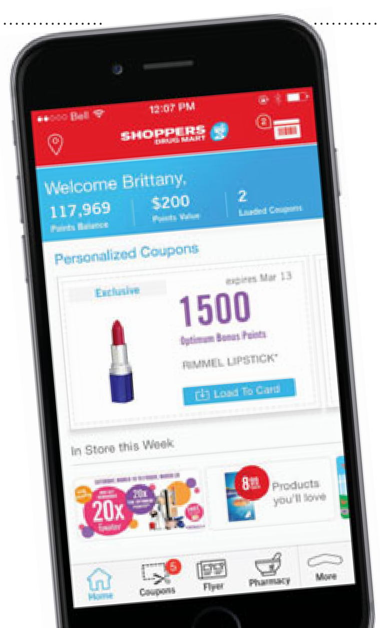
Shoppers Drug Mart

YOUR LIFE, MADE EASIER. SHOPPERS DRUG MART IS COMMITTED TO HELPING CANADIANS FEEL AND LOOK THEIR BEST BY OFFERING HIGH-QUALITY HEALTH AND BEAUTY PRODUCTS AND SERVICES THROUGH THE COUNTRY'S LARGEST AND MOST CONVENIENTLY LOCATED RETAIL PHARMACY NETWORK.

Expanding Our Fresh Food Offering

During the past year, Shoppers Drug Mart introduced fresh food concepts in several stores in Toronto and Regina. The expanded format has struck a chord with busy customers as evidenced by increases in total store sales and strong traction in all food, health and beauty categories, including our *President's Choice* and *Life Brand* products. The addition of Shoppers Drug Mart to our retail network represents an unparalleled opportunity to grow food sales through convenient, smaller-scale stores in Canada's fast-growing urban neighbourhoods.

WHERE CUSTOMERS CAN FIND THE BEST IN HEALTH AND BEAUTY BRANDS AND PROFESSIONAL, PERSONALIZED SERVICES IN CONVENIENTLY LOCATED, EXTENDED-HOUR STORES.



Shoppers Optimum Goes Digital

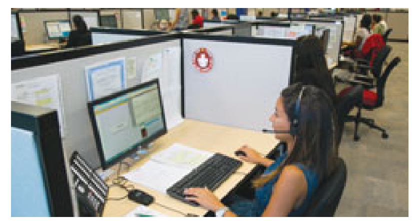
Drawing on our experience with the *PC Plus* program, the *Optimum* program has gone digital. The new mobile Shoppers app allows customers to download personalized coupons that reflect their individual buying habits, plus special offers designed to reward their loyalty and increase traffic and basket size in stores.

Getting Ready for More

As provincial governments look for more efficient ways to provide health care to an aging population, we are building on the strength and expertise of our Associate-owners and their pharmacy teams to deliver an expanding range of professional health care services. During the past year, we administered more than 725,000 flu shots. Plans are underway to play a greater role in the delivery of health care, including the prevention and management of chronic diseases and patient counselling services.

Patient Contact Centre

About 50 per cent of Canadians fail to take their medicines properly, a problem that costs the health care system an estimated $7 billion to $9 billion annually. Our Patient Contact Centre is part of the solution, providing timely refill reminders to thousands of patients every day. With approximately 150 staff members, including pharmacists and pharmacy assistants, the Patient Contact Centre allows more time for in-store pharmacists to focus on patient counselling and expanded scope of practice (i.e. flu shots).



Life Brand

Life Brand is one of the most popular and trusted control labels in Canada, with more than 2,000 over-the-counter medications, vitamins, first aid, oral care and other health care products. During the past year, we continued to expand the *Life Brand* product lines.

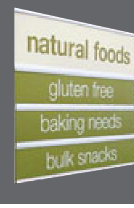
Gorgeous Got Easier

Last year we launched beautyboutique.ca, an online shopping experience that allows customers to explore, discover and shop for various brands from their home. We also opened three new enhanced *beautyBoutique* locations in 2015. There are now seven locations in Canada, which offer customers an elevated prestige beauty experience.

RETAIL

Natural Value

The Market division is a leader in providing the best assortment of healthy and natural products in Canada.



Ready when you are

Innovative retail solutions like Click & Collect offer a new level of service and convenience for our customers.

Market

WE LOVE FOOD.

OUR MARKET DIVISION OPERATES IN BOTH INSPIRE AND NEIGHBOUR FORMATS, WITH OVER 400 STORES FROM COAST TO COAST UNDER THE REAL ATLANTIC SUPERSTORE, DOMINION, ZEHRS, YOUR INDEPENDENT GROCER, VALU-MART, LOBLAWS, CITY MARKET, PROVIGO AND PROVIGO LE MARCHÉ BANNERS. FEATURING BROAD AND DIFFERENTIATING ASSORTMENTS, EXCEPTIONAL FRESH OFFERINGS AND UNPARALLELED SERVICE, EACH STORE IS FOCUSED ON DELIVERING THE VERY BEST SHOPPING EXPERIENCE IN ITS COMMUNITY.

INSPIRING OUR CUSTOMERS TO EXPLORE THEIR LOVE OF FOOD WITH STORES AND COLLEAGUES WHO SHARE THEIR PASSION.

Expect More from Your Food

Our Market division offers customers a huge selection of quality products and unique food experiences. The past year ushered in a new era for the *President's Choice* brand, building on the most ambitious marketing campaign, *Crave More*. Today, customers care more than ever about the food they eat – how healthy it is, where it comes from and how the food is made.

The launch of *Crave More* signalled a modernization of the *President's Choice* brand, with more food innovation, greater consciousness around product sourcing and ingredients, and shared excitement and curiosity over the discovery of new foods. Our passionate, knowledgeable colleagues are always available to help our customers make healthy decisions and find the right foods for any occasion.

CRAVE MORE®

From Our Chefs

A team of 30 chefs at our *Loblaws* store at Maple Leaf Gardens* continues to invent award winning products and gourmet meals, with six more internationally awarded items added in 2015. These products are available in retail locations across the country.

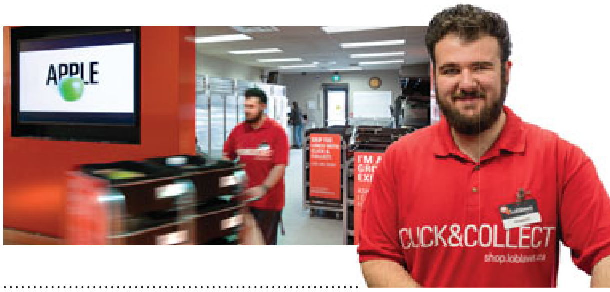
* Reg'd TM Lic'd Use.

Inspiring More Customers

The roll-out of the Inspire concept – a hub for innovation and service – continued in 2015 with 31 stores now offering food lovers exciting new flavours and products, an expanded selection of freshly prepared hot and cold meals and more specialty departments.

Click & Collect

Designed to help customers keep pace with the demands of modern life, Click & Collect, available in 26 Market division locations, makes it easy to shop online and schedule grocery orders for pick-up whenever it is most convenient. Customers can choose from many items and shop by brand name, grocery aisle, food category, event and flyer.



Your Independent Grocer

Our largest Market franchise banner continued to expand across the country in 2015 with the conversion of 14 stores in both eastern and western Canada, leveraging the strength of our Independent banner store. Our store now serves customers in more than 75 Markets across the country.

Elevating Neighbour

Every store in our Market division aspires to be "the best shop in town," including those in our neighbour format. Leveraging concepts from our Inspire store, these stores offer a range of customer-facing services.

Provigo & Provigo Le Marché

The revitalization of our Market store network in Quebec was completed in 2015 with 15 stores now under the *Provigo Le Marché* banner. The *Provigo Le Marché* stores offer a Quebec-flavoured shopping experience centred on freshness, the discovery of new products and flavours and exceptional customer service. A smaller version of the *Provigo Le Marché* stores, with greater emphasis on prepared foods, has proved to be a hit in busy urban neighbourhoods.

RETAIL

PC Plus

One of the best rewards programs in Canadian food retailing has received an enthusiastic reception in our Discount stores.

Won't Be Beat

The "*Won't Be Beat*" slogan found in every *NO FRILLS* location reinforces our highly competitive price position.

Discount

FEED EVERYONE. WE ARE CANADA'S LARGEST DISCOUNT OPERATOR WITH MORE THAN 500 STORES INCLUDING NO FRILLS, MAXI AND REAL CANADIAN SUPERSTORE STORES. OUR PURPOSE IS TO FEED EVERYONE BY MAKING HEALTHIER CHOICES MORE AFFORDABLE AND APPEALING, AND BY DELIVERING DIFFERENTIATED FRESH AND MULTICULTURAL OFFERINGS, ALL AT LOW PRICES.

The Full Shop and More

Our *Real Canadian Superstore* stores offer a complete one-stop shopping experience in the Discount business. Here, customers find much more than the full shop for fresh foods and groceries. It's a place where they can also find great wines, take a cooking class, drop off dry-cleaning, fill a pharmacy prescription, buy the latest in fashionable family apparel, squeeze in a workout at the gym or have new glasses made while they shop.

Expanding West

We opened 10 new *NO FRILLS* stores in British Columbia, Alberta, Manitoba and Saskatchewan during 2015, bringing the total number of stores in these four western provinces to over 60. Our *NO FRILLS* fresh-focused, hard discount format has found a welcome reception in the region's major cities and secondary markets.

No Name Naturally Imperfect

Furthering our commitment to offer affordable, quality products to customers, the *no name Naturally Imperfect* line of fruits and vegetables is now available at *Real Canadian Superstore* locations, select *NO FRILLS* locations in Ontario and select *Maxi*® stores in Quebec.

Thirty Years and Growing

Loblaw introduced the first control brand to Canadian food retailing in 1978 as well as the country's first Discount supermarket chain. Today, the *no name* brand offers more than 1,800 everyday basics on a wide selection of grocery categories, from ingredients to household products to produce.

Leaders in Unbeatable Prices

Offering unbeatable prices every day takes more than simple, straightforward merchandising and a focused range of products and services; it depends on a strong culture and a relentless drive to gain incremental efficiencies and eliminate waste. Our Discount division continues to find new ways to harness economies of scale, lower operating costs and increase shareholder return.

A Powerful Combination

Our Discount banners offer a unique and powerful combination of *President's Choice* and *no name* products, the two largest control brands in Canadian food retailing.

Fresh, Value and Global Flavours

This is the fundamental concept behind the launch of our pilot *Real Canadian Superstore* store in Mississauga, Ontario, where the best specialty products of T&T Supermarket, Arz Fine Foods and Quality Natural Foods have found expression in a deliciously elevated shopping experience. The store is meant to serve the area's increasingly diverse population, and the growing number of people who are becoming more adventurous when it comes to food. Fresh takes centre stage at this newly renovated location, which welcomes shoppers with an abundant selection of traditional and exotic fresh produce. Here they will also find unexpected features like a 1,200 sq. ft. pita machine, 18 tanks of live seafood, fresh T&T Sushi and Teppanyaki, an extensive Asian beauty section and an unprecedented variety of ingredients for Asian and Middle Eastern cuisine.

RETAIL

Driving traffic

Our conveniently located gas bars reward customers for gas purchases and drive traffic to our stores.

T&T control brands

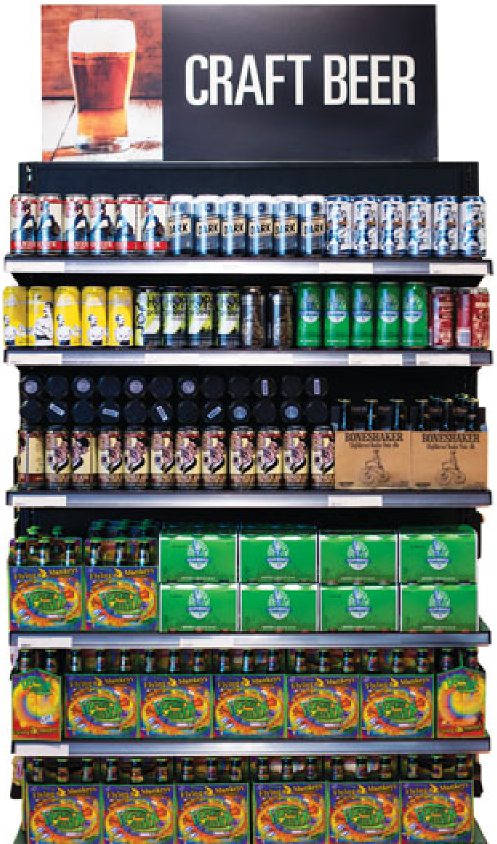
Popular T&T control brands are now available at various banners.

Emerging

REACH TOMORROW TOGETHER. THE MOSAIC OF PEOPLE AND STORES THAT MAKE UP LOBLAW'S EMERGING DIVISION BUSINESS BRINGS TO REALITY THE FOOD, FUEL AND PRODUCTS THAT EXPAND OUR HORIZONS OF LIVING WELL, WHILE STRENGTHENING OUR CORE.

Wholesale Club

Our national Wholesale Club banner proudly serves independent restaurants and convenience stores as one of Canada's leading self-serve wholesalers. We continued to strengthen this business through an efficient and timely capital investment plan.



Real Canadian Liquorstore

As Alberta's leading liquor retailer, this business continues to grow through new banners and an expanded control label program. We continued to leverage our experience in these stores to strengthen our core, as we introduced the convenience of beer sales to select stores in Ontario, with a commitment to dedicate about 50 per cent of beer shelf space to local or craft beer.

Fine Middle Eastern Cuisine

Arz Fine Foods offers the best in authentic Middle Eastern and Mediterranean foods and baked goods through our Toronto location, and many other Loblaw stores. During the past year, we've been introducing Arz grocery products in our Market and Discount stores, widening our appeal to fast-growing multicultural communities and delighting shoppers with an exotic new world of tastes and textures.

The Best in Asian Fresh

T&T Supermarket is dedicated to bringing Asian Canadian families the fresh foods and cultural staples they love, and introducing all Canadian families to the diversity of East Asian food culture at stores that offer exceptional convenience, service, and value.

Growth in Sight

Optical departments represent a fast-growing source of revenue for our stores and other outstanding value and convenience for customers. Customers can fill their optical needs during regular trips to the grocery store.

Fortinos

As one of Canada's premiere fresh food shops, Fortinos delights its customers through great service, high store standards and unmatched freshness and also offers expertise and high-quality Pane Fresco Home Meal Replacement offerings that deliver on taste and value.

East Meets West

Emerging banner stores are the incubators of fresh ideas for the balance of our retail network. Sushi and teppanyaki bars offered at T&T Supermarket locations, which combine culinary flair with modern chef-inspired creations, have been replicated in more than 15 stores throughout our food-retailing network.

RETAIL

Social media

Fans can follow the latest news and style inspiration on our blog and social channels.

Shop from anywhere

Our mobile app provides shoppers with easy access to Joe Fresh style and promos on the go.

JOE FRESH

JOE FRESH

Joe Fresh

ESSENTIAL STYLE EXCEPTIONAL VALUE. THE JOE FRESH BRAND IS ONE OF CANADA'S LEADING SOURCES FOR MODERN STYLE AND ACCESSIBLE DESIGN, OFFERING EVERYDAY LIFESTYLE COLLECTIONS FOR WOMEN, MEN AND CHILDREN. JOE FRESH OFFERS ESSENTIAL DESIGN AND EXCEPTIONAL VALUE IN CATEGORIES SPANNING APPAREL, ACCESSORIES, FOOTWEAR AND COSMETICS.

JOE FRESH PRODUCTS ARE AVAILABLE ONLINE AND IN OVER 350 RETAIL LOCATIONS IN CANADA, THE U.S., MEXICO AND THE MIDDLE EAST. THE BRAND WILL LAUNCH IN THE PHILIPPINES IN 2016.

Strategic Partnerships

Joe Fresh has become a recognized leader in the design of fashionable and affordable apparel. Today, we are extending the power of the Joe Fresh brand through selective partnerships with leading manufacturers of shoes and accessories to deliver our customers the best combination of quality and value in everything we offer.

A Better Shopping Experience

As part of our go-forward strategy, we have streamlined assortment, updated the look of our key stores and implemented a pricing strategy for an improved shopping experience.

President's Choice Financial

MAKE EVERY DAY SIMPLE AND BETTER. WE AIM TO BE THE BEST IN SIMPLE, EVERYDAY FINANCIAL SERVICES WITH STRAIGHTFORWARD NO FEE DAILY BANKING AND CREDIT CARD SERVICES THAT ARE EASY TO ACCESS AND UNDERSTAND ONLINE AND THROUGH A NETWORK OF MORE THAN 215 IN-STORE BANKING PAVILIONS AND 3,900 ABM MACHINES, AVAILABLE WHERE CANADIANS ALREADY SHOP EVERY WEEK.

President's Choice Financial® World Elite MasterCard®

In 2015, PC Financial launched the new PC Financial World Elite MasterCard® – an elite premium credit card offering with no annual fee, the first of its kind in Canada. The PC Financial World Elite MasterCard® helps cardholders earn more rewards faster, at not only Loblaw and related banner locations, but also at Shoppers Drug Mart, Esso and Loblaw-branded gas stations. The World Elite MasterCard® achieved phenomenal uptake with the help of an integrated marketing campaign in the fourth quarter.

Investing in Growth

President's Choice Financial continues to build the infrastructure required to enable new technology and keep pace with the changing needs of our customers – from the increasing sophistication of loyalty and credit card programs to the emergence of mobile payment systems. We are also investing in opportunities to keep growing the trusted PC Financial brand in areas such as gift cards, travel services, mobile phone plans, and insurance and other financial products.

A Canadian First

The launch of instant issuance marks the first time a retail bank in a Canadian grocery store has provided instant credit card issuance of a full, chip and pin, EMV* permanent credit card in-store, making everyday banking even simpler for Canadians. An exclusive pilot program is now live in Ontario, Alberta and British Columbia and will launch in additional markets across Canada within the coming months.

* EMV is a technical standard for smart payment cards and for payment terminals and automated teller machines that can accept them. EMV (Europay, MasterCard and Visa) cards are smart cards (also called chip cards or IC cards) which store their data on integrated circuits rather than magnetic stripes.

LOYALTY

My Optimum My Rewards

The *My Optimum My Rewards* experience was launched in May 2015 and already has signed up 20 per cent of *Optimum* members.

PC Plus app version 2.0

In April 2015 we launched version 2.0 of the *PC Plus* app – a huge success with almost 3 million downloads.

Loyalty Matters

LOYALTY. WITH MORE THAN 20 MILLION MEMBERS BETWEEN THEM, THE *PC PLUS* AND *OPTIMUM* PROGRAMS ARE TWO OF THE LEADING LOYALTY PLATFORMS IN CANADA. DRIVEN BY ONE-TO-ONE COMMUNICATION, CARDHOLDERS OF BOTH PROGRAMS HAVE LARGER BASKET SIZES, AND MAKE SIGNIFICANTLY MORE TRIPS PER YEAR.

OUR VISION IS A CUSTOMER ENGAGEMENT PLATFORM, LEVERAGING LOYALTY, THAT WILL ALLOW US TO DELIVER PERSONALIZED VALUE BY KNOWING, ENGAGING AND REWARDING OUR CUSTOMERS. AS A RESULT, WE CONTINUE TO LOOK AT NEW WAYS TO INCREASE THE VALUE OF OUR POINTS SYSTEMS AND CREATE BROADER AND DEEPER RELATIONSHIPS WITH CANADIANS.

The Shoppers Drug Mart Optimum Program

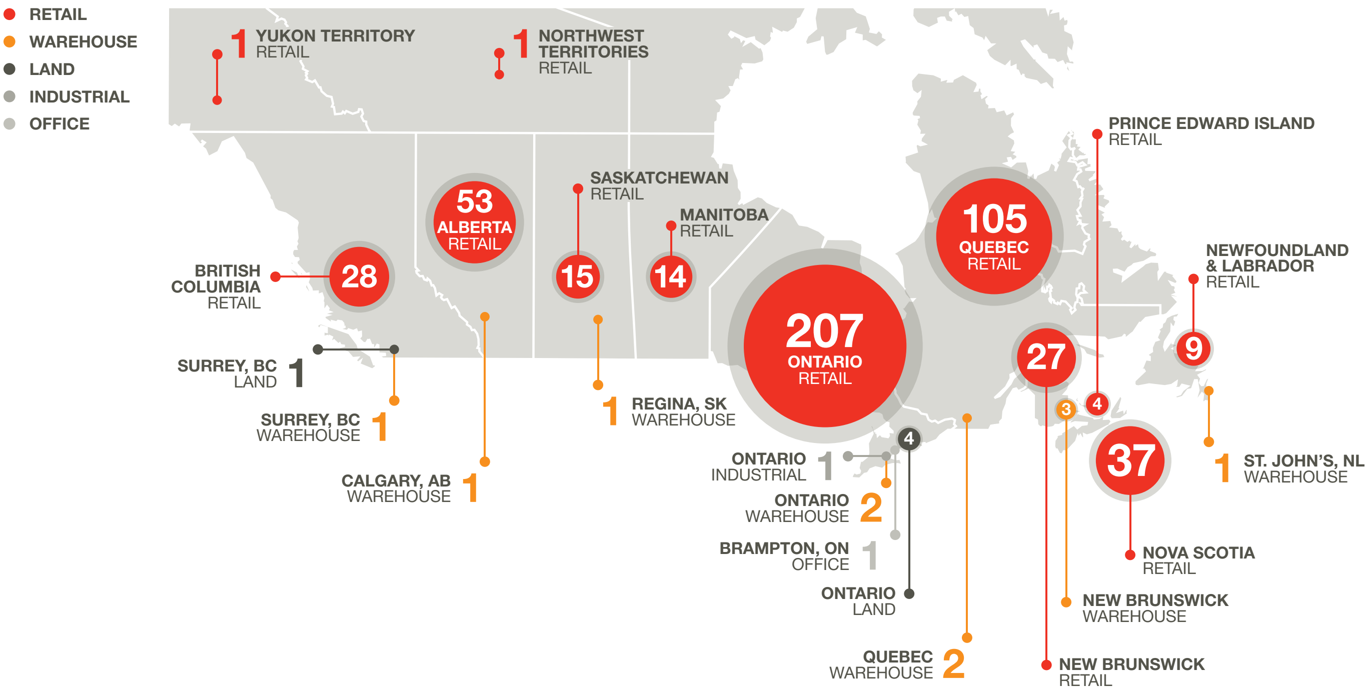
Already one of Canada's most successful loyalty programs with more than 10 million active members, the *Optimum* program got even better in 2015 with the introduction of *My Optimum My Rewards*. A new mobile app with load-to-card functionality has unleashed the power of one-to-one marketing with personalized digital coupons and special offers.

The Loblaw PC Plus Program

Designed to be used through a smart phone, the Loblaw *PC Plus* program has grown to more than 10 million members in three years thanks to personalized offers that allow members to earn points on the items they purchase the most. Our reward? More frequent shops, bigger basket sizes and more categories shopped.

Choice Properties REIT

CHOICE PROPERTIES REAL ESTATE INVESTMENT TRUST, WHICH IS 83 PER CENT OWNED BY LOBLAW, IS AN OWNER, MANAGER AND DEVELOPER OF WELL-LOCATED RETAIL AND COMMERCIAL REAL ESTATE ACROSS CANADA. ITS PORTFOLIO SPANS APPROXIMATELY 41.6 MILLION SQUARE FEET OF GROSS LEASABLE AREA AND CONSISTS OF 519 PROPERTIES PRIMARILY FOCUSED ON SHOPPING CENTRES ANCHORED BY SUPERMARKETS AND DRUG STORES AS WELL AS STAND-ALONE SUPERMARKETS AND DRUG STORES.



Our Strategy

Choice Properties' goal is to create value by growing its portfolio and distributable income. Building on its competitive advantages, including its sizable asset base, strong alliance with Loblaw and solid balance sheet, its strategy is to buy well-located and desirable assets, to enhance its properties through development and to manage its assets to improve operations and profitability.

2015 Highlights

- Increased its annual distribution to $0.67 per unit, or by 3.1 per cent, effective January 29, 2016, distribution payable February 16, 2016.
- Added 47 properties comprising 2.7 million square feet of gross leasable area.
- Developed 124,000 square feet of gross leasable area.
- Improved occupancy rates from 98.1 per cent to 98.6 per cent.

Choice Properties REIT units are listed on the Toronto Stock Exchange under the symbol CHP.UN. For more information, visit choicereit.ca or refer to the 2015 Annual Report of Choice Properties REIT.

Corporate Social Responsibility

LOBLAW'S COMMITMENT TO CORPORATE SOCIAL RESPONSIBILITY (CSR) IS INGRAINED IN THE WAY WE DO BUSINESS. OUR EFFORTS ARE FOCUSED ON THE AREAS RELEVANT TO OUR CUSTOMERS, OUR BUSINESS, AND OUR ABILITY TO LEAD. OUR COMPANY PURPOSE – *LIVE LIFE WELL* – IS REFLECTED IN OUR THREE CSR PILLARS: SOURCING, ENVIRONMENT, AND COMMUNITY.

Removing Ingredients of Concern

We committed that by the end of 2018, *Life Brand* and *President's Choice* household, beauty and cosmetic products will no longer be formulated using triclosan, phthalates or plastic microbeads.

This is in addition to our ongoing efforts to reduce sodium in *President's Choice* food products, by an average of 20 per cent.

Feeding Our Neighbours

This year we launched the *no name Naturally Imperfect* line of produce to provide Canadians with access to fresh produce at more affordable prices. We are also a leading supporter of Canadian food banks with 100 per cent of our Market and Discount stores matched to local food banks, and donating more than 2.4 million pounds of perishable food through the Retail Food Program.

SHOPPERS
PUTTING WOMEN'S HEALTH FIRST
LOVE. YOU.

Putting Women's Health First

We recently rebranded our community investment efforts at Shoppers Drug Mart under the new umbrella ***SHOPPERS*** *LOVE. YOU.* and our support of women's health has never been stronger. During the year we granted $9.4 million to various women's health initiatives benefiting more than 426,000 women across Canada.

Helping Kids

President's Choice Children's Charity continued to support children's health by granting $14.2 million to children with disabilities and to child-nutrition programs to provide healthy meals to more than 459,000 children across Canada.

President's Choice
CHILDREN'S CHARITY
Helping kids do anything®

Focus on Reduction

From plastic bags to electricity, we continued to reduce our impact on the environment. Our pay-for-bag program has diverted more than 8.5 billion bags from landfill since 2007, a nearly 70 per cent reduction in the number of bags. We also reduced energy use by retrofitting the fresh counters in 149 stores and task lighting in 131 stores with LED light fixtures. Initiatives like these have driven double-digit declines in store electricity use since 2011.

Corporate Governance Practices

THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES OF LOBLAW COMPANIES LIMITED ARE COMMITTED TO SOUND CORPORATE GOVERNANCE PRACTICES AND BELIEVE THEY CONTRIBUTE TO THE EFFECTIVE MANAGEMENT OF THE COMPANY AND ITS ACHIEVEMENT OF STRATEGIC AND OPERATIONAL OBJECTIVES.

The Governance Committee regularly reviews the Company's corporate governance practices and considers any changes necessary to maintain the Company's high standards of corporate governance in a rapidly changing environment. The Company's website, loblaw.ca, sets out additional governance information, including the Company's Code of Conduct (the "Code"), its Disclosure Policy and the Mandates of the Board of Directors (the "Board") and its committees.

Director independence

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

At least two-thirds of the directors on the Board are independent. The independent directors typically meet separately following each Board meeting and on other occasions as required or desirable.

Information relating to each of the directors, including their independence, committee membership, other public company boards on which they serve, as well as their attendance record for all Board and committee meetings, can be found in the Company's Management Proxy Circular.

Board leadership

Galen G. Weston is the Executive Chairman of the Board. The Executive Chairman directs the operations of the Board. He chairs each meeting of the Board, is responsible for the management and effective functioning of the Board generally and provides leadership to the Board in all matters. These and other key responsibilities of the Executive Chairman are set out in a position description established by the Board.

The Board has also appointed an independent director, Thomas C. O'Neill, to serve as lead director. The lead director provides leadership to the Board and particularly to the independent directors. He ensures that the Board operates independently of management and that directors have an independent leadership contact.

Board responsibilities and duties

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

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

Ethical business conduct

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

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

Board committees

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

Audit Committee

The Audit Committee is responsible for supporting the Board in overseeing the quality and integrity of the Company's financial reporting and internal controls over financial reporting, disclosure controls, internal audit function, and compliance with legal and regulatory requirements.

Governance, Employee Development, Nominating and Compensation Committee

The Governance Committee is responsible for the identification of new director nominees for the Board and for the oversight of compensation of directors and executive officers. The Governance Committee is also responsible for developing and maintaining governance practices consistent with high standards of corporate governance. The Chair of the Governance Committee, who is an independent director, has also been appointed by the Board to serve as lead director.

Pension Committee

The Pension Committee is responsible for reviewing the performance and overseeing the administration of the Company's and its subsidiaries' pension plans and pension funds.

Environmental, Health and Safety Committee

The Environmental, Health and Safety Committee is responsible for reviewing and monitoring environmental matters, food safety and health and safety policies, procedures, practices and compliance.

Board of Directors

GALEN G. WESTON, B.A., M.B.A.
Executive Chairman and President, Loblaw Companies Limited; Deputy Chairman, George Weston Limited; Chairman and Trustee, Choice Properties Real Estate Investment Trust; Director, Wittington Investments, Limited.

STEPHEN E. BACHAND, B.A., M.B.A.[2]
Corporate Director; Retired President and Chief Executive Officer, Canadian Tire Corporation, Limited; Former Director, Canadian Pacific Railway Limited, George Weston Limited, Bank of Montreal.

PAUL M. BEESTON, C.M., B.A., F.C.A., F.C.P.A.[1]
Corporate Director; Former President and Chief Executive Officer, Toronto Blue Jays Baseball Team; Former President and Chief Executive Officer, Major League Baseball; Director, President's Choice Bank, Gluskin Sheff & Associates Inc.; Former Chairman, Centre for Addiction and Mental Health; Former Director, Newport Partners Income Fund.

PAVITER S. BINNING, F.C.M.A.
President and Chief Executive Officer and Director, George Weston Limited; former Executive Vice President, Chief Financial Officer and Chief Restructuring Officer, Nortel Networks Corporation and Nortel Networks Limited; former Director and Chief Financial Officer, Hanson plc and Marconi Corporation plc.

WARREN BRYANT, B.S., M.B.A.[1, 4]
Corporate Director; Former Chairman, President and Chief Executive Officer of Longs Drug Stores; former Executive of Kroger Co.; Director, Dollar General Corporation, Office Depot (formerly OfficeMax Incorporated); Member of the Executive Advisory Committee, Portland State University Food Industry Leadership Center; Former Director, George Weston Limited; Former Chairman of the Board of Directors and Former member of the Board Executive Committee, National Association of Chain Drug Stores ("NACDS"); Former member of the Board of Directors, California Governor's Council on Physical Fitness and Sports.

CHRISTIE J.B. CLARK, B. COMM., M.B.A., F.C.A., F.C.P.A.[1*]
Corporate Director; Former Chief Executive Officer and Senior Partner, PricewaterhouseCoopers LLP; Trustee, Choice Properties Real Estate Trust; Director, Air Canada; Hydro One Inc.; Hydro One Limited; Former Director, Brookfield Office Properties Inc., IGM Financial Inc.; Chair, Finance Committee of Alpine Canada.

HOLGER KLUGE, B. COMM., M.B.A.[1, 3]
Corporate Director; Former President of Personal and Commercial Banking, Canadian Imperial Bank of Commerce; Former Director and Chairman, Shoppers Drug Mart Corporation; Former Director, Husky Energy Inc., Hutchinson Whampoa Limited, Power Assets Holdings Limited.

JOHN S. LACEY, B.A.[3*]
Chairman of the Advisory Board, Brookfield Private Equity Group; Consultant to the Board and to the Board of George Weston Limited; Former President and Chief Executive Officer, the Oshawa Group (now part of Sobeys Inc.); Director, George Weston Limited, Telus Corporation; Former Chairman, Alderwoods Group, Inc.; Former Director, Ainsworth Lumber Co. Ltd., Canadian Imperial Bank of Commerce.

NANCY H.O. LOCKHART, O. ONT.[2, 4*]
Corporate Director; Former Chief Administrative Officer, Frum Development Group; Former Vice President, Shoppers Drug Mart Corporation; Former President, Canadian Club of Toronto; Director, Barrick Gold Corporation, Gluskin Sheff & Associates Inc., Atrium Mortgage Investment Corporation, Centre for Addiction and Mental Health Foundation, Loran Scholars Foundation, The Royal Conservatory of Music; Chair, Crow's Theatre Company; Member, Sotheby's Canada Advisory Board; Former Chair, Canadian Film Centre, Ontario Science Centre; Former Director, Canada Deposit Insurance Corporation.

THOMAS C. O'NEILL, B. COMM., F.C.A., F.C.P.A.[2*]
Corporate Director; Chairman, BCE Inc.; Chairman, The Bank of Nova Scotia; Retired Chairman, PricewaterhouseCoopers Consulting; Former Chief Executive Officer and Chief Operating Officer, PricewaterhouseCoopers LLP; Director, Adecco S.A., BCE Inc., The Bank of Nova Scotia; Chair, St. Michael's Hospital; Member, Advisory Board at Queen's University School of Business; Former Vice Chair, Board of Trustees, Queen's University; Former Director of Nexen Inc.

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

SARAH RAISS, B.S., M.B.A.[2]
Corporate Director; Former Executive, TransCanada Corporation; Director, Commercial Metals Company and Vermillion Energy Inc.; Former Chair, Alberta Electric System Operator Board of Directors; Former Director, Canadian Oil Sands Limited, Shoppers Drug Mart Corporation.

NOTES
[1] Audit Committee
[2] Governance, Employee Development, Nominating and Compensation Committee
[3] Pension Committee
[4] Environmental, Health and Safety Committee
* Chair of the Committee

Leadership

GALEN G. WESTON
Executive Chairman and President

GRANT FROESE
Chief Operating Officer

RICHARD DUFRESNE
Chief Financial Officer

SARAH R. DAVIS
Chief Administrative Officer

MARK C. BUTLER
Executive Vice President, Business Synergies

ROBERT CHANT
Senior Vice President, Corporate Affairs and Communication

BARRY K. COLUMB
President, President's Choice Financial

GORDON A.M. CURRIE
Executive Vice President, Chief Legal Officer and Secretary

MARIO GRAUSO
President, Joe Fresh

JUDY A. MCCRIE
Executive Vice President, Speed of Change and Culture

PETER MCLAUGHLIN
President, Emerging Business

MIKE MOTZ
President, Shoppers Drug Mart

GARRY SENECAL
President, Market Division

MARK WILSON
Executive Vice President, Human Resources and Labour Relations

Shareholder and Corporate Information

NATIONAL HEAD OFFICE AND STORE SUPPORT CENTRE

LOBLAW COMPANIES LIMITED
1 PRESIDENT'S CHOICE CIRCLE, BRAMPTON, CANADA L6Y 5S5
TEL: (905) 459-2500 | FAX: (905) 861-2206 | INTERNET: LOBLAW.CA

STOCK EXCHANGE LISTING AND SYMBOL

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

COMMON SHARES

W. Galen Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 46 per cent of the Company's common shares.

At year-end 2015, there were 409,985,226 common shares issued and outstanding.

The average daily trading volume of the Company's common shares for 2015 was 526,372.

PREFERRED SHARES

At year-end 2015, there were 9,000,000 second preferred shares, series B, issued and outstanding and available for public trading.

The average daily trading volume of the Company's second preferred shares were:
Series A: 15,171
Series B: 18,452

TRADEMARKS

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

COMMON DIVIDEND POLICY

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

COMMON DIVIDEND DATES

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2016 are:

RECORD DATE	PAYMENT DATE
March 15	April 1
June 15	July 1
September 15	October 1
December 15	December 30

PREFERRED SHARE, SERIES B, DIVIDEND DATES

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated payment dates for 2016 are:

RECORD DATE	PAYMENT DATE
March 15	March 31
June 15	June 30
September 15	September 30
December 15	December 31

NORMAL COURSE ISSUER BID

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

VALUE OF COMMON SHARES

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

INVESTOR RELATIONS

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

REGISTRAR AND TRANSFER AGENT

Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1
Toll-free: 1-800-564-6253
(Canada and the U.S.)
Fax: (416) 263-9394
Toll-free fax: 1-888-453-0330
International direct dial: (514) 982-7555

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

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

INDEPENDENT AUDITORS

KPMG LLP
Chartered Professional Accountants
Toronto, Canada

ANNUAL MEETING

The 2016 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday, May 5, 2016 at 11:00 a.m. (EST), at the Mattamy Athletic Centre, 50 Carlton Street, Toronto, Canada M5B 1J2.

innovate
execute
optimize

Loblaw
COMPANIES LIMITED

LOBLAW COMPANIES LIMITED 2015 ANNUAL REPORT – FINANCIAL REVIEW

2015 Annual Report – Financial Review

Financial Highlights[(1),(5)]

As at or for the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015** **(52 weeks)**	2014 (53 weeks)
Consolidated Results of Operations		
Revenue	**$ 45,394**	$ 42,611
Revenue excluding 53rd week	***45,394***	*41,822*
Revenue growth	**6.5%**	31.6%
Revenue growth excluding 53rd week	***8.5%***	*29.2%*
Adjusted EBITDA[(2)]	**$ 3,549**	$ 3,227
Adjusted EBITDA[(2)] excluding 53rd week	***3,549***	*3,156*
Adjusted EBITDA margin[(2)]	**7.8%**	7.6%
Net interest expense and other financing charges	**$ 644**	$ 584
Adjusted net interest expense and other financing charges[(2)]	**548**	529
Net earnings	**623**	53
Net earnings attributable to shareholders of the Company	**632**	53
Net earnings available to common shareholders of the Company	**625**	53
Net earnings available to common shareholders of the Company excluding 53rd week	***625***	*1*
Adjusted net earnings available to common shareholders of the Company[(2)]	**1,422**	1,217
Adjusted net earnings available to common shareholders of the Company[(2)] excluding 53rd week	***1,422***	*1,165*
Retail debt to retail adjusted EBITDA[(2)]	**2.0x**	2.6x
Adjusted return on equity	**11.1%**	12.3%
Adjusted return on capital	**8.5%**	10.4%
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents, short term investments and security deposits	**$ 1,084**	$ 1,027
Cash flows from operating activities	**3,079**	2,569
Capital investments	**1,241**	1,086
Free cash flow[(2)]	**1,347**	977
Consolidated Per Common Share ($)		
Basic net earnings	**$ 1.52**	$ 0.14
Basic net earnings excluding 53rd week	***$ 1.52***	*$ —*
Adjusted basic net earnings[(2)]	**$ 3.46**	$ 3.20
Adjusted basic net earnings[(2)] excluding 53rd week	***$ 3.46***	*$ 3.06*
Dividends		
Dividends declared per common share ($)	**$ 0.995**	$ 0.975

Financial Highlights[(1),(5)]

As at or for the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	2015 (52 weeks)	2014 (53 weeks)
Retail Results of Operations		
Sales	**$ 44,469**	$ 41,731
Sales excluding 53rd week	***44,469***	*40,942*
Gross profit	**11,689**	9,734
Gross profit excluding 53rd week	***11,689***	*9,534*
Adjusted gross profit[(2)]	**11,747**	10,722
Adjusted gross profit[(2)] excluding 53rd week	***11,747***	*10,522*
Adjusted gross profit %[(2)]	**26.4%**	25.7%
Adjusted EBITDA[(2)]	**$ 3,352**	$ 3,040
Adjusted EBITDA[(2)] excluding 53rd week	***3,352***	*2,969*
Adjusted EBITDA margin[(2)]	**7.5%**	7.3%
Depreciation and amortization	**$ 1,567**	$ 1,453
Retail Operating Statistics		
Food retail same-store sales growth	**1.9%**	2.0%
Drug retail same-store sales growth	**4.3%**	2.6%
Drug retail same-store pharmacy sales growth	**3.7%**	2.7%
Drug retail same-store front store sales growth	**4.7%**	2.4%
Total retail square footage (in millions)	**69.9**	70.0
Number of corporate stores	**591**	615
Number of franchise stores	**525**	527
Number of Associate-owned drug stores	**1,313**	1,302
Financial Services Results of Operations[(4)]		
Revenue	**$ 849**	$ 810
Adjusted EBITDA[(2)]	**173**	171
Earnings before income taxes	**106**	111
Financial Services Operating Measures and Statistics[(4)]		
Average quarterly net credit card receivables	**$ 2,642**	$ 2,535
Credit card receivables	**2,790**	2,630
Allowance for credit card receivables	**54**	54
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.7%
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	4.4%
Choice Properties Results of Operations and Measures[(4)]		
Revenue	**$ 743**	$ 683
Adjusted EBITDA[(2)]	**602**	571
Net interest expense and other financing charges	**756**	369
Adjusted funds from operations[(2)]	**313**	285

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the annual audited consolidated financial statements and the accompanying notes on page 55 to 117 of this Annual Report – Financial Review ("Annual Report").

The Company's annual audited consolidated financial statements and accompanying notes for the year ended January 2, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except when otherwise noted.

The information in this MD&A is current to February 24, 2016, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 120.

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2015 (12 weeks ended January 2, 2016) are against results for the fourth quarter of 2014 (13 weeks ended January 3, 2015) and all comparisons of results for the full year of 2015 (52 weeks ended January 2, 2016) are against the results for the full year 2014 (53 weeks ended January 3, 2015).

1. Forward-Looking Statements

This Annual Report, including this MD&A, for the Company contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, synergies and other benefits associated with the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), future liquidity, planned capital investments, and status and impact of information technology ("IT") systems implementation. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in Section 3 "Strategic Framework", Section 7 "Liquidity and Capital Resources" and Section 16 "Outlook" of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2016 is based on certain assumptions including assumptions about anticipated cost savings, operating efficiencies and continued growth from current initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 "Enterprise Risks and Risk Management" of this MD&A and the Company's 2015 Annual Information Form (for the year ended January 2, 2016). Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to realize the anticipated strategic benefits associated with the acquisition of Shoppers Drug Mart;
- public health events including those related to food or drug safety;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives, including those from restructuring;
- failure by the Company's franchisees or Associates to operate in accordance with prescribed procedures or standards, or disruptions to the Company's relationship with its franchisees or Associates;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- changes in the Company's income, capital, commodity, property and other tax and regulatory liabilities, including changes in tax laws, regulations or future assessments;

- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business;
- issues with vendors in both advanced and developing markets;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, interest rates, currency exchange rates or derivative and commodity prices;
- the impact of potential environmental liabilities; and
- the inability of the Company to collect on or fund its credit card receivables.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including, without limitation, the section entitled "Risks" in the Company's 2015 Annual Information Form (for the year ended January 2, 2016). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. Overview

Loblaw Companies Limited includes retail businesses, a bank and a real estate company. The Company has three operating segments: Retail, Financial Services and Choice Properties Real Estate Investment Trust ("Choice Properties"). The Retail segment consists primarily of a discount supermarket business, a full-service supermarket business, an emerging and wholesale business and Shoppers Drug Mart. The Company's Financial Services segment provides retail banking, credit card services, auto, home, travel and pet insurance and wireless mobile products and services. The Company also holds an 83.0% effective interest in Choice Properties, which owns, leases and manages income-producing commercial properties.

3. Strategic Framework

The Company's strategic framework is anchored by its purpose of "*Live Life Well*" and its commitment to produce industry leading financial results through operational excellence. At the core of this framework is our focus on the customer – by providing the best in food experience and the best in health and beauty.

Achieving a "best in food" experience is driven by the desire to lead in fresh selection, drive sustainable and competitive pricing and provide customized assortments across our banners. Achieving "best in health and beauty" is driven by putting our pharmacy customers first, our desire to provide high quality health and wellness products, a diverse and differentiated beauty offering and convenient locations and hours of operation to meet individuals' wellness needs.

The Company's operational excellence goals include driving efficiencies and realizing operating synergies from its retail businesses. This includes product innovation, development of the emerging businesses and loyalty program initiatives. We are also focused on continued growth from President's Choice Financial Services and Choice Properties segments.

4. Key Financial Performance Indicators[5]

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

As at or for the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (52 weeks)		2014 (53 weeks)
Consolidated:				
Revenue growth		**6.5%**		31.6%
Revenue excluding 53rd week		***8.5%***		*29.2%*
Adjusted EBITDA[2]	**$**	**3,549**	$	3,227
Adjusted EBITDA[2] excluding 53rd week		***3,549***		*3,156*
Adjusted EBITDA margin[2]		**7.8%**		7.6%
Net earnings	**$**	**623**	$	53
Net earnings attributable to shareholders of the Company		**632**		53
Net earnings available to common shareholders of the Company		**625**		53
Net earnings available to common shareholders of the Company excluding 53rd week		***625***		*1*
Adjusted net earnings available to common shareholders of the Company[2]		**1,422**		1,217
Adjusted net earnings available to common shareholders of the Company[2] excluding 53rd week		***1,422***		*1,165*
Basic net earnings per common share ($)	**$**	**1.52**	$	0.14
Basic net earnings per common share excluding 53rd week ($)	***$***	***1.52***	*$*	—
Adjusted basic net earnings per common share[2] ($)	**$**	**3.46**	$	3.20
Adjusted basic net earnings per common share excluding 53rd week ($)	***$***	***3.46***	*$*	*3.06*
Cash and cash equivalents, short term investments and security deposits	**$**	**1,084**	$	1,027
Cash flows from operating activities		**3,079**		2,569
Free cash flow[2]		**1,347**		977
Retail debt to retail adjusted EBITDA[2]		**2.0x**		2.6x
Adjusted return on equity[1]		**11.1%**		12.3%
Adjusted return on capital[1]		**8.5%**		10.4%
Retail Segment:				
Food retail same-store sales growth		**1.9%**		2.0%
Drug retail same-store sales growth		**4.3%**		2.6%
Adjusted gross profit[2]	**$**	**11,747**	$	10,722
Adjusted gross profit[2] excluding 53rd week		***11,747***		*10,522*
Adjusted gross profit %[2]		**26.4%**		25.7%
Adjusted EBITDA[2]	**$**	**3,352**	$	3,040
Adjusted EBITDA[2] excluding 53rd week		***3,352***		*2,969*
Adjusted EBITDA margin[2]		**7.5%**		7.3%
Financial Services Segment[4]:				
Adjusted EBITDA[2]	**$**	**173**	$	171
Earnings before income taxes		**106**		111
Annualized yield on average quarterly gross credit card receivables		**13.6%**		13.7%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.3%**		4.4%
Choice Properties Segment[4]:				
Adjusted EBITDA[2]	**$**	**602**	$	571
Adjusted funds from operations[2]		**313**		285

5. Overall Financial Performance

5.1 Consolidated Results of Operations[5]

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		**2015 (52 weeks)**		2014 (53 weeks)		$ Change	% Change
Revenue	**$**	**45,394**	$	42,611	$	2,783	6.5%
Revenue excluding 53rd week	***$***	***45,394***	*$*	*41,822*	*$*	*3,572*	*8.5%*
Adjusted EBITDA[2]	**$**	**3,549**	$	3,227	$	322	10.0%
Adjusted EBITDA[2] excluding 53rd week		***3,549***		*3,156*		*393*	*12.5%*
Adjusted EBITDA margin[2]		***7.8%***		*7.6%*			
Depreciation and amortization[i]	**$**	**1,592**	$	1,472	$	120	8.2%
Net interest expense and other financing charges		**644**		584		60	10.3%
Adjusted net interest expense and other financing charges[2]		**548**		529		19	3.6%
Adjusted income taxes[2]	**$**	**525**	$	426	$	99	23.2%
Adjusted income tax rate[2]		**27.0%**		25.9%			
Net earnings	**$**	**623**	$	53	$	570	1,075.5%
Net earnings attributable to shareholders of the Company		**632**		53		579	1,092.5%
Net earnings available to common shareholders of the Company		**625**		53		572	1,079.2%
Net earnings available to common shareholders of the Company excluding 53rd week		***625***		*1*		*624*	*62,400.0%*
Adjusted net earnings available to common shareholders of the Company[2]		**1,422**		1,217		205	16.8%
Adjusted net earnings available to common shareholders of the Company[2] excluding 53rd week		***1,422***		*1,165*		*257*	*22.1%*
Basic net earnings per common share ($)	**$**	**1.52**	$	0.14	$	1.38	985.7%
Basic net earnings per common share excluding 53rd week ($)	***$***	***1.52***	*$*	*—*	*$*	*1.52*	*100.0%*
Adjusted basic net earnings per common share[2] ($)	**$**	**3.46**	$	3.20	$	0.26	8.1%
Adjusted basic net earnings per common share[2] excluding 53rd week ($)	***$***	***3.46***	*$*	*3.06*	*$*	*0.40*	*13.1%*
Basic weighted average common shares outstanding (in millions)		**411.5**		380.5			

(i) Depreciation and amortization for the calculation of adjusted EBITDA[2] excludes $536 million (2014 – $417 million) of amortization of intangible assets acquired with Shoppers Drug Mart for 2015 and 2014, respectively.

The Company's comparative results were negatively impacted by the inclusion of an additional selling week in 2014 (the "53rd week"). In 2014, the 53rd week resulted in $789 million of higher retail sales, $71 million of higher EBITDA, and estimated impacts on net earnings and basic net earnings per common share of $52 million and $0.13 per share, respectively.

The following comparisons are based on results excluding the 53rd week.

Net Earnings Available to Common Shareholders of the Company and Basic Net Earnings Per Common Share Adjusted net earnings available to common shareholders of the Company[2] were $1,422 million ($3.46 per common share) in 2015 compared to $1,165 million ($3.06 per common share) in 2014. The increase in adjusted net earnings available to common shareholders of the Company[2] was primarily due to the following factors:

- a full year of contribution of Shoppers Drug Mart, following the acquisition of all of the outstanding common shares of Shoppers Drug Mart in the second quarter of 2014;
- consistent operating performance in the Retail segment, despite the impact of healthcare reform; with the unfavourable impact of non-recurring transactions that had positive impacts in the prior year and unfavourable foreign exchange impacts on the year-over-year results;

- a positive contribution from incremental net synergies of $242 million; partially offset by
- an increase in adjusted net interest expense and other financing charges(2), primarily driven by an increase in Choice Properties' debt, partially offset by repayments of the Company's $3,500 million unsecured term loan facility related to the acquisition of Shoppers Drug Mart ("Acquisition Term Loan"); and
- an increase in adjusted income taxes(2) driven by an increase in the effective income tax rate and an increase in certain non-deductible items.

Net earnings available to common shareholders of the Company were $625 million ($1.52 per common share) in 2015 compared to $1 million (nil per common share) in 2014. In addition to the items described above, the increase in net earnings available to common shareholders of the Company included the year-over-year impacts of the following significant items:

- the favourable impact related to the fair value increment on the acquired inventory sold associated with the acquisition of Shoppers Drug Mart of $798 million in 2014 ($1.55 per common share);
- the favourable impact of charges related to inventory measurement and other conversion differences associated with the conversion of the Company's corporate stores to the new IT systems in the prior year of $190 million ($0.37 per common share), partially offset by a charge related to franchise stores in the current year of $33 million ($0.06 per common share); and
- the favourable impact of Shoppers Drug Mart acquisition-related costs, net of impact from divestitures of $85 million ($0.19 per common share), partially offset by;
- the unfavourable impact of restructuring and other related costs, primarily related to the closure of certain unprofitable retail locations that commenced in 2015 of $108 million ($0.22 per common share);
- the unfavourable impact of the impairment of Drug retail ancillary assets held for sale of $112 million ($0.20 per common share);
- the unfavourable impact of the amortization of intangible assets related to the Shoppers Drug Mart acquisition of $119 million ($0.16 per common share);
- the unfavourable impact of an increase in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability for Choice Properties' Trust Units ("Units") of $64 million ($0.16 per common share);
- the unfavourable impact of the accelerated finalization of transitioning of certain grocery stores to more cost effective and efficient operating terms under collective agreements ("Labour Agreements") of $55 million ($0.10 per common share); and
- an increase in the effective income tax rate from 32.1% to 34.9%, primarily attributable to an increase in current tax as a result of an increase of 2% in the Alberta statutory corporate income tax rate and the non-deductible fair value adjustment to the Trust Unit Liability.

Basic net earnings per common share were $1.52 in 2015, an increase of $1.38 compared to 2014. Excluding the impact of the 53rd week, basic net earnings per common share increased by $1.52 compared to 2014. The increase was primarily due to the increase in net earnings available to common shareholders of the Company(2) described above, partially offset by the dilutive effect of the 119.5 million common shares issued as partial consideration for the acquisition of Shoppers Drug Mart, as well as shares issued to George Weston Limited ("Weston") in relation to the acquisition.

Revenue(5)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Retail	**$ 44,469**	$ 41,731	$ 2,738	6.6%
Financial Services	**849**	810	39	4.8%
Choice Properties	**743**	683	60	8.8%
Consolidation and Eliminations	**(667)**	(613)	(54)	
Revenue	**$ 45,394**	$ 42,611	$ 2,783	6.5%
53rd week		789		
Revenue excluding 53rd week	**$ 45,394**	$ 41,822	$ 3,572	8.5%

Revenue was $45,394 million in 2015, an increase of $3,572 million compared to 2014, primarily driven by a $2,738 million increase in the Retail segment due to the contribution from Shoppers Drug Mart of $2,596 million in the first quarter of 2015 and positive same-store sales growth. Food retail same-store sales growth was 1.9% (2014 – 2.0%) and excluding gas bar, was 2.8% (2014 – 2.1%). Drug retail same-store sales growth was 4.3% (2014 – 2.6%).

Adjusted EBITDA(2),(5)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	2015 (52 weeks)	2014 (53 weeks)	$ Change	% Change
Retail	**$ 3,352**	$ 3,040	$ 312	10.3%
Financial Services	**173**	171	2	1.2%
Choice Properties	**602**	571	31	5.4%
Consolidation and Eliminations	**(578)**	(555)	(23)	
Adjusted EBITDA(2)	**$ 3,549**	$ 3,227	$ 322	10.0%
53rd week		71		
Adjusted EBITDA(2) excluding 53rd week	**$ 3,549**	$ 3,156	$ 393	12.5%

Adjusted EBITDA(2) was $3,549 million, an increase of $393 million compared to 2014, primarily driven by the Retail segment. The Retail segment adjusted EBITDA(2) increase included the contribution from Shoppers Drug Mart in the first quarter of 2015. Excluding this contribution, the increase in Retail segment adjusted EBITDA(2) was primarily driven by higher sales, an increase in Retail segment gross profit percentage, partially offset by an increase in selling, general and administrative expenses ("SG&A"). Adjusted EBITDA(2) was also positively impacted by net synergies of $242 million (2014 – $101 million).

Depreciation and Amortization Depreciation and amortization was $1,592 million in 2015, an increase of $120 million compared to 2014, primarily driven by an increase in amortization of intangible assets of $119 million related to the acquisition of Shoppers Drug Mart. Excluding this impact, depreciation and amortization increased by $1 million, driven by the Retail segment, as a result of the following:

- the depreciation and amortization of assets of Shoppers Drug Mart in the first quarter of 2015; partially offset by
- an increase in the estimated useful life of certain IT systems; and
- lower depreciation on older IT, supply chain and store assets in the Retail segment.

Net Interest Expense and Other Financing Charges

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)	2015 (52 weeks)	2014 (53 weeks)	$ Change	% Change
Net interest expense and other financing charges	**$ 644**	$ 584	$ 60	10.3%
Deduct impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(81)**	(17)	(64)	
Accelerated amortization of deferred financing costs	**(15)**	(23)	8	
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	(15)	15	
Adjusted net interest expense and other financing charges(2)	**$ 548**	$ 529	$ 19	3.6%

Net interest expense and other financing charges were $644 million, an increase of $60 million compared to 2014. Adjusted net interest expense and other financing charges(2) of $548 million in 2015 increased by $19 million compared to 2014, primarily driven by:

- an increase in Choice Properties debt;
- lower interest income as a result of the year-over-year decline in cash and cash equivalents and short term investments;
- Shoppers Drug Mart debt assumed on the acquisition; and
- higher interest expense to fund the growth of credit card receivables in Financial Services segment; partially offset by
- lower interest expense on the Acquisition Term Loan due to a decline in the principal amount owing;
- lower interest expense due to the repayment of Medium Term Notes ("MTNs") in the first and second quarters of 2014; and
- lower interest expense due to the repayment of capital securities that matured in the third quarter of 2015.

Income Taxes

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Income taxes	**$ 334**	$ 25	$ 309	1,236.0%
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(2)	**229**	401	(172)	
Provincial statutory corporate income tax rate change	**(38)**	—	(38)	
Adjusted income taxes	**$ 525**	$ 426	$ 99	23.2%
Effective tax rate	**34.9%**	32.1%		
Adjusted income tax rate(2)	**27.0%**	25.9%		

The effective tax rate in 2015 was 34.9% compared to 32.1% in 2014. The increase in the effective tax rate was primarily attributable to:

- the increase in the current and deferred tax expense resulting from an increase in the Alberta statutory corporate income tax rate described below; and
- the non-deductible fair value adjustment to the Trust Unit Liability.

The adjusted income tax rate(2) year-to-date was 27.0% compared to 25.9% in 2014. The increase was primarily attributable to a 2% increase in the Alberta provincial statutory corporate income tax rate from 10.0% to 12.0% and an increase in certain other non-deductible items.

In the second quarter of 2015, the Company recorded a charge of $38 million related to the remeasurement of its deferred tax liabilities.

During the second quarter of 2015, the Company was reassessed by the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments were for the 2000 to 2010 taxation years totaling $341 million including interest and penalties as at the time of reassessment. The Company believes it is likely that the CRA will issue reassessments for the 2011 to 2013 taxation years on the same or similar basis. The Company strongly disagrees with the CRA's position and has filed a Notice of Appeal. No amount for any reassessments has been provided for in the Company's consolidated financial statements. If the CRA were to ultimately prevail with respect to the proposed reassessment or if the CRA were to successfully pursue other reassessments, the outcome could have a material negative impact on the Company's reputation, results of operations and financial position in the year(s) of resolution.

5.2 Selected Financial Information[5]

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated January 2, 2016, January 3, 2015 and December 28, 2013. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the financial condition and results of the Company's operations over the most recent three years.

For the years ended January 2, 2016 and January 3, 2015 and December 28, 2013 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	2013 (52 weeks)
Revenue	**$ 45,394**	$ 42,611	$ 32,371
Revenue excluding 53rd week	***45,394***	*41,822*	*32,371*
Adjusted EBITDA[2]	**$ 3,549**	$ 3,227	$ 2,106
Adjusted EBITDA[2] excluding 53rd week	***3,549***	*3,156*	*2,106*
Adjusted EBITDA margin[2]	**7.8%**	7.6%	6.5%
Depreciation and amortization[i]	**$ 1,592**	$ 1,472	$ 824
Adjusted net interest expense and other financing charges[2]	**548**	529	354
Adjusted income tax rate[2]	**27.0%**	25.9%	25.0%
Net earnings	**$ 623**	$ 53	$ 627
Net earnings attributable to the shareholders of the Company	**632**	53	627
Net earnings available to common shareholders of the Company	**625**	53	627
Net earnings available to common shareholders of the Company excluding 53rd week	***625***	*1*	*627*
Adjusted net earnings available to common shareholders of the Company[2]	**1,422**	1,217	696
Adjusted net earnings available to common shareholders of the Company[2] excluding 53rd week	***1,422***	*1,165*	*696*
Basic net earnings per common share ($)	**$ 1.52**	$ 0.14	$ 2.23
Basic net earnings per common share excluding 53rd week ($)	***1.52***	—	*2.23*
Diluted net earnings per common share ($)	**1.51**	0.14	2.21
Diluted net earnings per common share excluding 53rd week ($)	***1.51***	—	*2.21*
Adjusted basic net earnings per common share[2] ($)	**3.46**	3.20	2.48
Adjusted basic net earnings per common share[2] excluding 53rd week ($)	***3.46***	*3.06*	*2.48*
Basic weighted average common shares (in millions)	**411.5**	380.5	281.1
Dividends declared per common share ($)	**$ 0.995**	$ 0.975	$ 0.940
Dividends declared per Second Preferred Share, Series A ($)	**0.74**	1.49	1.49
Dividends declared per Second Preferred Share, Series B ($)	**0.74**	—	—

(i) Depreciation and amortization for the calculation of adjusted EBITDA[2] excludes $536 million (2014 – $417 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

The Company's comparative results for 2014 were impacted by the inclusion of the 53rd week and its impacts are set out in Section 5.1 "Consolidated Results of Operations".

Revenue Excluding the impact of the 53rd week, revenue was $45,394 million in 2015, an increase of $3,572 million compared to 2014, primarily due to the contribution of Shoppers Drug Mart in the first quarter of 2015. Food retail same-store sales growth was 1.9% (2014 – 2.0%) and excluding gas bar was 2.8% (2014 – 2.1%). Drug retail same-store sales growth was 4.3% (2014 – 2.6%).

Revenue in 2014 was $42,611 million, an increase of $10,240 million compared to 2013, primarily due to Shoppers Drug Mart and the impact of the 53rd week in 2014. Excluding the impact of Shoppers Drug Mart and the 53rd week, consolidated revenue increased by $616 million, or 1.9%. Retail same-store sales growth was 2.0% (2013 – 1.1%) and excluding gas bar was 2.1% (2013 – 1.0%).

The Company's Retail segment sales have continued to grow in spite of the pressure of an intensely competitive retail market and an uncertain economic and regulatory environment over the last three years.

Adjusted basic net earnings per common share(2) Adjusted basic net earnings per common share(2) excluded a number of items which the Company does not consider to be indicative of operational performance. The items that have been adjusted in 2015 and 2014 in the presentation of adjusted basic net earnings per common share(2) are set out in Section 17 "Non-GAAP Financial Measures."

Adjusted basic net earnings per common share(2) increased over the past three years. The increases were attributable to the following significant items:

- the contribution from Shoppers Drug Mart from the date of acquisition in 2014;
- improvement in underlying operating performance of the Retail segment, including positive same-store sales in both Food and Drug retail in 2015 and 2014; and
- positive contribution from net synergies in 2015 and 2014; partially offset by
- an increase in depreciation and amortization in 2015 and 2014, primarily from the amortization of assets from the Shoppers Drug Mart acquisition;
- an increase in adjusted net interest expense and other financing charges, primarily due to an increase in Choice Properties debt in 2015 and debt assumed as a result of the acquisition of Shoppers Drug Mart in 2014; and
- an increase in adjusted income taxes due to a higher effective income tax rate in 2015 and 2014.

Total Assets and Long Term Financial Liabilities

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015(3)	As at December 28, 2013
Total Assets	**$ 33,939**	$ 33,759	$ 20,741
Total Long Term Debt	**$ 11,011**	$ 11,462	$ 7,680
Capital Securities	**—**	225	224
Trust Unit Liability	**821**	722	688
Long term financial liabilities	**$ 11,832**	$ 12,409	$ 8,592

In 2015, total assets of $33,939 million increased marginally compared to 2014. Long term financial liabilities of $11,832 million decreased by 4.6% compared to 2014, primarily due to net repayments on the Acquisition Term Loan, the repayment of capital securities, partially offset by the issuance of debt by Choice Properties.

In 2014, total assets of $33,759 million and long term financial liabilities of $12,409 million increased by 62.8% and 44.4%, respectively, compared to 2013. These increases were primarily driven by the consolidation of Shoppers Drug Mart balances, the issuance of debt to finance the acquisition of Shoppers Drug Mart, partially offset by debt repayments. In 2014, capital securities became due within one year and were presented in current liabilities.

6. Reportable Operating Segments Results of Operations

6.1 Retail Segment(5)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Sales	**$ 44,469**	$ 41,731	$ 2,738	6.6%
Sales excluding 53rd week	***44,469***	*40,942*	3,527	8.6%
Gross profit	**11,689**	9,734	1,955	20.1%
Gross profit excluding 53rd week	***11,689***	*9,534*	*2,155*	*22.6%*
Adjusted gross profit(2)	**11,747**	10,722	1,025	9.6%
Adjusted gross profit(2) excluding 53rd week	***11,747***	*10,522*	*1,225*	*11.6%*
Adjusted gross profit %(2)	**26.4%**	25.7%		
Adjusted EBITDA(2)	**$ 3,352**	$ 3,040	312	10.3%
Adjusted EBITDA(2) excluding 53rd week	***3,352***	*2,969*	*383*	*12.9%*
Adjusted EBITDA margin(2)	**7.5%**	7.3%		
Depreciation and amortization	**$ 1,567**	$ 1,453	114	7.8%

For the years ended January 2, 2016 and January 3, 2015	**2015 (52 weeks)**	2014 (52 weeks)
Food retail same-store sales growth	**1.9%**	2.0%
Drug retail same-store sales growth	**4.3%**	2.6%
Same-store pharmacy sales growth	**3.7%**	2.7%
Same-store front store sales growth	**4.7%**	2.4%

The Company's comparative results in the Retail segment were negatively impacted by the inclusion the 53rd week of 2014, as previously described.

Sales Retail sales were $44,469 million in 2015 compared to $41,731 million in 2014.

- Food retail (Loblaw) sales were $32,672 million in 2015 (2014 – $32,681 million) and Drug retail (Shoppers Drug Mart) sales were $11,797 million in 2015 (2014 – $9,050 million).
  - Excluding the impact of the 53rd week of 2014, Food retail sales were $32,672 million in 2015 (2014 – $32,107 million) and Drug retail sales were $11,797 million in 2015 (2014 – $8,835 million).

Excluding the impact of the 53rd week of 2014, Retail sales increased by $3,527 million compared to 2014, and included $2,596 million of retail sales contributed by Shoppers Drug Mart in the first quarter of 2015.

- Food retail same-store sales growth was 3.5%, after excluding gas bar (0.9%) and the negative impact of a change in distribution model by a tobacco supplier (0.7%). Including these impacts, Food retail same-store sales growth was 1.9% (2014 – 2.0%).
  - The Company's Food retail annual average internal food price index was moderately higher than (2014 – slightly higher) the annual average national food price inflation of 4.1% (2014 – 2.5%) as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores.
  - Sales growth in food was strong;
  - Sales growth in pharmacy and health and beauty was moderate;
  - Sales in gas bar declined significantly, primarily driven by the decline in gas prices;
  - Sales in general merchandise, excluding apparel, were flat; and
  - Sales growth in retail apparel was moderate, while U.S. wholesale apparel sales declined significantly.

- Drug retail (Shoppers Drug Mart) sales were comprised of pharmacy sales of $5,545 million (2014 – $4,251 million) and front store sales of $6,252 million (2014 – $4,799 million).
    - Same-store pharmacy sales growth was 3.7% (2014 – 2.7%);
        - the number of prescriptions dispensed increased by 2.1% (2014 – 6.6%). On a same-store basis, the number of prescriptions dispensed increased by 4.3% (2014 – 4.6%) and year-over-year, the average prescription value decreased by 0.2% (2014 – 1.5%);
        - generic molecules comprised 64.4% of the prescriptions dispensed in 2015 compared to 62.7% in 2014; and
    - Same-store front store sales growth was 4.7% (2014 – 2.4%) across all front store categories.
- 47 food and drug stores were opened and 62 food and drug stores were closed in the 12 months ended January 2, 2016, resulting in a decrease in Retail net square footage of 0.1 million, or 0.1%, primarily driven by the Company's store closure plan announced during 2015. In the first quarter of 2015, the Company completed the divestitures pursuant to a Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart.
- In 2014, the Company modified its fee arrangements with the franchisees of certain franchise banners. The modified arrangements resulted in an annual reduction of Food retail segment sales and gross profit of approximately $140 million, with a corresponding decrease in SG&A. In 2016, the Company will implement these modified fee arrangements with the remaining franchise banners. In 2016, the incremental impact of modified fee arrangements to the remaining franchise banners is expected to result in an annual reduction in Food retail segment sales and gross profit of approximately $60 million, with a corresponding decrease in SG&A.

Adjusted Gross Profit(2) Adjusted gross profit(2) was $11,747 million in 2015 compared to $10,722 million in 2014. Excluding the impact of the 53rd week of 2014, adjusted gross profit(2) increased by $1,225 million compared to 2014. Adjusted gross profit percentage(2) was 26.4%, and included the following impacts:

- the contribution from Shoppers Drug Mart in the first quarter of 2015;
- a positive impact of 10 basis points due to the consolidation of franchises, which commenced in the second quarter of 2015; and
- a negative impact of 30 basis points from the above mentioned modification to certain franchise fee arrangements.

After excluding these impacts, adjusted gross profit percentage(2) was 25.8% compared to 25.7% in 2014. The increase in adjusted gross profit percentage(2) was due to:

- the achievement of operational synergies in both Food and Drug retail; partially offset by
- a decline in Drug retail gross profit percentage due to the impact of healthcare reform.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $3,352 million in 2015 compared to $3,040 million in 2014. Excluding the impact of the 53rd week of 2014, adjusted EBITDA(2) increased by $383 million compared to 2014, primarily driven by the increase in adjusted gross profit(2) described above, partially offset by an increase in SG&A of $842 million. As a percentage of sales, SG&A increased by 50 basis points compared to 2014 and included the following impacts:

- the contribution from Shoppers Drug Mart in the first quarter of 2015;
- a positive impact of 30 basis points from the above mentioned modification to certain franchise fee arrangements, which was fully offset in gross profit above; and
- a negative impact of 20 basis points due to the consolidation of franchises, as described below.

Excluding the above impacts, SG&A was flat due to the following factors:

- higher store and store support costs;
- unfavourable foreign exchange impacts; offset by
- favourable changes in the fair value of the Company's investments in its franchise business; and
- efficiencies achieved in Food retail supply chain, administration and IT.

Depreciation and Amortization Depreciation and amortization were $1,567 million, an increase of $114 million compared to the same period in 2014 and included $536 million (2014 – $417 million) in amortization of intangible assets related to the acquisition of Shoppers Drug Mart. Excluding this amount, depreciation and amortization decreased by $5 million, primarily driven by lower depreciation on older IT, supply chain and other store assets.

Other Retail Business Matters

Impairment of Drug Retail Ancillary Assets Held for Sale During 2015, the Company commenced actively marketing the sale of certain assets of the Shoppers ancillary healthcare businesses. As a result, the Company recorded a charge of $112 million in the fourth quarter associated with the write-down of the assets and other related restructuring charges. The charge was excluded in calculating adjusted net earnings available to common shareholders of the Company(2). Of the $112 million charge, $46 million was recognized in gross profit and the remainder in SG&A. Subsequent to the end of 2015, the Company signed an agreement for the sale of certain of these assets. The Company expects the annualized impact of the divestitures to be a decrease in sales of approximately $245 million and an increase in adjusted EBITDA(2) of $14 million.

Inventory Measurement As of the end of 2015, the Company had completed the conversion of all of its franchised grocery stores to the new IT systems that include a perpetual inventory system. The re-measurement of inventory owned by the franchises as a result of implementing the system resulted in a decrease in inventory value of $33 million. The re-measurement resulted in a charge of $4 million in gross profit related to consolidated franchises and $29 million to SG&A related to non-consolidated franchises. The total charge was excluded in calculating adjusted net earnings available to common shareholders of the Company(2).

Consolidation of Franchises In 2015, the Company implemented a new, simplified franchise agreement ("Franchise Agreement") for its franchised Food retail stores. For financial reporting purposes, the franchise stores subject to the Franchise Agreement were consolidated. All new franchises will be subject to the Franchise Agreement. Existing franchises will be converted to the Franchise Agreement as the existing agreements expire. As at January 2, 2016, 85 franchises were consolidated and the impacts of the consolidation on the Company's results were as follows:

(millions of Canadian dollars)	2015 (12 weeks)	2015 (52 weeks)
Sales	$ 28	$ 56
Gross profit	32	58
Adjusted gross profit(2)	32	58
Adjusted EBITDA(2)	(4)	(12)
Depreciation and amortization	3	5
Net loss attributable to Non-Controlling Interest	(3)	(9)

The Company expects that the impact in 2016 of new and current consolidated franchises will be incremental revenue of approximately $320 million, an increase to EBITDA(2) of approximately $40 million and an increase in depreciation and amortization of approximately $20 million.

Closure of Certain Unprofitable Retail Locations In 2015, the Company finalized a plan that will result in the closure of 52 unprofitable retail locations across a range of banners and formats. The Company expects that the closures will be completed by the end of the second quarter of 2016. On an annualized basis, the closures will decrease sales by approximately $300 million but will result in a favourable impact of approximately $30 million to EBITDA(2) and $5 million to depreciation and amortization.

The restructuring and other related costs associated with the plan are expected to total approximately $133 million. In the fourth quarter of 2015, the Company recorded a recovery of $7 million and a year-to-date charge of $124 million. During 2015, the recorded charge included $92 million for severance and lease termination costs and $39 million for asset impairments associated with these retail locations. The Company expects approximately $9 million to be recognized as the remaining stores close.

As at the end of 2015, 33 retail locations had been closed.

Accelerated Finalization of Labour Agreements Over the past five years, the Company has been transitioning stores to more cost effective and efficient operating terms under collective agreements. The Company was committed to the transition and accordingly accelerated the finalization of these Labour Agreements for the majority of the remaining stores in the fourth quarter of 2015. The Company incurred a charge of $55 million in SG&A related to the completion of this process in the fourth quarter of 2015, which was excluded in calculating adjusted net earnings available to common shareholders of the Company(2).

Future Disclosures Shoppers Drug Mart is aggregated with the Company's retail businesses in the Retail reportable operating segment on the basis that all of the Company's retail operations have the same economic characteristics. The Retail reportable operating segment is separately discussed in the Company's interim and annual disclosures. Continuing in the 2016 fiscal year, the Company will limit the amount of separate financial disclosures specific to Shoppers Drug Mart in the Retail reportable operating segment. The results of Shoppers Drug Mart will be fully incorporated into the Company's comparative figures in 2016 and as such its year-over-year results will be more meaningful in the future.

The Company will continue to provide sales metrics on Drug retail pharmacy and front store sales to the extent that those categories remain relevant to how the Company views the Retail segment. Disclosures related to gross profit and adjusted EBITDA(2) will be on a combined basis and will include business-specific disclosures only to the extent that those disclosures are significant to the understanding of the underlying drivers of the overall Retail segment results.

6.2 Financial Services Segment(4)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015** **(52 weeks)**	2014 (53 weeks)	$ Change	% Change
Revenue	**$ 849**	$ 810	$ 39	4.8 %
Adjusted EBITDA(2)	**173**	171	2	1.2 %
Earnings before income taxes	**106**	111	(5)	(4.5)%

(millions of Canadian dollars except where otherwise indicated)	**As at** **January 2, 2016**	As at January 3, 2015	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,642**	$ 2,535	$ 107	4.2%
Credit card receivables	**2,790**	2,630	160	6.1%
Allowance for credit card receivables	**54**	54	—	—%
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.7%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	4.4%		

Revenue Revenue in 2015 was $849 million, an increase of $39 million, compared to 2014, primarily driven by:

- higher interest income attributable to growth in credit card receivables;
- higher interchange income, which experienced more moderate growth than the corresponding increase in credit card receivables due to an industry-wide reduction in interchange rates by MasterCard® International Incorporated ("MasterCard®"); and
- an increase in *PC* Telecom revenue from higher Mobile Shop sales.

Adjusted EBITDA(2) Adjusted EBITDA(2) in 2015 was $173 million, an increase of $2 million, compared to 2014. The increase in adjusted EBITDA(2) was primarily driven by:

- revenue growth as described above; and
- lower credit card losses from improved performance of the receivable balances; partially offset by
- higher costs associated with the Financial Services loyalty program; and
- higher operating costs as a result of an increase in the active customer base and the depreciation of the Canadian dollar.

Earnings before income taxes Earnings before income taxes in 2015 were $106 million, a decrease of $5 million compared to 2014. The decrease was driven by:

- higher interest expenses to fund the growth in credit card receivables; and
- higher depreciation related to an increased investment in IT; partially offset by
- higher EBITDA described above.

Credit Card Receivables As at January 2, 2016, credit card receivables were $2,790 million, an increase of $160 million compared to January 3, 2015. This increase was primarily driven by a growth in the active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at January 2, 2016, the allowance for credit card receivables was $54 million, flat compared to January 3, 2015 due to the strong credit performance from the receivables balance.

Subsequent to the end of 2015:

- President's Choice Bank ("PC Bank") reduced $100 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts; and
- PC Bank extended the maturity date for certain Other Independent Securitization Trust agreement from the first quarter of 2017 to the first quarter of 2018, with all other terms and conditions substantially the same.

6.3 Choice Properties Segment(4)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Revenue	**$ 743**	$ 683	$ 60	8.8%
Adjusted EBITDA(2)	**602**	571	31	5.4%
Net interest expense and other financing charges	**756**	369	387	104.9%
Adjusted funds from operations(2)	**313**	285	28	9.8%

Revenue Revenue for 2015 was $743 million, an increase of $60 million compared to 2014 and included $667 million (2014 – $613 million) generated from tenants within the Retail segment. The increase in revenue was primarily driven by:

- revenue from acquired properties; and
- an increase in base rent and recoveries of property tax and operating cost from existing properties.

Adjusted EBITDA(2) Adjusted EBITDA(2) in 2015 was $602 million, an increase of $31 million compared to 2014, primarily driven by:

- contributions from acquired properties; and
- an increase in base rent and net recoveries of property tax and operating cost from existing properties; partially offset by
- the change in fair value adjustment on investment properties.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges in 2015 were $756 million, an increase of $387 million compared to 2014, primarily driven by:

- the fair value adjustment on Class B Limited Partnership units; and
- higher interest expense due to the issuance of Series E and F senior unsecured debentures in the first and fourth quarter of 2015, respectively; partially offset by
- the non-cash finance charge incurred in 2014 related to the early repayment of the transferor notes.

Adjusted Funds from Operations(2) Adjusted funds from operations(2) in 2015 were $313 million, an increase of $28 million compared to 2014, primarily driven by higher contributions from property operations.

Other Matters During 2015, Choice Properties acquired 46 properties from the Company for a purchase price of approximately $357 million, excluding acquisition costs, for consideration of $236 million in cash and the issuance of 11,077,687 Class B Limited Partnership units.

Subsequent to the end of 2015, Choice Properties entered into certain bond forward contracts with a notional value of $300 million. In addition, Choice Properties issued an early redemption notice for the $300 million Series 5 senior unsecured debenture at par, effective March 7, 2016.

7. Liquidity and Capital Resources

7.1 Cash Flows

Major Cash Flow Components

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015** **(52 weeks)**	2014[3] (53 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 999**	$ 2,260	$ (1,261)	(55.8)%
Cash flows from (used in):				
Operating activities	**3,079**	2,569	510	19.9 %
Investing activities	**(1,238)**	(5,684)	4,446	78.2 %
Financing activities	**(1,839)**	1,845	(3,684)	(199.7)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	**17**	9	8	88.9 %
Cash and cash equivalents, end of period	**$ 1,018**	$ 999	$ 19	1.9 %

Cash Flows from Operating Activities Cash flows from operating activities were $3,079 million, an increase of $510 million compared to 2014 primarily due to a positive change in non-cash working capital driven by a change in inventory, in trade payables and other liabilities, and in provisions.

Cash Flows used in Investing Activities Cash flows used in investing activities were $1,238 million, a decrease of $4,446 million compared to 2014 primarily due to the 2014 cash flow impacts as a result of the acquisition of Shoppers Drug Mart.

Capital investments in 2015 were $1,241 million (2014 – $1,086 million). Approximately 47% (2014 – 57%) of this investment was spent on Retail Operations, 34% (2014 – 27%) on IT and supply chain projects, 15% (2014 –11%) on Choice Properties' development projects and 4% (2014 – 5%) on other infrastructure projects.

In 2015, 47 food and drug stores were opened and 62 food and drug stores were closed in the 12 months ended January 2, 2016, resulting in a decrease in Retail net square footage of 0.1 million, or 0.1%.

The Company expects to invest approximately $1,300 million in capital investments in 2016. Approximately 44% of these funds are expected to be dedicated to investing in retail operations, 28% will be spent on IT and supply chain projects, 22% on Choice Properties' development projects and 6% on infrastructure and other projects.

Capital Investments and Store Activity

As at or for the periods ended January 2, 2016 and January 3, 2015		2015 (52 weeks)		2014 (53 weeks)	% Change
Capital investments (millions of Canadian dollars)	**$**	**1,241**	$	1,086	14.3 %
Corporate square footage (in millions)		**36.1**		36.8	(1.9)%
Franchise square footage (in millions)		**15.8**		15.5	1.9 %
Associate-owned drug store square footage (in millions)		**18.0**		17.7	1.7 %
Total retail square footage (in millions)		**69.9**		70.0	(0.1)%
Number of corporate stores		**591**		615	(3.9)%
Number of franchise stores		**525**		527	(0.4)%
Number of Associate-owned drug stores		**1,313**		1,302	0.8 %
Total number of stores		**2,429**		2,444	(0.6)%
Percentage of corporate real estate owned		**72%**		72%	
Percentage of franchise real estate owned		**47%**		45%	
Percentage of Associate-owned drug store real estate owned		**2%**		1%	
Average store size (square feet)					
Corporate		**61,100**		59,800	2.2 %
Franchise		**30,100**		29,400	2.4 %
Associate-owned drug store		**13,700**		13,600	0.7 %

Cash Flows (used in) from Financing Activities Cash flows used in financing activities were $1,839 million, an increase in cash outflow of $3,684 million. In 2015, cash outflows were primarily driven by net repayments of long term debt, interest and dividend payments, and the purchase of common shares for cancellation. In 2014, cash inflows were primarily driven by net issuances of long term debt and proceeds from the issuance of common shares to fund the acquisition of Shoppers Drug Mart, partially offset by interest and dividend payments, which included one quarter of Shoppers Drug Mart dividends that were declared prior to the closing of the acquisition and paid during the second quarter of 2014.

In 2015, significant long term debt transactions included:

- net repayments on unsecured term loan facilities of $931 million;
- issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties; and
- net repayments of $100 million of senior and subordinated term notes by *Eagle Credit Card Trust*® (“*Eagle*”).

In 2014, significant long term debt transactions included:

- drawings on the Acquisition Term Loan of $3,500 million and repayments of $2,271 million;
- the issuance and sale to unrelated parties of $1,500 million of replacement notes related to the Choice Properties Transferor Notes;
- the issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties;
- the repayment of $450 million of the Company’s MTN’s upon maturity; and
- the repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility.

Free Cash Flow(2)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (52 weeks)		2014 (53 weeks)		$ Change	% Change
Free cash flow(2)	**$**	**1,347**	$	977	$	370	37.9%

Free cash flow(2) was $1,347 million, an increase of $370 million compared to 2014, primarily driven by higher cash flows from operating activities, partially offset by higher capital investments.

7.2 Liquidity and Capital Structure

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements and financial obligations. Choice Properties expects to obtain long term financing for the acquisition of accretive properties primarily through the issuance of equity and unsecured debentures.

The Company and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at January 2, 2016 and throughout 2015, the Company and Choice Properties were in compliance with their respective covenants.

Deleveraging The Company achieved its debt reduction target of $1,700 million established at the closing of the acquisition of Shoppers Drug Mart, by the net repayments on the Company's unsecured term loan facilities, the redemption of capital securities and the repayment of $350 million MTN, net of the issuance of Choice Properties' $450 million senior unsecured debentures.

As the debt reduction target has been achieved, the Company is focused on managing its capital structure on a segmented basis to ensure that each of the reportable operating segments are employing a capital structure that is appropriate for the industry in which it operates. The following table presents total debt, as monitored by management, by reportable operating segments:

	As at January 2, 2016				As at January 3, 2015			
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Total**	Retail	Financial Services	Choice Properties	Total
Bank indebtedness	**$ 143**	**$ —**	**$ —**	**$ 143**	$ 162	$ —	$ —	$ 162
Short term debt	**—**	**550**	**—**	**550**	—	605	—	605
Long term debt due within one year	**584**	**112**	**302**	**998**	40	379	1	420
Long term debt	**5,968**	**1,347**	**2,698**	**10,013**	7,361	1,005	2,676	11,042
Capital securities	**—**	**—**	**—**	**—**	225	—	—	225
Certain other liabilities	**30**	**—**	**—**	**30**	28	—	—	28
Total debt	**$ 6,725**	**$ 2,009**	**$ 3,000**	**$ 11,734**	$ 7,816	$ 1,989	$ 2,677	$ 12,482

The Company targets at maintaining Retail segment credit metrics consistent with those of investment grade retailers. The Company monitors the Retail segment's debt to adjusted EBITDA ratio as a measure of the leverage being employed.

	As at January 2, 2016	As at January 3, 2015
Retail debt to retail adjusted EBITDA(2)	**2.0x**	2.6x

The Retail segment debt to retail adjusted EBITDA(2) ratio decreased compared to January 3, 2015 primarily as a result of adjusted EBITDA(2) growth and the debt reduction progress during the year.

Choice Properties targets at maintaining credit metrics consistent with those of investment grade REITs. Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio.

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 the Office of the Superintendent of Financial Institutions ("OSFI"). As at the end of 2015 and throughout the year, PC Bank has met all applicable regulator requirements.

Unsecured Term Loan Facilities In 2015, the Company obtained $250 million through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.13%, maturing March 30, 2019.

In connection with the financing of the acquisition of Shoppers Drug Mart, the Company obtained a $3,500 million Acquisition Term Loan. As at January 2, 2016, the outstanding balance on the Acquisition Term Loan was $48 million (January 3, 2015 – $1,229 million). During 2015, the Company repaid $1,181 million of the Acquisition Term Loan. Since the acquisition, the Company has repaid $3,452 million of the Acquisition Term Loan, including the use of net proceeds of $1,500 million from the sale of Choice Properties Transferor Notes to third parties and proceeds from the $250 million unsecured term loan noted above, both of which had a neutral impact on long term debt. Also included in the total amount repaid was $66 million of net proceeds from the store divestitures required pursuant to the Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart.

Debentures and Medium Term Notes The following table summarizes the debentures and MTNs issued in 2015 and 2014:

(millions of Canadian dollars)	Interest Rate	Maturity Date	**Principal Amount 2015**	Principal Amount 2014
Choice Properties Series senior unsecured debentures[(i)]				
– Series E	2.30%	September 14, 2020	$ 250	$ —
– Series F	4.06%	November 24, 2025	200	—
– Series C	3.50%	February 8, 2021	—	250
– Series D	4.29%	February 8, 2024	—	200
Shoppers Drug Mart MTNs[(ii)]	2.01%	May 24, 2016	—	225
Shoppers Drug Mart MTNs[(ii)]	2.36%	May 24, 2018	—	275
Total Medium Term Notes issued			$ 450	$ 950

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus. Choice Properties used these proceeds to repay existing debt and for general business purposes.

(ii) The Company assumed these MTNs in connection with the acquisition of Shoppers Drug Mart.

The following table summarizes the MTNs repaid in 2015 and 2014:

(millions of Canadian dollars)	Interest Rate	Maturity Date	**Principal Amount 2015**	Principal Amount 2014
Loblaw MTNs	6.00%	March 3, 2014	$ —	$ 100
Loblaw MTNs	4.85%	May 8, 2014	—	350
Total Medium Term Notes repaid			$ —	$ 450

Subsequent to the end of 2015, Choice Properties entered into certain bond forward contracts with a notional value of $300 million and issued an early redemption notice for its $300 million Series 5 3.00% senior unsecured debentures at par effective March 7, 2016.

Committed Credit Facilities The components of the committed lines of credit as of January 2, 2016 and January 3, 2015 were as follows:

	As at January 2, 2016		As at January 3, 2015	
(millions of Canadian dollars)	**Available**	**Drawn**	Available	Drawn
Loblaw's Committed Credit Facility[(i)]	**$ 1,000**	**—**	$ 1,000	$ —
Choice Properties Committed Credit Facility[(ii)]	**500**	**—**	500	122
Total Committed Lines of Credit	**$ 1,500**	**—**	$ 1,500	$ 122

(i) In 2015, the Company amended its credit facility agreement to extend the maturity date to March 31, 2020, with all other terms and conditions remaining substantially the same.

(ii) In 2015, Choice Properties amended its credit facility agreement to extend the maturity date to July 5, 2020, with all other terms and conditions remaining substantially the same.

President's Choice Bank Securities Portfolio In 2014, OSFI released the final Liquidity Adequacy Requirements ("LARs") Guideline. The LARs Guideline establishes standards based on the Basel III framework and includes a Liquidity Coverage Ratio ("LCR") standard effective January 1, 2015. The standard specifies the level of high quality liquid securities that PC Bank is required to maintain to meet its upcoming financial obligations. As at the end 2015, PC Bank was in compliance with the LCR standard.

Short Form Base Shelf Prospectus Filings On March 19, 2015, the Company filed a Short Form Base Shelf Prospectus ("Base Prospectus") for the potential issuance of up to $1,500 million of debentures and/or preferred shares. The Base Prospectus expires in 2017. In 2015, the Company issued $225 million of preferred shares under this prospectus, as described in Section 7.6 "Share Capital".

On October 14, 2015, Choice Properties filed a new base shelf prospectus allowing for the issuance, from time to time, of Units and debt securities, or any combination thereof, having an aggregate offering price of up to $2 billion. The new prospectus is effective for a 25-month period from the date of issuance.

7.3 Financial Condition

Adjusted Return on Equity(2) and Adjusted Return on Capital(2)

	As at January 2, 2016	As at January 3, 2015
Adjusted return on equity(2)	**11.1%**	12.3%
Adjusted return on capital(2)	**8.5%**	10.4%

The adjusted return on equity(2) and the adjusted return on capital(2) as at January 2, 2016 decreased compared to January 3, 2015, primarily due to the increase in capital as a result of the acquisition of Shoppers Drug Mart being fully reflected.

7.4 Credit Ratings

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

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

In 2015, the Company's Second Preferred Shares, Series B were rated by Dominion Bond Rating Service and Standard & Poor's concurrent with their issuance. In 2015, Standard & Poor's reaffirmed Loblaw's credit ratings and outlook. In 2015, Dominion Bond Rating Service reaffirmed Loblaw's credit ratings and trends.

The following table sets out the current credit ratings of Choice Properties:

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Senior unsecured debentures	BBB	Stable	BBB	n/a

In 2015, Dominion Bond Rating Service reaffirmed Choice Properties' credit ratings and trends. In 2015, Standard & Poor's reaffirmed Choice Properties' credit ratings and outlook.

7.5 Other Sources of Funding

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

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

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust*®	**$ 650**	$ 750
Securitized to Other Independent Securitization Trusts	**550**	605
Total securitized to independent securitization trusts	**$ 1,200**	$ 1,355

In 2015, the five-year $350 million 3.58% senior and subordinated term notes issued by *Eagle* matured and were repaid. In addition, *Eagle* issued $250 million senior and subordinated term notes with a weighted average interest rate of 2.23%, maturing on September 17, 2020. The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables.

In 2015, *Eagle* filed a short form base shelf prospectus for the potential issuance of up to $1,000 million of notes over a 25-month period.

During 2015, PC Bank recorded a $55 million net reduction of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts. As at January 2, 2016, the corresponding short term debt was $550 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 $56 million (January 3, 2015 – $61 million), which represented approximately 10% (2014 – 10%) of the securitized credit card receivables amount. As at January 2, 2016, the aggregate gross potential liability under these arrangements for *Eagle* was $36 million (January 3, 2015 – $68 million), which represented approximately 6% (2014 – 9%) of the *Eagle* notes outstanding.

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at January 2, 2016 and throughout 2015.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at January 2, 2016 were $175 million (January 3, 2015 – $120 million).

Independent Funding Trusts As at January 2, 2016, the independent funding trusts had drawn $529 million (January 3, 2015 – $498 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. In 2014, the Company renewed the revolving committed credit facility and extended the maturity date to May 6, 2017, with all other terms and conditions remaining substantially the same. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at January 2, 2016 the Company has agreed to provide a credit enhancement of $53 million (January 3, 2015 – $50 million) for the benefit of the independent funding trusts representing not less than 10% (2014 – 10%) of the principal amount of loans outstanding.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the years ended 2015 and 2014:

(millions of Canadian dollars)	**2015**	2014
Balance, beginning of year	**$ 634**	$ 430
GICs issued	**211**	261
GICs matured	**(36)**	(57)
Balance, end of year	**$ 809**	$ 634

As at January 2, 2016, $112 million in GICs were recorded as long term debt due within one year (January 3, 2015 – $29 million).

Associate Guarantees The Company has arranged for its Shoppers Drug Mart licensees ("Associates") to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at January 2, 2016, the Company's maximum obligation in respect of such guarantees was $570 million (January 3, 2015 – $570 million) with an aggregate amount of $483 million (January 3, 2015 – $476 million) in available lines of credit allocated to the Associates by the various banks. As at January 2, 2016, Associates had drawn an aggregate amount of $143 million (January 3, 2015 – $162 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheet. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

7.6 Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at January 2, 2016 and January 3, 2015.

Second Preferred Share Capital (authorized – unlimited) In 2015, the Company redeemed all of the outstanding 9.0 million 5.95% non-voting Second Preferred Shares, Series A, for a face value of $225 million and recorded a corresponding decrease to capital securities, which were classified as other financial liabilities. The redemption was funded primarily through the proceeds received from the issuances of the Second Preferred Shares, Series B.

In 2015, the Company issued 9.0 million 5.30% non-voting Second Preferred Shares, Series B, with a face value of $225 million. These shares entitle the holder to receive fixed cumulative preferential cash dividends of approximately $1.325 per share per annum, as and when declared by the Board of Directors ("Board"), which will accrue from the date of issue and are payable quarterly on the last day of March, June, September and December of each year.

As at January 2, 2016, the Second Preferred Shares, Series B in the amount of $221 million, net of $4 million of after-tax issuance costs, are presented as a component of equity in the consolidated balance sheet.

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:

		2015		2014
(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	**412,480,891**	**$ 7,860**	282,311,573	$ 1,648
Issued for settlement of stock options	**1,841,174**	**84**	3,536,489	156
Issued for acquisition of Shoppers Drug Mart	**—**	**—**	119,471,382	5,619
Issued to controlling shareholder	**—**	**—**	10,515,247	500
Purchased and cancelled	**(4,336,839)**	**(83)**	(3,353,800)	(63)
Issued and outstanding, end of period	**409,985,226**	**$ 7,861**	412,480,891	$ 7,860
Shares held in trust, beginning of period	**(555,046)**	**$ (3)**	(1,067,323)	$ (6)
Purchased for future settlement of Restricted Share Units and Performance Share Units	**(971,894)**	**(19)**	—	—
Released for settlement of Restricted Share Units and Performance Share Units	**883,488**	**12**	512,277	3
Shares held in trust, end of period	**(643,452)**	**$ (10)**	(555,046)	$ (3)
Issued and outstanding, net of shares held in trust, end of period	**409,341,774**	**$ 7,851**	411,925,845	$ 7,857
Weighted average outstanding, net of shares held in trust	**411,543,393**		380,540,877	

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 time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to reduce debt and finance future growth. In the second quarter of 2015 and 2014, the Board raised the quarterly dividend by $0.005 to $0.25 and $0.245 per common share, respectively.

The following table summarizes the Company's cash dividends declared for 2015 and 2014:

	2015 (52 weeks)	2014 (53 weeks)
Dividends declared per share ($):		
Common share	**$ 0.995**	$ 0.975
Second Preferred Share, Series A	**$ 0.74**	$ 1.49
Second Preferred Share, Series B	**$ 0.74**	$ —

(i) The fourth quarter dividends for 2015 of $0.25 per share declared on common shares were paid on December 30, 2015. The fourth quarter dividends for 2015 of $0.33 per share declared on Second Preferred Shares, Series B were paid on December 31, 2015.

Subsequent to end of the year, the Board declared a quarterly dividend of $0.25 per common share, payable on April 1, 2016 to shareholders of record on March 15, 2016 and a dividend on the Second Preferred Shares, Series B of $0.33 per share payable on March 31, 2016 to shareholders of record on March 15, 2016. At the time such dividends are declared, the Company identifies on its website, loblaw.ca, the designation of eligible and ineligible dividends in accordance with the administrative position of the CRA.

Normal Course Issuer Bid Activity under the Company's Normal Course Issuer Bid ("NCIB") is summarized as follows:

(millions of Canadian dollars except where otherwise indicated)	2015 (52 weeks)	2014 (53 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**4,336,839**	3,353,800
Cash consideration paid	**$ 280**	$ 178
Premium charged to Retained Earnings	**197**	115
Reduction in Common Share Capital	**83**	63
Common shares repurchased under the NCIB and held in trust (number of shares)	**971,894**	—
Cash consideration paid	**$ 63**	$ —
Premium charged to Retained Earnings	**44**	—
Reduction in Common Share Capital	**19**	—

In 2015, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 21,931,288 of the Company's common shares, representing approximately 10% of the public float. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares.

7.7 Off-Balance Sheet Arrangements

The following is a summary of the Company's off-balance sheet arrangements. Certain significant arrangements have also been discussed in Section 7.5 "Other Sources of Funding".

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, securitization of PC Bank's credit card receivables and third party financing made available to the Company's franchisees. The gross potential liability related to the Company's letters of credit is approximately $860 million as at January 2, 2016 (January 3, 2015 – $586 million).

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

The Company has provided a guarantee on behalf of PC Bank to MasterCard® for accepting PC Bank as a card member and licensee of MasterCard®. During the third quarter of 2015, the Company increased its guarantee on behalf of PC Bank to MasterCard® by USD $20 million (2014 – nil) to USD $190 million as at January 2, 2016 (January 3, 2015 – USD $170 million).

Cash Collateralization As at January 2, 2016, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $149 million (January 3, 2015 – $141 million), of which $2 million (January 3, 2015 – $7 million) was deposited with major financial institutions and classified as security deposits.

7.8 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at January 2, 2016:

Summary of Contractual Obligations

	Payments due by year						
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total
Total debt (including interest payments[i])	$ 2,147	$ 1,316	$ 1,775	$ 1,913	$ 1,640	$ 7,610	$ 16,401
Derivative Financial Liabilities	441	—	—	—	—	—	441
Operating leases[ii]	682	658	617	571	504	2,606	5,638
Contracts for purchases of investment projects[iii]	54	—	—	—	—	—	54
Purchase obligations[iv]	152	125	85	5	1	—	368
Total contractual obligations	$ 3,476	$ 2,099	$ 2,477	$ 2,489	$ 2,145	$ 10,216	$ 22,902

(i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for Consolidated Structured Entities, mortgages and finance lease obligations. Variables interest payments are based on the forward rates as of January 2, 2016.

(ii) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.

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

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

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

8. Financial Instruments

Foreign Exchange Forwards During 2015, PC Bank entered into USD foreign exchange forward agreements to hedge its exposure on certain USD payables. These agreements, which mature by December 2016, qualify for hedge accounting as cash flow hedges of future foreign currency transactions. Accordingly, during 2015, PC Bank recorded an unrealized fair value gain of $3 million in other comprehensive income related to the effective portion of these agreements.

Bond Forwards During 2015, in connection with expected funding needs in the latter half of the year, PC Bank entered into bond forward agreements with a notional value of $350 million to hedge its exposure to interest rate changes prior to obtaining financing and settled these agreements within the year. These agreements qualified for hedge accounting as cash flow hedges of future interest payments. Accordingly, upon maturity of these bond forward agreements, PC Bank deferred a loss of $2 million in accumulated other comprehensive income to be recognized in income as future interest payments are made.

Subsequent to the end of 2015, Choice Properties entered into certain bond forward agreements with a notional value of $300 million.

Securities Investments In 2015, PC Bank purchased and designated certain long term investments as available-for-sale financial assets, which are measured at fair value through other comprehensive income. As at January 2, 2016, the fair value of these investments of $25 million was included in other assets. During 2015, PC Bank recorded a nominal fair value loss in other comprehensive income related to these investments. These investments are considered part of the liquid securities required to be held by PC Bank to meet its LCR standard, which was established under OSFI's final Guideline on LARs, effective January 1, 2015.

Trust Unit Liability Choice Properties' Units held by unitholders other than the Company are presented as a liability as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at January 2, 2016, the fair value of the Trust Unit Liability of $821 million (January 3, 2015 – $722 million) was recorded on the consolidated balance sheet. During 2015 the Company recorded a fair value loss of $81 million (2014 – loss of $17 million) in net interest expense and other financing charges related to Choice Properties' Units.

As at January 2, 2016, 69,453,817 Units were held by unitholders other than the Company (January 3, 2015 – 67,755,010) and the Company held an 83.0% (January 3, 2015 – 82.9%) effective ownership interest in Choice Properties.

9. Quarterly Results of Operations

9.1 Results by Quarter

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. Fiscal year 2015 was 52 weeks and fiscal year 2014 was 53 weeks. When a fiscal year such as 2014 contains 53 weeks, the fourth quarter is 13 weeks in duration. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

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

Summary of Consolidated Quarterly Results

					2015					2014
(millions of Canadian dollars except where otherwise indicated)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**Total (audited) (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (13 weeks)	Total (audited) (53 weeks)
Revenue	**$ 10,048**	**$ 10,535**	**$ 13,946**	**$ 10,865**	**$ 45,394**	$ 7,292	$10,307	$ 13,599	$11,413	$ 42,611
Net earnings (loss) available to common shareholders of the Company	**$ 146**	**$ 185**	**$ 166**	**$ 128**	**$ 625**	$ 120	$ (456)	$ 142	$ 247	$ 53
Net earnings (loss) per common share:										
Basic ($)	**$ 0.35**	**$ 0.45**	**$ 0.40**	**$ 0.31**	**$ 1.52**	$ 0.43	$ (1.13)	$ 0.34	$ 0.60	$ 0.14
Diluted ($)	**$ 0.35**	**$ 0.44**	**$ 0.40**	**$ 0.31**	**$ 1.51**	$ 0.42	$ (1.13)	$ 0.34	$ 0.59	$ 0.14
Average national food price inflation (as measured by CPI)	**4.6%**	**3.9%**	**3.8%**	**4.1%**	**4.1%**	1.2%	2.5%	2.8%	3.5%	2.5%
Food retail same-store sales growth	**2.0%**	**2.1%**	**1.3%**	**2.4%**	**1.9%**	0.9%	1.8%	2.6%	2.4%	2.0%
Drug retail same-store sales growth	**3.1%**	**3.8%**	**4.9%**	**5.0%**	**4.3%**	1.4%	2.5%	2.5%	3.8%	2.6%

CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Over the past eight quarters, net retail square footage increased by 18.0 million square feet, including 18.0 million square feet contributed by Shoppers Drug Mart at acquisition, to 69.9 million square feet, primarily due to the contribution by Shoppers Drug Mart at acquisition in 2014 partially offset by decreases from the Company's store closure plan in 2015.

Fluctuations in quarterly net earnings (loss) available to common shareholders of the Company reflect the underlying operations of the Company and are impacted by seasonality, which is greatest in the fourth quarter and least in the first quarter, the 53rd week of 2014 in the fourth quarter, the timing of holidays and were impacted by the items set out in Section 17 "Non-GAAP Financial Measures" of the MD&A as well as the following significant items:

- the acquisition of Shoppers Drug Mart, including the associated acquisition-related accounting adjustments and net synergies;
- modifications to the fee arrangements with franchisees of certain franchise banners; and
- the transition of certain stores to more cost effective and efficient Labour Agreements.

9.2 Fourth Quarter Results

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2015:

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014 (13 weeks)	$ Change	% Change
Revenue	**$ 10,865**	$ 11,413	$ (548)	(4.8)%
Revenue excluding 53rd week	***$ 10,865***	*$ 10,624*	*$ 241*	*2.3 %*
Adjusted EBITDA(2)	**$ 881**	$ 950	$ (69)	(7.3)%
Adjusted EBITDA(2) excluding 53rd week	***881***	*879*	*2*	*0.2 %*
Adjusted EBITDA margin(2)	**8.1%**	8.3%		
Depreciation and amortization(i)	**$ 376**	$ 393	$ (17)	(4.3)%
Net interest expense and other financing charges	**141**	169	(28)	(16.6)%
Adjusted net interest expense and other financing charges(2)	**134**	144	(10)	(6.9)%
Net earnings	**127**	247	(120)	(48.6)%
Net earnings attributable to shareholders of the Company	**131**	247	(116)	(47.0)%
Net earnings available to common shareholders of the Company	**128**	247	(119)	(48.2)%
Net earnings available to common shareholders of the Company excluding 53rd week	***128***	*195*	*(67)*	*(34.4)%*
Adjusted net earnings available to common shareholders of the Company(2)	**363**	396	(33)	(8.3)%
Adjusted net earnings available to common shareholders of the Company(2) excluding 53rd week	***363***	*344*	*19*	*5.5 %*
Basic net earnings per common share ($)	**$ 0.31**	$ 0.60	$ (0.29)	(48.3)%
Basic net earnings per common share excluding 53rd week ($)	***$ 0.31***	*$ 0.47*	*$ (0.16)*	*(34.0)%*
Adjusted basic net earnings per common share(2) ($)	**$ 0.88**	$ 0.96	$ (0.08)	(8.3)%
Adjusted basic net earnings per common share(2) excluding 53rd week ($)	***$ 0.88***	*$ 0.83*	*$ 0.05*	*6.0 %*
Basic weighted average common shares outstanding (in millions)	**410.7**	412.0		
Cash flows from (used in):				
Operating activities	**$ 564**	$ 952	$ (388)	(40.8)%
Investing activities	**(173)**	(363)	190	(52.3)%
Financing activities	**(655)**	(575)	(80)	13.9 %
Dividends declared per common share ($)	**$ 0.25**	$ 0.245	$ 0.005	2.0 %
Dividends declared per Second Preferred Share, Series A ($)	**—**	0.37		
Dividends declared per Second Preferred Share, Series B ($)	**0.33**	—		

(i) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $124 million (2014 – $124 million) of amortization of intangible assets acquired with Shoppers Drug Mart for the fourth quarter of 2015.

Adjusted net earnings available to common shareholders of the Company(2) were $363 million ($0.88 per common share) in the fourth quarter of 2015 compared to $396 million ($0.96 per common share) in the fourth quarter of 2014. Net earnings available to common shareholders of the Company were $128 million ($0.31 per common share) in the fourth quarter of 2015 compared to $247 million ($0.60 per common share) in the fourth quarter of 2014.

The Company's comparative results were negatively impacted by the inclusion of the 53rd week of 2014. The 53rd week resulted in the following impacts to the Company's 2014 fourth quarter and full year results: $789 million of higher retail sales, $71 million of higher EBITDA, and estimated impacts on net earnings and basic net earnings per common share of $52 million and $0.13 per share, respectively.

The following comparisons exclude the impacts of the 53rd week.

Adjusted net earnings available to common shareholders of the Company(2) in the fourth quarter of 2015 were $363 million ($0.88 per common share), an increase of $19 million ($0.05 per common share) compared to 2014, excluding the impact of the 53rd week, primarily due to the following:

- consistent operating performance in the Retail segment, despite the impact of healthcare reform; with the unfavourable impact of non-recurring transactions that had positive impacts in the prior year and unfavourable foreign exchange impacts;
- a positive contribution from incremental net synergies;
- a reduction in depreciation and amortization in the Retail segment due to an increase in the estimated useful life of certain IT systems and lower depreciation on older IT and other store assets; and
- a reduction in adjusted net interest expense and other financing charges(2) primarily driven by repayments of the Acquisition Term Loan.

Net earnings available to common shareholders of the Company in the fourth quarter of 2015 were $128 million ($0.31 per common share), a decrease of $67 million ($0.16 per common share) compared to the fourth quarter of 2014. In addition to the items described above, the decrease in net earnings available to common shareholders of the Company(2) included the year-over-year impact of the following significant items:

- the unfavourable impact of the impairment of Drug retail ancillary assets held for sale of $112 million ($0.20 per common share);
- the unfavourable impact of the accelerated finalization of transitioning of certain grocery stores to more cost effective and efficient Labour Agreements of $55 million ($0.10 per common share); and
- the unfavourable impact of a charge related to inventory measurement associated with the conversion of all of its franchised grocery stores to the new IT systems of $33 million ($0.06 per common share); partially offset by
- the favourable impacts of the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold in the prior year of $69 million ($0.12 per common share); and
- the favourable impact of a decrease in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability of $13 million ($0.04 per common share).

Revenue(5)

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014 (13 weeks)	$ Change	% Change
Retail	**$ 10,606**	$ 11,164	$ (558)	(5.0)%
Financial Services	**240**	231	9	3.9 %
Choice Properties	**191**	175	16	9.1 %
Consolidation and Eliminations	**(172)**	(157)	(15)	
Revenue	**$ 10,865**	$ 11,413	$ (548)	(4.8)%
53rd week		789		
Revenue excluding 53rd week	**$ 10,865**	$ 10,624	$ 241	2.3 %

Revenue was $10,865 million in the fourth quarter of 2015, an increase of $241 million compared to the fourth quarter of 2014 primarily due to positive same-store sales growth in Food and Drug retail.

Adjusted EBITDA[(2),(5)]

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014 (13 weeks)	$ Change	% Change
Retail	**$ 823**	$ 897	$ (74)	(8.2)%
Financial Services	**51**	51	—	— %
Choice Properties	**224**	223	1	0.4 %
Consolidation and Eliminations	**(217)**	(221)	4	
Adjusted EBITDA[(2)]	**$ 881**	$ 950	$ (69)	(7.3)%
53rd week		71		
Adjusted EBITDA[(2)] excluding 53rd week	**$ 881**	$ 879	$ 2	0.2 %
Adjusted EBITDA margin[(2)]	**8.1%**	8.3%		

Adjusted EBITDA[(2)] was $881 million in the fourth quarter of 2015, an increase of $2 million, primarily driven by Choice Properties net of consolidation and eliminations, partially offset by the Retail segment. Adjusted EBITDA margin[(2)] was 8.1%, a decrease of 20 basis points compared to the fourth quarter of 2014. The Company experienced consistent performance in the Retail segment, but was negatively impacted by 20 basis points due to the following factors:

- non-recurring transactions that had positive impacts in the prior year; and
- unfavourable foreign exchange impacts; partially offset by
- a positive contribution from net synergies.

Net Interest Expense and Other Financing Charges

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)	**2015 (12 weeks)**	2014 (13 weeks)	$ Change	% Change
Net interest expense and other financing charges	**$ 141**	$ 169	$ (28)	(16.6)%
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(7)**	(20)	13	
Accelerated amortization of deferred financing costs	**—**	(5)	5	
Adjusted net interest expense and other financing charges[(2)]	**$ 134**	$ 144	$ (10)	(6.9)%

Net interest expense and other financing charges were $141 million in the fourth of 2015, a decrease of $28 million compared to the fourth quarter of 2014. Adjusted net interest expense and other financing charges[(2)] were $134 million, a decrease of $10 million compared to the fourth quarter of 2014, primarily driven by repayments of the Acquisition Term Loan.

Depreciation and Amortization Depreciation and amortization was $376 million compared to $393 million in the fourth quarter of 2014. Excluding the amortization of intangible assets acquired with Shoppers Drug Mart of $124 million (2014 – $124 million), depreciation and amortization decreased by $17 million compared to the fourth quarter of 2014, primarily driven by a reduction in depreciation and amortization in the Retail segment due to an increase in the estimated useful life of certain IT systems and lower depreciation on older IT and other store assets.

Income Taxes

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (12 weeks)		2014 (13 weeks)		$ Change	% Change
Income taxes	$	48	$	91	$	(43)	(47.3)%
Add impact of the following:							
Tax impact of items included in adjusted earnings before taxes(2)		85		50		35	
Adjusted income taxes	$	133	$	141	$	(8)	(5.7)%
Effective tax rate		27.4%		26.9%			
Adjusted income tax rate(2)		26.9%		26.3%			

The effective tax rate in the fourth quarter of 2015 was 27.4% compared to 26.9% in the fourth quarter of 2014. The adjusted tax rate(2) in the fourth quarter of 2015 was 26.9% compared to 26.3% in the fourth quarter of 2014. The increase in the effective and adjusted income tax rate(2) was primarily attributable to the increase in current tax as a result of an increase in the Alberta statutory corporate income tax rate and an increase in certain other non-deductible items.

Cash Flow

Cash Flows from Operating Activities Cash flows from operating activities for the fourth quarter of 2015 were $564 million, a decrease in cash inflow of $388 million compared to the fourth quarter of 2014, primarily driven by lower cash earnings and an increase in credit card receivables.

Cash Flows used in Investing Activities Cash flows used in investing activities for the fourth quarter of 2015 were $173 million, a decrease in cash outflow of $190 million compared to the fourth quarter of 2014, primarily due to the release of funds from security deposits to fund the repayment of *Eagle* notes in the fourth quarter of 2015, partially offset by higher capital investments.

Cash Flows used in Financing Activities Cash flows used in financing activities for the fourth quarter of 2015 were $655 million, an increase in cash outflow of $80 million compared to the fourth quarter of 2014. In the fourth quarter of 2015, cash flows used in financing activities were primarily driven by common shares purchased for cancellation, net repayment of long term debt, change in bank indebtedness, as well as dividend and interest payments. In the fourth quarter of 2014, cash flows used in financing activities were primarily driven by net repayment of long term debt, change in bank indebtedness acquired with the Shoppers Drug Mart acquisition, as well as interest and dividend payments.

Capital Investments In the fourth quarter of 2015, the Company invested $433 million (2014 – $400 million) in fixed asset purchases and intangible asset additions.

Free Cash Flow(2) In the fourth quarter of 2015, free cash flow(2) was $36 million compared to $439 million in the fourth quarter of 2014. The decrease was primarily driven by the decrease in cash flows from operating activities.

Retail Segment Fourth Quarter Results of Operations

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (12 weeks)		2014 (13 weeks)		$ Change	% Change
Sales	$	**10,606**	$	11,164	$	(558)	(5.0)%
Sales excluding 53rd week		***10,606***		*10,375*		*231*	*2.2 %*
Gross profit		**2,794**		2,925		(131)	(4.5)%
Gross profit excluding 53rd week		***2,794***		*2,725*		*69*	*2.5 %*
Adjusted gross profit(2)		**2,844**		2,994		(150)	(5.0)%
Adjusted gross profit(2) excluding 53rd week		***2,844***		*2,794*		*50*	*1.8 %*
Adjusted gross profit %(2)		**26.8%**		26.8%			
Adjusted gross profit %(2) excluding 53rd week		***26.8%***		*26.9%*			
Adjusted EBITDA(2)	$	**823**	$	897		(74)	(8.2)%
Adjusted EBITDA(2) excluding 53rd week		***823***		*826*		*(3)*	*(0.4)%*
Adjusted EBITDA margin(2)		**7.8%**		8.0%			
Depreciation and amortization	$	**369**	$	388		(19)	(4.9)%

For the periods ended January 2, 2016 and January 3, 2015	2015 (12 weeks)	2014 (12 weeks)
Food retail same-store sales growth	**2.4%**	2.4%
Drug retail same-store sales growth	**5.0%**	3.8%
Same-store pharmacy sales growth	**4.2%**	4.2%
Same-store front store sales growth	**5.7%**	3.6%

The Company's comparative results in the Retail segment were negatively impacted by the inclusion of the 53rd week, as previously described.

Sales Retail segment sales were $10,606 million in the fourth quarter of 2015 compared to $11,164 million of the fourth quarter of 2014.

- Food retail (Loblaw) sales were $7,631 million in the fourth quarter of 2015 (2014 – $8,110 million) and Drug retail (Shoppers Drug Mart) sales were $2,975 million in the fourth quarter of 2015 (2014 – $3,054 million).
    - Excluding the impact of the 53rd week, Food retail sales were $7,631 million in the fourth quarter of 2015 (2014 – $7,536 million) and Drug retail sales were $2,975 million in the fourth quarter of 2015 (2014 – $2,839 million).

Excluding the impact of the 53rd week of 2014, Retail segment sales increased by $231 million compared to the fourth quarter of 2014, primarily due to the following factors:

- Food retail same-store sales growth was 3.1% for the quarter, after excluding gas bar (0.5%) and the negative impact of a change in distribution model by a tobacco supplier (0.2%). Including these impacts, Food retail same-store sales growth was 2.4% (2014 – 2.4%).
    - The Company's Food retail average quarterly internal food price index was moderately higher than (2014 – slightly higher) the average quarterly national food price inflation of 4.1% (2014 – 3.5%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores;
    - Sales growth in food was strong;
    - Sales growth in pharmacy and health and beauty was moderate;
    - Sales in gas bar declined significantly, primarily driven by the decline in gas prices;
    - Sales in general merchandise, excluding apparel, were modest; and
    - Sales growth in retail apparel was moderate, while U.S. wholesale apparel sales declined significantly.

- Drug retail sales were comprised of pharmacy sales of $1,315 million, with same-store sales growth of 4.2% (2014 – 4.2%) and front store sales of $1,660 million, with same-store sales growth of 5.7% (2014 – 3.6%).
    - Same-store pharmacy sales growth was 4.2% (2014 – 4.2%);
        - the number of prescriptions dispensed decreased by 4.7% (2014 – increase of 13.8%). On a same-store basis, the number of prescriptions dispensed increased by 3.2% (2014 – 6.0%) and year-over-year, the average prescription value increased by 0.9% (2014 – decreased by 1.7%);
        - generic molecules comprised 63.7% of the prescriptions dispensed in 2015 compared to 62.5% in 2014; and
    - Same-store front store sales growth was 5.7% (2014 – 3.6%) across all front store categories.
- 47 food and drug stores were opened and 62 food and drug stores were closed in the 12 months ended January 2, 2016, resulting in a decrease in Retail net square footage of 0.1 million, or 0.1%, primarily driven by the Company's store closure plan announced during 2015.
- In 2014, the Company modified its fee arrangements with the franchisees of certain franchise banners. The modified arrangements resulted in an annual reduction of Food retail segment sales and gross profit with a corresponding decrease in SG&A. In the fourth quarter of 2015, the impact of the modified arrangements was a $32 million negative impact to Food retail sales and gross profit, with an offsetting $32 million positive impact to SG&A. In 2016, the Company will implement these modified fee arrangements with the remaining franchise banners. In 2016, the incremental impact of modified fee arrangements to the remaining franchise banners is expected to result in an annual reduction in Food retail segment sales and gross profit of approximately $60 million, with a corresponding decrease in SG&A.

Adjusted Gross Profit(2) Adjusted gross profit(2) was $2,844 million in the fourth quarter of 2015 compared to $2,994 million in the fourth quarter of 2014. Excluding the impact of the 53rd week of 2014, adjusted gross profit(2) was $50 million higher compared to the fourth quarter of 2014. Excluding the impact of the 53rd week, adjusted gross profit percentage(2) of 26.8% decreased by 10 basis points compared to the fourth quarter of 2014, and included the following impacts:

- a positive impact of approximately 30 basis points due to the consolidation of franchises, which commenced in the second quarter of 2015; and
- a negative impact of approximately 30 basis points from the above mentioned modification to certain franchise fee arrangements.

After excluding these impacts, adjusted gross profit percentage of 26.8% was 10 basis points lower compared to the fourth quarter of 2014 and reflects the following:

- a decline in Drug retail gross profit percentage primarily due to the impact of healthcare reform; partially offset by
- the achievement of operational synergies in both Food and Drug retail.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $823 million in the fourth quarter of 2015 compared to $897 million in the fourth quarter of 2014. Excluding the impact of the 53rd week of 2014, adjusted EBITDA(2) decreased by $3 million compared to the fourth quarter of 2014, driven by an increase in SG&A of $53 million, or 10 basis points, partially offset by the increase in adjusted gross profit(2) described above. As a percentage of sales, the increase in SG&A was impacted by the following factors:

- a positive impact of approximately 30 basis points from the above mentioned modification to certain franchise fee arrangements, which was fully offset in gross profit above; and
- a negative impact of approximately 30 basis points due to the consolidation of franchises.

Excluding these impacts, as a percentage of sales, SG&A was essentially flat compared to 2014 and reflects the following:

- non-recurring transactions that had positive impacts in the prior year;
- unfavourable foreign exchange impacts;
- higher store and store support costs; partially offset by
- favourable changes in the fair value of the Company's investments in its franchise business.

Depreciation and Amortization Depreciation and amortization was $369 million in the fourth quarter of 2015, a decrease of $19 million compared to the fourth quarter of 2014, and included $124 million (2014 – $124 million) in amortization of intangible assets related to the acquisition of Shoppers Drug Mart. Excluding this amount, depreciation and amortization decreased by $19 million driven by:

- an increase in the estimated useful life of certain IT systems; and
- lower depreciation on older IT and other store assets.

Financial Services Segment Fourth Quarter Results of Operations(4)

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014 (13 weeks)	$ Change	% Change
Revenue	**$ 240**	$ 231	$ 9	3.9 %
Adjusted EBITDA(2)	**51**	51	—	— %
Earnings before income taxes	**33**	35	(2)	(5.7)%

(millions of Canadian dollars except where otherwise indicated)	**As at January 2, 2016**	As at January 3, 2015	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,642**	$ 2,535	$ 107	4.2%
Credit card receivables	**2,790**	2,630	160	6.1%
Allowance for credit card receivables	**54**	54	—	—%
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.7%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	4.4%		

Revenue Revenue was $240 million in the fourth quarter of 2015, an increase of $9 million, compared to the fourth quarter of 2014. The increase was primarily driven by:

- higher interest income attributable to growth in credit card receivables; and
- higher interchange income, which experienced more moderate growth than the corresponding increase in credit card receivables due to an industry-wide reduction in interchange rates by MasterCard®.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $51 million in the fourth quarter of 2015, flat compared to the fourth quarter of 2014. Although flat, adjusted EBITDA(2) included the following:

- revenue growth as described above; offset by
- higher costs associated with the Financial Services loyalty program driven by higher transaction volumes.

Earnings before income taxes Earnings before income taxes were $33 million in the fourth quarter of 2015, a decrease of $2 million compared to the fourth quarter of 2014. The decrease was primarily driven by higher interest expenses to fund the growth in credit card receivables and higher depreciation related to an increased investment in IT.

Credit Card Receivables As at January 2, 2016, credit card receivables were $2,790 million, an increase of $160 million compared to January 3, 2015. This increase was primarily driven by a growth in the active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at January 2, 2016, the allowance for credit card receivables was $54 million, flat compared to January 3, 2015 due to the strong credit performance from the receivables balance.

Choice Properties Segment Fourth Quarter Results of Operations[(4)]

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	2015 (12 weeks)	2014 (13 weeks)	$ Change	% Change
Revenue	$ 191	$ 175	$ 16	9.1%
Adjusted EBITDA[(2)]	224	223	1	0.4%
Net interest expense and other financing charges	184	137	47	34.3%
Adjusted funds from operations[(2)]	82	74	8	10.8%

Revenue Revenue was $191 million in the fourth quarter of 2015, an increase of $16 million, compared to the fourth quarter of 2014, and included $172 million (2014 – $157 million) generated from tenants within the Retail segment. The increase in revenue was primarily driven by:

- revenue from acquired properties; and
- an increase in base rent and recoveries of property tax and operating cost from existing properties.

Adjusted EBITDA[(2)] Adjusted EBITDA[(2)] was $224 million in the fourth quarter of 2015, an increase $1 million compared to the fourth quarter of 2014, primarily driven by:

- contributions from acquired properties; and
- an increase in base rent and net recoveries of property tax and operating cost from existing properties; partially offset by
- the change in the fair value adjustment on investment properties.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $184 million in the fourth quarter of 2015, an increase of $47 million compared to the fourth quarter of 2014. The increase was primarily driven by the fair value adjustment on Class B Limited Partnership units.

Adjusted Funds from Operations[(2)] Adjusted funds from operations[(2)] were $82 million in the fourth quarter of 2015, an increase of $8 million compared to the fourth quarter of 2014, primarily driven by higher contributions from property operations.

Other Matters In the fourth quarter of 2015, Choice Properties acquired four properties from the Company for a purchase price of approximately $45 million, excluding acquisition costs, for consideration of $31 million in cash and issuance of 1,294,701 Class B Limited Partnership units.

Subsequent to the end of 2015, Choice Properties entered into certain bond forward contracts with a notional value of $300 million. In addition, Choice Properties issued an early redemption notice for the $300 million Series 5 senior unsecured debenture at par, effective March 7, 2016.

10. Disclosure Controls and Procedures

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

As required by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Executive Chairman, as Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at January 2, 2016.

11. Internal Control over Financial Reporting

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

As required by NI 52-109, the Executive Chairman, as CEO, and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control – Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at January 2, 2016.

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

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal control over financial reporting in the fourth quarter of 2015 that materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

12. Enterprise Risks and Risk Management

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

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

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

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

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

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

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

12.1 Operating Risks and Risk Management

The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Company's business, as included in the Company's Annual Information Form for the year ended January 2, 2016, which is hereby incorporated by reference:

Healthcare Reform	Franchisee Relationships
Cyber Security and Data Breaches	Labour Relations
IT Systems Implementations and Data Management	Regulatory and Tax
Inventory Management	Legal Proceedings
Shoppers Drug Mart Enterprise Harmonization and Synergies	Competitive Environment

Healthcare Reform With the acquisition of Shoppers Drug Mart, the Company is reliant on prescription drug sales for a more significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

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

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

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

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

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

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

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

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

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

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

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

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

IT Systems Implementations and Data Management The Company continues to undertake a major upgrade of its IT infrastructure. Completing the IT systems deployment will require continued focus and investment. Failure to successfully migrate from legacy systems to the new IT systems or a significant disruption in the Company's current IT systems during the implementation of the new systems could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses. The Company also depends on relevant and reliable information to operate its business. As the volume of data being generated and reported continues to increase across the Company, data accuracy, quality and governance are required for effective decision making.

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

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

Shoppers Drug Mart Enterprise Harmonization and Synergies The successful implementation of the Shoppers Drug Mart acquisition requires significant effort on the part of management of the Company. Ineffective change management practices and harmonization decisions could cause disruptions to operations or may negatively impact colleague engagement. Management attention will be required in order to successfully achieve the appropriate culture transformation, growth opportunities and cost efficiencies envisioned in the acquisition. Failure to successfully execute enterprise harmonization or to realize the anticipated strategic benefits or operational, competitive and cost synergies associated with this acquisition could adversely affect the reputation, operations or financial performance of the Company.

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

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

Relationships with franchisees could pose significant risks if they are disrupted, which could negatively affect the reputation, operations and financial performance of the Company. Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchised store operations and could result in negative effects on the financial performance of franchisees. Reputational damage or adverse consequences for the Company, including litigation and disruption to revenue from franchised stores, could result.

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

Regulatory and Tax The Company is subject to a wide variety of laws and regulations across all countries in which it does business, including those laws involving product liability, labour and employment, anti-trust and competition, intellectual property, privacy, environmental and other matters. The Company is subject to taxation by various taxation authorities in Canada and a number of foreign jurisdictions. Changes to any of the laws, rules, regulations or policies (collectively, "laws") applicable to the Company's business, including tax laws, and laws affecting the production, processing, preparation, distribution, packaging and labelling of food, health and wellness, including pharmaceuticals, or general merchandise products, could have an adverse impact on the operational or financial performance of the Company.

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

The Company is subject to tax audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, taxing 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. These reassessments could have a material impact on the Company.

During the second quarter of 2015, the Company was reassessed by the CRA and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments were for the 2000 to 2010 taxation years totaling $341 million including interest and penalties as at the time of reassessment. The Company believes it is likely that the CRA will issue reassessments for the 2011 to 2013 taxation years on the same or similar basis. The Company strongly disagrees with the CRA's position and has filed a Notice of Appeal. No amount for any reassessments has been provided for in the Company's consolidated financial statements. If the CRA were to ultimately prevail with respect to the proposed reassessment or if the CRA were to successfully pursue other reassessments, the outcome could have a material negative impact on the Company's reputation, results of operations and financial position in the year(s) of resolution.

As part of the review undertaken by the Competition Bureau of the Company's acquisition of Shoppers Drug Mart, it expressed concerns about practices that the Company has in place with certain suppliers. In connection with this review, the Competition Bureau issued requests for documents from the Company and 12 suppliers of the Company. The Company has and will continue to cooperate with the Competition Bureau in its review of these practices. At this stage of the review, it is not possible to predict when the review will be completed or the outcome of such review. If the Competition Bureau is not satisfied that the Company's practices satisfy the Competition Bureau's objectives of maintaining competitive markets, then the Competition Bureau may pursue remedies that could have a negative material impact on the Company's reputation, results of operations and financial position.

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%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio effective January 1, 2015. As at the end of 2015 and throughout the year, PC Bank has met all applicable regulatory requirements.

In 2014, OSFI released the final Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio ("LCR") standard effective January 1, 2015. As at the end of 2015, PC Bank was in compliance with the LCR standard.

Choice Properties is currently classified as a "unit trust" and a "mutual fund trust" under the Income Tax Act. It also qualifies for the Real Estate Investment Trust Exception under the Income Tax Act and as such is not subject to specified investment flow through rules. There can be no assurance that the Canadian federal income tax laws will not be changed in a manner which adversely affects Choice Properties. If Choice Properties ceases to qualify for these and other classifications and exceptions, the taxation of Choice Properties and unitholders, including Loblaw, could be materially adversely different in certain respects, which could in turn materially adversely affect the trading price of the Units.

Legal Proceedings From time to time, the Company is involved in and subject to legal proceedings, including class actions and other proceedings, regarding commercial relationships, employment matters, product liability, personal injury claims, protection of intellectual property and other matters. The proceedings involve suppliers, Associates, franchisees, regulators, tax authorities or other persons. The potential outcome of litigation proceedings and claims is uncertain. Some of these proceedings could result in a material adverse effect on the Company's reputation, results of operation or financial performance.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice 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 the class action is without merit and intends to vigorously defend itself against any claims arising out of any such action.

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 Ontario Superior Court of Justice certified as a class proceeding portions of the action. The Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. While Shoppers Drug Mart continues to believe that the claim is without merit and will vigorously defend the claim, the outcome of this matter cannot be predicted with certainty.

Competitive Environment The retail industry in Canada is highly competitive. The Company competes against a wide variety of retailers including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, online retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drug store and general merchandise. Others remain focused on supermarket-type merchandise. In addition, the Company is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery and retail drug store markets. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and reduced profitability. If the Company is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be adversely affected. The Company closely monitors its competitors and their strategies, market developments and market share trends. Failure by the Company to sustain its competitive position could adversely affect the Company's financial performance.

12.2 Financial Risks and Risk Management

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

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

Liquidity	Credit
Commodity Prices	Choice Properties' Unit Price
Foreign Currency Exchange Rates	Interest Rate Risk

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

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

Foreign Currency Exchange Rates The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated based 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.

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.

Choice Properties mitigates the risk of credit loss relating to rent receivables by evaluating the creditworthiness of new tenants, obtaining security deposits wherever permitted by legislation, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Loblaw. Choice Properties establishes an allowance for doubtful accounts that represents the estimated losses with respect to rents receivable. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

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.

Choice Properties' Unit Price The Company is exposed to market price risk as a result of Choice Properties' Units that are held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheet as they are redeemable for cash at the option of the holder. The liability is recorded at fair value at each reporting period based on the market price of Units. The change in the fair value of the liability negatively impacts net earnings when the Unit price increases and positively impacts net earnings when the Unit price declines.

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

13. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 46% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies that he controls, including Wittington Investments, Limited ("Wittington"), which owns a total of 80,769,249 of Weston's common shares, representing approximately 63% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,096,189 of the Company's common shares, representing approximately 1% of the Company's outstanding common shares. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions with Related Parties:

	Transaction Value	
(millions of Canadian dollars)	**2015 (52 weeks)**	2014 (53 weeks)
Included in Cost of Merchandise Inventories Sold		
Inventory purchases from a subsidiary of Weston	**$ 642**	$ 615
Inventory purchases from a related party[(i)]	**25**	24
Operating Income		
Cost sharing agreements with Parent[(ii)]	**$ 27**	$ 20
Net administrative services provided by Parent[(iii)]	**23**	18
Choice Properties distributions to Parent[(iv)]	**14**	14
Lease of office space from a subsidiary of Wittington	**3**	3

(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 January 2, 2016 was $2 million (January 3, 2015 – $3 million).

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

(iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information system, 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) Weston is a unitholder of Choice Properties and is entitled to receive distributions declared by the trust. Unitholders who elect to participate in the Choice Properties Distribution Reinvestment Plan ("DRIP") receive a further distribution, payable in Units, equal in value to 3% of each cash distribution. In 2015, Choice Properties issued 1,317,405 Units (2014 – 1,306,847 Units) to Weston under its DRIP at a weighted average price of $10.86 (2014 – $10.30) per Unit.

The net balances due to Weston are comprised as follows:

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Trade payables and other liabilities	**$ 3**	$ 7

Joint Venture In 2014, a joint venture, formed between Choice Properties and Wittington, completed the acquisition of property from Loblaw. The joint venture intends to develop the acquired site into a mixed-used property, anchored by a Loblaw food store. As at January 2, 2016, the joint venture did not have any operating activity. Choice Properties uses the equity method of accounting to record its 40% interest in the joint venture, which is included in other assets.

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. In 2015, these elections and accompanying agreements did not have a material impact on the Company.

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)	**2015 (52 weeks)**	2014 (53 weeks)
Salaries, director fees and other short term employee benefits	**$ 6**	$ 9
Equity-based compensation	**4**	3
Total compensation	**$ 10**	$ 12

14. Critical Accounting Estimates and Judgments

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

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

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

14.1 Consolidation

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

14.2 Inventories

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

14.3 Impairment of Non-Financial Assets (Goodwill, Intangible Assets, Fixed Assets and Investment Properties)

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

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

14.4 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 determining these fair values 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.

14.5 Customer Loyalty Awards Programs

Key Sources of Estimation The Company defers revenue equal to the fair value of the award points earned by loyalty program members at the time of award. The Company determines fair value using such estimates as breakage (the amount of points that will never be redeemed) and the estimated retail value per point on redemption. The estimated fair value per point is based on the program reward schedule, which for the *PC* points and *PC Plus* programs is $1 for every 1,000 points. For the *Shoppers Optimum* program, the estimated fair value is determined based on the expected weighted average redemption levels for future redemptions, including special redemption events. Breakage rates are primarily based on historical redemption experience. The trends in breakage are reviewed on an ongoing basis and the estimated retail value per point is adjusted based on expected future activity.

14.6 Income and Other Taxes

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

14.7 Segment Information

Judgments Made in Relation to Determining the Aggregation of Operating Segments The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. The Retail reportable operating segment consists of several operating segments comprised primarily of food retail and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, 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 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.

15. Accounting Standards

15.1 Changes to Significant Accounting Policies

Intangible Assets The classification of software costs requires judgment to determine whether such costs should be classified as fixed assets or intangible assets. Management has reviewed the classification of the Company's software costs, primarily related to the implementation of its IT systems, and has determined that it would be appropriate to present certain costs as intangible assets. The Company implemented the change retrospectively in the first quarter of 2015, with the following impact:

Consolidated Balance Sheet

Increase (Decrease) (millions of Canadian dollars)	As at January 3, 2015
Fixed Assets	$ (498)
Intangible Assets	498

In addition, the Company reassessed and revised the useful life of its new IT systems from five to seven years. This revision represents a change in estimate resulting in a current year reduction of depreciation and amortization expense, related to these assets, of approximately $34 million compared to 2014.

15.2 Future Accounting Standards

In 2016, the International Accounting Standards Board ("IASB") issued IFRS 16, "Leases" ("IFRS 16"), replacing International Accounting Standards ("IAS") 17, "Leases" 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. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In 2014, the IASB issued IFRS 15, replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. The new standard 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 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In 2014, the IASB issued IFRS 9, "Financial Instruments", replacing IAS 39, "Financial Instruments: Recognition and Measurement", and related interpretations. The standard had three main phases: classification and measurement, impairment, and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the exception of the general hedging phase which is applied prospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In 2014, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016, and therefore the Company will apply these amendments in the first quarter of 2016. The Company does not expect any material impact on its financial statement disclosures as a result of adopting these amendments.

16. Outlook[6]

Loblaw remains focused on its strategic framework, delivering the best in food, best in health and beauty, operational excellence and growth. This strategic framework is supported by a financial strategy of maintaining a stable trading environment that targets positive same-store sales and stable gross margin; surfacing efficiencies; delivering synergies as a result of its acquisition of Shoppers Drug Mart; and returning capital to shareholders. In 2016, the Company expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive grocery market and with continued negative pressure from healthcare reform;
- grow adjusted net earnings;
- invest approximately $1.3 billion in capital expenditures, including $1.0 billion in its Retail segment; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

17. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment adjusted gross profit, Retail segment adjusted gross profit percentage, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted net interest expense and other financing charges, adjusted income taxes, adjusted income tax rate, adjusted net earnings, adjusted basic net earnings per common share, free cash flow, adjusted return on equity and adjusted return on capital and with respect to Choice Properties: adjusted funds from operations. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

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

Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage Retail segment adjusted gross profit percentage is calculated as adjusted Retail segment gross profit divided by Retail segment sales. The Company believes that Retail segment adjusted gross profit is useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)	**2015** **(12 weeks)**	2014 (13 weeks)	**2015** **(52 weeks)**	2014 (53 weeks)
Retail segment gross profit	**$ 2,794**	$ 2,925	**$ 11,689**	$ 9,734
Add impact of the following:				
Impairment of Drug retail ancillary assets held for sale	**46**	—	**46**	—
Charge related to apparel inventory	**—**	—	**8**	—
Charge related to inventory measurement and other conversion differences	**4**	—	**4**	190
Recognition of fair value increment on inventory sold	**—**	69	**—**	798
Retail segment adjusted gross profit	**$ 2,844**	$ 2,994	**$ 11,747**	$ 10,722

Impairment of Drug retail ancillary assets held for sale In fourth quarter of 2015 and year-to-date, the Company commenced actively marketing the sale of certain assets of its Shoppers ancillary healthcare businesses. As a result, the Company recorded a charge of $112 million associated with the write-down of the assets and other related restructuring charges. Of this amount, $46 million was recognized in gross profit and $66 million was recognized in SG&A.

Charge related to apparel inventory In 2015, the Company entered into an agreement to liquidate, in the U.S., certain older Canadian apparel inventory and recorded a charge of $8 million (2014 – nil).

Charge related to inventory measurement and other conversion differences for the Company's corporate and franchise grocery stores As of the end of 2015, the Company had completed the conversion of all of its franchised grocery stores to the new IT systems that include a perpetual inventory system. The re-measurement of inventory owned by the franchises as a result of implementing the system resulted in a decrease in inventory value of $33 million. The re-measurement resulted in a charge of $4 million in gross profit related to consolidated franchises and $29 million to SG&A related to non-consolidated franchises in the fourth quarter and year-to-date. During 2014, the Company completed the same conversion of its corporate grocery locations and associated distribution centres, resulting in a decrease of $190 million in inventory value and a charge of $190 million in gross profit.

Recognition of fair value increment on inventory sold In connection with the acquisition of Shoppers Drug Mart in 2014, acquired assets and liabilities were recorded on the Company's consolidated balance sheet at their fair value. This resulted in a fair value adjustment to Shoppers Drug Mart inventory on the date of acquisition representing the difference between inventory cost and its fair value. This difference was recognized in cost of sales as the inventory was sold, with a resulting negative impact on gross profit. In the fourth quarter of 2014, $69 million and year-to-date $798 million was recognized in gross profit and operating income, representing the full amount of the fair value adjustment.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA"), adjusted EBITDA and adjusted operating income to operating income, which is reconciled to GAAP net earnings measures reported in the consolidated statements of earnings for the periods ended January 2, 2016 and January 3, 2015. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

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

					2015 (12 weeks)					2014 (13 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services[4]**	**Choice Properties[4]**	**Consolidation and Eliminations**	**Consolidated**	Retail	Financial Services[4]	Choice Properties[4]	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 131**					$ 247
Add (deduct) impact of the following:										
Non-Controlling Interests					**(4)**					—
Net interest expense and other financing charges					**141**					169
Income taxes					**48**					91
Operating income	**$ 265**	**$ 48**	**$ 224**	**$ (221)**	**$ 316**	$ 459	$ 49	$ 223	$ (224)	$ 507
Depreciation and amortization	**369**	**3**	**—**	**4**	**376**	388	2	—	3	393
EBITDA	**$ 634**	**$ 51**	**$ 224**	**$ (217)**	**$ 692**	$ 847	$ 51	$ 223	$ (221)	$ 900
Operating income	**$ 265**	**$ 48**	**$ 224**	**$ (221)**	**$ 316**	$ 459	$ 49	$ 223	$ (224)	$ 507
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**124**	**—**	**—**	**—**	**124**	124	—	—	—	124
Impairment of Drug retail ancillary assets held for sale	**112**	**—**	**—**	**—**	**112**	—	—	—	—	—
Labour agreements	**55**	**—**	**—**	**—**	**55**	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	**33**	**—**	**—**	**—**	**33**	—	—	—	—	—
Fixed asset and other related impairments, net of recoveries	**4**	**—**	**—**	**—**	**4**	1	—	—	—	1
Modifications to certain franchise fee arrangements	**(8)**	**—**	**—**	**—**	**(8)**	(40)	—	—	—	(40)
Pension annuities and buy-outs	**6**	**—**	**—**	**—**	**6**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(6)**	**—**	**—**	**—**	**(6)**	4	—	—	—	4
Restructuring and other related costs	**(7)**	**—**	**—**	**—**	**(7)**	—	—	—	—	—
Recognition of fair value increment on inventory sold	**—**	**—**	**—**	**—**	**—**	69	—	—	—	69
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	**—**	**—**	**—**	**—**	14	—	—	—	14
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**—**	**—**	**—**	**—**	**—**	2	—	—	—	2
Adjusted operating income	**$ 578**	**$ 48**	**$ 224**	**$ (221)**	**$ 629**	$ 633	$ 49	$ 223	$ (224)	$ 681
Depreciation and amortization	**369**	**3**	**—**	**4**	**376**	388	2	—	3	393
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(124)**	**—**	**—**	**—**	**(124)**	(124)	—	—	—	(124)
Adjusted EBITDA	**$ 823**	**$ 51**	**$ 224**	**$ (217)**	**$ 881**	$ 897	$ 51	$ 223	$ (221)	$ 950

(millions of Canadian dollars)	2015 (52 weeks) Retail	Financial Services[4]	Choice Properties[4]	Consolidation and Eliminations	Consolidated	2014 (53 weeks) Retail	Financial Services[4]	Choice Properties[4]	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					$ 632					$ 53
Add (deduct) impact of the following:										
Non-Controlling Interests					(9)					—
Net interest expense and other financing charges					644					584
Income taxes					334					25
Operating income	$1,429	$ 163	$ 601	$ (592)	$ 1,601	$ 497	$ 164	$ 568	$ (567)	$ 662
Depreciation and amortization	1,567	10	1	14	1,592	1,453	7	—	12	1,472
EBITDA	$2,996	$ 173	$ 602	$ (578)	$ 3,193	$ 1,950	$ 171	$ 568	$ (555)	$ 2,134
Operating income	$1,429	$ 163	$ 601	$ (592)	$ 1,601	$ 497	$ 164	$ 568	$ (567)	$ 662
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	536	—	—	—	536	417	—	—	—	417
Restructuring and other related costs	154	—	—	—	154	44	—	2	—	46
Impairment of Drug retail ancillary assets held for sale	112	—	—	—	112	—	—	—	—	—
Labour agreements	55	—	—	—	55	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	33	—	—	—	33	190	—	—	—	190
Fixed asset and other related impairments, net of recoveries	13	—	—	—	13	15	—	1	—	16
Fair value adjustment on fuel and foreign currency contracts	(21)	—	—	—	(21)	4	—	—	—	4
Modifications to certain franchise fee arrangements	(8)	—	—	—	(8)	(40)	—	—	—	(40)
Charge related to apparel inventory	8	—	—	—	8	—	—	—	—	—
Pension annuities and buy-outs	8	—	—	—	8	—	—	—	—	—
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	2	—	—	—	2	72	—	—	—	72
Recognition of fair value increment on inventory sold	—	—	—	—	—	798	—	—	—	798
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	—	—	—	—	—	7	—	—	—	7
Adjusted operating income	$2,321	$ 163	$ 601	$ (592)	$ 2,493	$ 2,004	$ 164	$ 571	$ (567)	$ 2,172
Depreciation and amortization	1,567	10	1	14	1,592	1,453	7	—	12	1,472
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(536)	—	—	—	(536)	(417)	—	—	—	(417)
Adjusted EBITDA	$3,352	$ 173	$ 602	$ (578)	$ 3,549	$ 3,040	$ 171	$ 571	$ (555)	$ 3,227

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. During the fourth quarter of 2015, $124 million (2014 – $124 million) and year-to-date of $536 million (2014 – $417 million) of amortization was recognized in SG&A. Annual amortization associated with the acquired intangibles will be approximately $550 million over the next nine years, and will decrease thereafter.

Restructuring and other related costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. In addition to these ongoing initiatives, during 2015, the Company announced the closure of certain unprofitable retail locations, as set out in Section 6.1 "Retail Segment – Other Retail Business Matters".

Labour agreements Over the past five years, the Company has been transitioning stores to more cost effective and efficient operating terms under collective agreements. During the fourth quarter of 2015, the Company recorded a charge of $55 million related to the completion of these agreements.

Fixed asset and other related impairments, net of recoveries At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets. In the fourth quarter of 2015, the Company recorded $4 million (2014 – $1 million) and year-to-date $13 million (2014 – $16 million) related to net fixed asset and other related impairments.

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. In the fourth quarter of 2015, the Company recorded a net fair value gain on fuel and foreign currency contracts of $6 million (2014 – loss of $4 million) and a year-to-date gain of $21 million (2014 – loss of $4 million). Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

Modifications to certain franchise fee arrangements The Company modified its fee arrangements with franchisees of certain franchise banners. As a result of this modification, the Company re-evaluated the recoverable amount of franchise-related financial instruments and the related previously recorded impairment. In the fourth quarter of 2015 and year-to-date, the Company recorded a reduction in previously recorded impairment of $8 million (2014 – $40 million).

Pension annuities and buy-outs In 2015, the Company completed several annuity purchases and pension buy-outs in respect of former employees designed to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks. In the fourth quarter of 2015 and year-to-date, the Company recorded a charge of $6 million (2014 – nil) and $8 million (2014 – nil), respectively.

Shoppers Drug Mart acquisition-related costs, net of impact from divestitures In the first quarter of 2015, the Company completed all divestitures required by the Competition Bureau and recorded a divestiture loss of $2 million. In the fourth quarter and year-to-date of 2014, the Company recorded net divestiture losses of $14 million and $12 million, respectively. Also during 2014, the Company incurred acquisition costs of $60 million year-to-date related to the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart.

Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability In the second quarter of 2014, in conjunction with the acquisition, the Company converted certain Shoppers Drug Mart cash-settled equity-based compensation awards to cash-settled awards based on the Company's common shares. The Company is exposed to market price fluctuations in its common share price as these awards are settled in cash and the associated liability is recorded at fair value at each reporting date based on the market price of the Company's common share. In the fourth quarter and year-to-date 2014, the Company recorded a loss of $2 million and $7 million, respectively. On November 10, 2014, the Company amended these compensation awards to be settled in shares and is no longer exposed to market price fluctuations.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges in the consolidated statements of earnings for the periods ended January 2, 2016 and January 3, 2015. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Net interest expense and other financing charges	**$ 141**	$ 169	**$ 644**	$ 584
Deduct impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(7)**	(20)	**(81)**	(17)
Accelerated amortization of deferred financing costs	**—**	(5)	**(15)**	(23)
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	—	**—**	(15)
Adjusted net interest expense and other financing charges	**$ 134**	$ 144	**$ 548**	$ 529

Fair value adjustment to the Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Units held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheet as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting date based on the market price of Units at the end of each period. In the fourth quarter of 2015, the Company recorded a loss of $7 million (2014 – loss of $20 million) and year-to-date a loss of $81 million (2014 – loss of $17 million) related to the fair value adjustment to the Trust Unit Liability. An increase (decrease) in market price of Units results in a charge (income) to net interest expense and other financing charges.

Accelerated amortization of deferred financing costs The Company recorded charges related to accelerated amortization of deferred financing costs due to the early repayments of the Acquisition Term Loan. In the fourth quarter and year-to-date, the Company recorded accelerated amortization charges of nil (2014 – $5 million) and $15 million (2014 – $23 million).

Shoppers Drug Mart acquisition-related costs, net of impact from divestitures In addition to the acquisition-related costs and divestitures loss recorded in operating income noted above, during the first quarter of 2014, $15 million of additional net interest expense was incurred in connection with the financing related to the acquisition of Shoppers Drug Mart. As of the acquisition date, these costs are no longer excluded from adjusted net interest expense and other financing charges as they are part of ongoing operations.

Adjusted Income Taxes and Adjusted Income Tax Rate The Company believes adjusted income taxes is useful in assessing the underlying operating performance and in making decisions regarding the ongoing operations of its business.

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Adjusted operating income(i)	**$ 629**	$ 681	**$ 2,493**	$ 2,172
Adjusted net interest expense and other financing charges(i)	**134**	144	**548**	529
Adjusted earnings before taxes	**$ 495**	$ 537	**$ 1,945**	$ 1,643
Income taxes	**$ 48**	$ 91	**$ 334**	$ 25
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(ii)	**85**	50	**229**	401
Provincial statutory corporate income tax rate change	**—**	—	**(38)**	—
Adjusted income taxes	**$ 133**	$ 141	**$ 525**	$ 426
Effective tax rate	**27.4%**	26.9%	**34.9%**	32.1%
Adjusted income tax rate	**26.9%**	26.3%	**27.0%**	25.9%

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

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

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

Provincial statutory corporate income tax rate change In the second quarter of 2015, the government of Alberta announced an increase in the provincial corporate income tax rate from 10% to 12%. The increase was effective July 1, 2015, but was enacted on June 19, 2015. As a result, the Company recorded a charge of $38 million in the second quarter of 2015 and year-to-date related to the re-measurement of its deferred tax liabilities.

Adjusted Net Earnings and Adjusted Basic Net Earnings Per Common Share The Company believes adjusted net earnings and adjusted basic net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

The following table reconciles adjusted basic net earnings per common share to GAAP basic net earnings per common share as reported for the periods ended January 2, 2016 and January 3, 2015:

($)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Basic net earnings per common share	**$ 0.31**	$ 0.60	**$ 1.52**	$ 0.14
Add (deduct) impact of the following:				
Amortization of intangible assets acquired with Shoppers Drug Mart	**0.22**	0.22	**0.96**	0.80
Restructuring and other related costs	**(0.01)**	—	**0.31**	0.09
Impairment of Drug retail ancillary assets held for sale	**0.20**	—	**0.20**	—
Fair value adjustment to the Trust Unit Liability(i)	**0.01**	0.05	**0.20**	0.04
Labour agreements	**0.10**	—	**0.10**	—
Provincial statutory corporate income tax rate change	**—**	—	**0.09**	—
Charge related to inventory measurement and other conversion differences	**0.06**	—	**0.06**	0.37
Fixed asset and other related impairments, net of recoveries	**0.01**	—	**0.02**	0.04
Fair value adjustment on fuel and foreign currency contracts	**(0.01)**	0.01	**(0.04)**	0.01
Modifications to certain franchise fee arrangements	**(0.02)**	(0.07)	**(0.02)**	(0.08)
Accelerated amortization of deferred financing costs	**—**	0.01	**0.03**	0.04
Charge related to apparel inventory	**—**	—	**0.02**	—
Pension annuities and buy-outs	**0.01**	—	**0.01**	—
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	0.02	**—**	0.19
Recognition of fair value increment on inventory sold	**—**	0.12	**—**	1.55
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**—**	—	**—**	0.01
Adjusted basic net earnings per common share	**$ 0.88**	$ 0.96	**$ 3.46**	$ 3.20
Weighted average common shares outstanding (millions)	**410.7**	412.0	**411.5**	380.5
Adjusted net earnings attributable to shareholders of the Company (millions of Canadian dollars)	**$ 366**	$ 396	**$ 1,429**	$ 1,217
Less: Prescribed dividends on preferred shares in share capital (millions of Canadian dollars)	**(3)**	—	**(7)**	—
Adjusted net earnings available to common shareholders of the Company (millions of Canadian dollars)	**363**	396	**1,422**	1,217

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

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the periods ended January 2, 2016 and January 3, 2015. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

(millions of Canadian dollars)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Cash flows from operating activities	**$ 564**	$ 952	**$ 3,079**	$ 2,569
Less:				
Capital investments	**433**	400	**1,241**	1,086
Interest paid	**95**	113	**491**	506
Free cash flow	**$ 36**	$ 439	**$ 1,347**	$ 977

Choice Properties' Adjusted Funds from Operations The following table reconciles Choice Properties' adjusted funds from operations to GAAP measures for the periods ended January 2, 2016 and January 3, 2015. The Company believes adjusted funds from operations is useful in measuring economic performance and is indicative of Choice Properties' ability to pay distributions.

(millions of Canadian dollars)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Net income (loss)	**$ 41**	$ 87	**$ (155)**	$ 200
Fair value adjustment on Class B Limited Partnership units	**96**	51	**411**	(12)
Fair value adjustment on investment properties	**(88)**	(98)	**(72)**	(82)
Fair value adjustments on unit-based compensation	**—**	—	**1**	(1)
Distributions on Class B Limited Partnership units	**52**	50	**203**	191
Amortization of tenant improvement allowances	**—**	—	**—**	1
Internal expenses for leasing	**—**	—	**1**	—
Funds from Operations	**$ 101**	$ 90	**$ 389**	$ 297
Restructuring	**$ —**	$ —	**$ —**	$ 2
Straight-line rental revenue	**(10)**	(9)	**(37)**	(35)
Amortization of finance charges	**—**	—	**(1)**	50
Unit-based compensation expense	**—**	—	**2**	2
Sustaining property and leasing capital expenditures, normalized(i)	**(9)**	(7)	**(40)**	(31)
Adjusted Funds from Operations	**$ 82**	$ 74	**$ 313**	$ 285

(i) Seasonality impacts the timing of capital expenditures. The adjusted funds from operations calculation has been adjusted for this factor to make the quarters more comparable.

18. Additional Information

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

February 24, 2016
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120 of the Company's 2015 Annual Report.

(2) See Section 17 "Non-GAAP Financial Measures".

(3) Certain 2014 figures have been restated to conform with the current year's presentation. See Section 15.1 "Changes to Significant Accounting Policies" and Section 17 "Non-GAAP Financial Measures".

(4) For segment presentation purposes, the results are for the periods ended December 31, 2015 and December 31, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to January 2, 2016 and January 3, 2015 are included in Consolidation and Eliminations. See Section 17 "Non-GAAP Financial Measures" and Note 36 "Segment Information" in the Company's 2015 consolidated financial statements.

(5) The Company's comparative results were negatively impacted by the inclusion of an additional selling week, the 53rd week in 2014. The 53rd week resulted in the following impacts to the Company's 2014 fourth quarter and full year results: $789 million of higher retail sales, $71 million of higher EBITDA, and estimated impacts on net earnings and basic net earnings per common share of $52 million and $0.13 per share, respectively. The impact of the 53rd week on net earnings available to common shareholders of the Company is estimated based on operating income of the 53rd week and applying the effective tax rate for the fourth quarter of 2014. The impact of the 53rd week on basic net earnings per common share is based on the estimated net earnings available to common shareholders of the Company divided by the weighted average common shares outstanding for the fourth quarter and year-to-date of 2014, as applicable.

(6) To be read in conjunction with Section 1 "Forward-Looking Statements".

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 ("Annual Report"). 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 is consistent with that in the consolidated financial statements.

Management is also responsible to provide 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 based on the review and recommendation of the Audit Committee.

Toronto, Canada
February 24, 2016

[signed]
Galen G. Weston
Executive Chairman and President

[signed]
Richard Dufresne
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:

We have audited the accompanying consolidated financial statements of Loblaw Companies Limited, which comprise the consolidated balance sheets as at January 2, 2016 and January 3, 2015, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the 52 and 53 week years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Loblaw Companies Limited as at January 2, 2016 and January 3, 2015, and its consolidated financial performance and its consolidated cash flows for the 52 and 53 week years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
February 24, 2016

Consolidated Statements of Earnings

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015		2014
Revenue	**$**	**45,394**	$	42,611
Cost of Merchandise Inventories Sold		**32,846**		32,063
Selling, General and Administrative Expenses		**10,947**		9,886
Operating Income	**$**	**1,601**	$	662
Net interest expense and other financing charges (note 6)		**644**		584
Earnings Before Income Taxes	**$**	**957**	$	78
Income taxes (note 7)		**334**		25
Net Earnings	**$**	**623**	$	53
Attributable to:				
Shareholders of the Company	**$**	**632**	$	53
Non-Controlling Interests		**(9)**		—
Net Earnings	**$**	**623**	$	53
Net Earnings per Common Share ($) (note 8)				
Basic	**$**	**1.52**	$	0.14
Diluted	**$**	**1.51**	$	0.14
Weighted Average Common Shares Outstanding (millions) (note 8)				
Basic		**411.5**		380.5
Diluted		**415.2**		384.4

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)		**2015**		2014
Net Earnings	**$**	**623**	$	53
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gain	**$**	**14**	$	8
Unrealized gain on cash flow hedges (note 30)		**1**		—
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 27)		**143**		(46)
Other comprehensive income (loss)	**$**	**158**	$	(38)
Total Comprehensive Income	**$**	**781**	$	15
Attributable to:				
Shareholders of the Company	$	790	$	15
Non-Controlling Interests		(9)		—
Total Comprehensive Income	**$**	**781**	$	15

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Preferred Share Capital	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance at January 3, 2015	**$ —**	**$ 7,857**	**$ 4,810**	**$ 104**	**$ 8**	**$ 8**	**$ 12,787**
Net earnings (loss)	**$ —**	**$ —**	**$ 632**	**$ —**	**$ —**	**$ (9)**	**$ 623**
Other comprehensive income	**—**	**—**	**143**	**—**	**15**	**—**	**158**
Total Comprehensive Income (Loss)	**$ —**	**$ —**	**$ 775**	**$ —**	**$ 15**	**$ (9)**	**$ 781**
Preferred share issuance (note 24)	**221**	**—**	**—**	**—**	**—**	**—**	**221**
Common shares purchased and cancelled (note 24)	**—**	**(83)**	**(197)**	**—**	**—**	**—**	**(280)**
Net effect of equity-based compensation (notes 24 and 26)	**—**	**84**	**(11)**	**(2)**	**—**	**—**	**71**
Shares purchased and held in trust (note 24)	**—**	**(19)**	**(44)**	**—**	**—**	**—**	**(63)**
Shares released from trust (notes 24 and 26)	**—**	**12**	**37**	**—**	**—**	**—**	**49**
Dividends declared per common share – \$0.995 (note 24)	**—**	**—**	**(409)**	**—**	**—**	**—**	**(409)**
Dividends declared per preferred share – \$0.74 (note 24)	**—**	**—**	**(7)**	**—**	**—**	**—**	**(7)**
Contribution from non-controlling interests (note 5)	**—**	**—**	**—**	**—**	**—**	**14**	**14**
	$ 221	**$ (6)**	**$ 144**	**$ (2)**	**$ 15**	**$ 5**	**$ 377**
Balance at January 2, 2016	**$ 221**	**$ 7,851**	**$ 4,954**	**$ 102**	**$ 23**	**$ 13**	**$ 13,164**

(millions of Canadian dollars except where otherwise indicated)	Preferred Share Capital	Common Share Capital	Retained Earnings	Contributed Surplus	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance at December 28, 2013	$ —	$ 1,642	$ 5,271	$ 87	$ —	$ —	$ 7,000
Net earnings	$ —	$ —	$ 53	$ —	$ —	$ —	$ 53
Other comprehensive (loss) income	—	—	(46)	—	8		(38)
Total Comprehensive Income	$ —	$ —	$ 7	$ —	$ 8	$ —	$ 15
Acquisition of Shoppers Drug Mart Corporation (notes 5 and 24)	—	6,119	—	—	—	—	6,119
Common shares purchased and cancelled (note 24)	—	(63)	(115)	—	—	—	(178)
Net effect of equity-based compensation (notes 24 and 26)	—	156	(1)	17	—	—	172
Shares released from trust (notes 24 and 26)	—	3	19	—	—	—	22
Dividends declared per common share – \$0.975 (note 24)	—	—	(371)	—	—	—	(371)
Contribution from non-controlling interests	—	—	—	—	—	8	8
	$ —	$ 6,215	$ (461)	$ 17	$ 8	$ 8	$ 5,787
Balance at January 3, 2015	$ —	$ 7,857	$ 4,810	$ 104	$ 8	$ 8	$ 12,787

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015[i]
Assets		
Current Assets		
Cash and cash equivalents (note 9)	**$ 1,018**	$ 999
Short term investments (note 9)	**64**	21
Accounts receivable (note 10)	**1,325**	1,209
Credit card receivables (note 11)	**2,790**	2,630
Inventories (note 12)	**4,322**	4,309
Prepaid expenses and other assets	**265**	214
Assets held for sale (note 13)	**71**	23
Total Current Assets	**$ 9,855**	$ 9,405
Fixed Assets (note 14)	**10,480**	10,296
Investment Properties (note 15)	**160**	185
Intangible Assets (note 16)	**9,164**	9,675
Goodwill (note 17)	**3,362**	3,318
Deferred Income Tax Assets (note 7)	**132**	193
Security Deposits (note 9)	**2**	7
Franchise Loans Receivable (note 30)	**329**	399
Other Assets (note 18)	**455**	281
Total Assets	**$ 33,939**	$ 33,759
Liabilities		
Current Liabilities		
Bank indebtedness (note 33)	**$ 143**	$ 162
Trade payables and other liabilities (note 19)	**5,106**	4,774
Provisions (note 21)	**127**	84
Income taxes payable	**82**	34
Short term debt (note 20)	**550**	605
Long term debt due within one year (note 22)	**998**	420
Associate interest	**216**	193
Capital securities (note 24)	**—**	225
Total Current Liabilities	**$ 7,222**	$ 6,497
Provisions (note 21)	**131**	76
Long Term Debt (note 22)	**10,013**	11,042
Trust Unit Liability (note 30)	**821**	722
Deferred Income Tax Liabilities (note 7)	**1,834**	1,853
Other Liabilities (note 23)	**754**	782
Total Liabilities	**$ 20,775**	$ 20,972
Equity		
Preferred Share Capital (note 24)	**$ 221**	$ —
Common Share Capital (note 24)	**7,851**	7,857
Retained Earnings	**4,954**	4,810
Contributed Surplus (note 26)	**102**	104
Accumulated Other Comprehensive Income	**23**	8
Total Equity Attributable to Shareholders of the Company	**$ 13,151**	$ 12,779
Non-Controlling Interests	**13**	8
Total Equity	**$ 13,164**	$ 12,787
Total Liabilities and Equity	**$ 33,939**	$ 33,759

(i) Certain comparative figures have been restated. See note 2 and note 5.

Contingent Liabilities (note 32).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)	2015	2014(i)
Operating Activities		
Net earnings	**$ 623**	$ 53
Adjustments for:		
Income taxes (note 7)	**334**	25
Net interest expense and other financing charges (note 6)	**644**	584
Depreciation and amortization	**1,592**	1,472
Net fixed asset and other related impairments	**73**	16
(Gain) Loss on disposal of assets	**(5)**	3
Recognition of fair value increment on inventory sold (note 12)	**—**	798
Charge related to inventory measurement and other conversion differences (note 12)	**4**	190
	$ 3,265	$ 3,141
Change in non-cash working capital	**235**	(321)
Change in credit card receivables (note 11)	**(160)**	(92)
Income taxes paid	**(296)**	(293)
Interest received	**7**	29
Other	**28**	105
Cash Flows from Operating Activities	**$ 3,079**	$ 2,569
Investing Activities		
Fixed asset purchases	**$ (1,008)**	$ (856)
Intangible asset additions	**(233)**	(230)
Acquisition of Shoppers Drug Mart Corporation, net of cash acquired (note 5)	**—**	(6,619)
Cash assumed on initial consolidation of franchises (note 5)	**33**	—
Change in short term investments (note 9)	**(43)**	269
Proceeds from disposal of assets	**36**	129
Change in security deposits (note 9)	**5**	1,694
Other	**(28)**	(71)
Cash Flows used in Investing Activities	**$ (1,238)**	$ (5,684)
Financing Activities		
Change in bank indebtedness (note 33)	**$ (19)**	$ (133)
Change in short term debt (note 20)	**(55)**	—
Long Term Debt (note 22)		
Issued	**1,186**	5,865
Retired	**(1,783)**	(3,336)
Redemption of Capital Securities	**(225)**	—
Interest paid	**(491)**	(506)
Dividends paid on common and preferred shares (note 24)	**(416)**	(496)
Common Share Capital		
Issued (note 26)	**63**	629
Purchased and held in trust (note 24)	**(63)**	—
Purchased and cancelled (note 24)	**(280)**	(178)
Issuance of Preferred Share Capital (note 24)	**221**	—
Other	**23**	—
Cash Flows (used in) from Financing Activities	**$ (1,839)**	$ 1,845
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 17**	$ 9
Change in cash and cash equivalents	**$ 19**	$ (1,261)
Cash and cash equivalents, beginning of period	**999**	2,260
Cash and Cash Equivalents, End of Period	**$ 1,018**	$ 999

(i) Certain comparative figures have been restated. See note 2 and note 5.

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 and the majority unitholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise and financial 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 46% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited ("Wittington"). The remaining common shares are widely held.

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties (see notes 3 and 36).

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 24, 2016.

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:

- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 27;
- liabilities for cash-settled equity-based compensation arrangements as described in note 26; 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 January 2, 2016 and January 3, 2015 contained 52 weeks and 53 weeks, respectively.

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's 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.

Choice Properties' Trust Units ("Units") held by unitholders other than the Company are presented as a liability as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at January 2, 2016, the Company held an 83.0% ownership interest in Choice Properties.

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

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

Revenue Recognition The Company recognizes revenue when the amount can be reliably measured, when it is probable that future economic benefits will flow to the Company and when specific criteria have been met as described below.

Retail segment revenue includes 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 fair value of the consideration received or receivable, net of estimated returns and sales incentives. The Company recognizes revenue at the time the sale is made or service is delivered to its customers and at the time of delivery of inventory to non-consolidated franchises. Revenue also includes services fees from non-consolidated franchises and independent wholesale account customers, which are recognized when services are rendered.

On the initial sale of franchising arrangements, the Company offered products and services as part of a multiple deliverable arrangement. Prior to the implementation of the new Franchise Agreement, the initial sales to non-consolidated franchise stores were recorded using a relative fair value approach.

Customer loyalty awards are accounted for as a separate component of the sales transaction in which they are granted. A portion of the consideration received in a transaction that includes the issuance of an award is deferred until the awards are ultimately redeemed. The allocation of the consideration to the award is based on an evaluation of the award's estimated fair value at the date of the transaction using the residual fair value method.

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

Choice Properties segment revenue 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. 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 when it relates to a business combination, or items recognized in equity or to other comprehensive income.

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 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 provided 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.

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.

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.

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 assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor's products. 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.

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 recognized at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policies for investment properties are consistent with those described in the significant accounting policy for fixed assets.

Investment properties 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.

Joint Ventures A joint venture is a joint arrangement whereby the parties to the arrangement have rights to the net assets of the joint arrangement. Investments in joint ventures are accounted for using the equity method, where the investment is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the joint venture.

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.

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, 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 are recognized in operating income.

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.

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. Financial instruments, including derivatives and embedded derivatives in certain contracts, upon initial recognition are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, loans and receivables or other financial liabilities. Loans and receivables, and other financial liabilities are subsequently measured at cost or amortized cost. Derivatives and non-financial derivatives must be recorded at fair value on the consolidated balance sheet. 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.

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. Any embedded derivative instruments that may be identified are separated from their host contract and recorded on the consolidated balance sheet at fair value. 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.

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

Asset/Liability	Classification	Measurement
Cash and cash equivalents	Fair value through profit and loss(i)	Fair value
Short term investments	Fair value through profit and loss(i)	Fair value
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
Franchise loans receivable	Loans and receivables	Amortized cost
Certain other assets	Loans and receivables	Amortized cost
Certain long term investments	Available-for-sale	Fair value(iii)
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(ii)	Fair value
Certain other liabilities	Other liabilities	Amortized cost
Capital securities	Other liabilities	Amortized cost
Derivatives	Fair value through profit and loss(ii)	Fair value

(i) Financial instruments designated at fair value through profit and loss.
(ii) Financial instruments required to be classified at fair value through profit and loss.
(iii) Measured at fair value through other comprehensive income until realized through disposal or impairment.

The Company has not classified any financial assets as held-to-maturity.

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, capital securities 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.

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 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.

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 may have a five to ten year term, vest 20% or 33% 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 performance period, ranging from three to five years. 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 less the net present value of the expected dividend stream at the date on which RSUs and PSUs are awarded to each participant.

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 additional awards. 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") 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.

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 the amount payable to employees in respect of these cash settled awards plan is remeasured at each balance sheet date, and a compensation expense is recognized in selling, general and administrative expenses ("SG&A") over the vesting period for each tranche with a corresponding change in the liability.

On the acquisition of Shoppers Drug Mart, the Company converted Shoppers Drug Mart DSUs to Loblaw DSUs. Former directors of Shoppers Drug Mart who continue to serve the Company in the same capacity, now hold converted DSUs that they have previously elected to receive in lieu of director fees. These converted DSUs, which vested upon grant, will be settled in cash based on the market value of the Company's shares on the date the recipient ceases to serve the Company as director. Dividends paid earn fractional DSUs and are treated as additional awards. The fair value of each converted DSU granted is measured based on the market value of a Loblaw common share at the balance sheet date.

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.

Changes to Significant Accounting Policies

Intangible Assets The classification of software costs requires judgment to determine whether such costs should be classified as fixed assets or intangible assets. Management has reviewed the classification of the Company's software costs, primarily related to the implementation of its new information technology ("IT") systems, and has determined that it would be appropriate to present certain costs as intangible assets. The Company implemented the change retrospectively in the first quarter of 2015, with the following impact:

Consolidated Balance Sheet

Increase (Decrease) (millions of Canadian dollars)		As at January 3, 2015
Fixed Assets	$	(498)
Intangible Assets		498

In addition, the Company reassessed and revised the useful life of its new IT systems from five to seven years. This revision represents a change in estimate resulting in a current year reduction of depreciation and amortization expense, related to these assets, of approximately $34 million compared to 2014.

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 entities' returns. The Company consolidates all of its wholly owned subsidiaries. Judgment is applied in determining whether the Company controls the entities in which it does not have ownership rights or does not have full ownership rights. Most often, judgment involves reviewing contractual rights to determine if rights are participating (giving power over the entity) or protective rights (protecting the Company's interest without giving it power).

Inventories

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

Impairment of Non-Financial Assets (Goodwill, Intangible Assets, Fixed Assets and Investment Properties)

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 location is a separate CGU for purposes of fixed asset impairment testing. For the purpose of goodwill and indefinite life intangible impairment testing, CGUs are grouped at the lowest level at which goodwill and intangibles 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.

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 determining these fair values 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 equal to the fair value of the award points earned by loyalty program members at the time of award. The Company determines fair value using such estimates as breakage (the amount of points that will never be redeemed) and the estimated retail value per point on redemption. The estimated fair value per point is based on the program reward schedule, which for the *PC* points and *PC Plus* programs is $1 for every 1,000 points. For the *Shoppers Optimum* program, the estimated fair value is determined based on the expected weighted average redemption levels for future redemptions, including special redemption events. Breakage rates are primarily based on historical redemption experience. The trends in breakage are reviewed on an ongoing basis and the estimated retail value per point is adjusted based on expected future activity.

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, the timing and reversal of temporary differences and possible audits of income tax and other tax filings by the tax authorities.

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 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.

Note 4. Future Accounting Standards

In 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), replacing International Accounting Standards ("IAS") 17, "Leases" 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. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") has been adopted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In 2014, the IASB issued IFRS 15, replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. The new standard 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 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In 2014, the IASB issued IFRS 9, "Financial Instruments", replacing IAS 39, "Financial Instruments: Recognition and Measurement", and related interpretations. The standard had three main phases: classification and measurement, impairment, and general hedging. The standard becomes effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively with the exception of the general hedging phase which is applied prospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

In 2014, the IASB issued amendments to IAS 1, "Presentation of Financial Statements" ("IAS 1 amendments"). The IAS 1 amendments provide guidance on the application of judgment in the preparation of financial statements and disclosures. The IAS 1 amendments are effective for annual periods beginning on or after January 1, 2016, and therefore the Company will apply these amendments in the first quarter of 2016. The Company does not expect any material impact on its financial statement disclosures as a result of adopting these amendments.

Note 5. Business Acquisitions

Acquisition of Shoppers Drug Mart On March 28, 2014, the Company acquired all of the outstanding shares of Shoppers Drug Mart for total consideration of $12,273 million, comprised of approximately $6,600 million of cash and the issuance of approximately 119.5 million common shares of the Company. The Company also issued 10.5 million common shares to Weston for cash that was used in connection with the acquisition of Shoppers Drug Mart.

In the first quarter of 2015, the Company finalized the purchase price allocation and revised its fair value estimate of the *Shoppers Optimum* loyalty program liability retrospective to the date of acquisition. The result increased trade payables and other liabilities by $102 million to $1,026 million, decreased deferred income tax liabilities by $27 million to $2,225 million and increased goodwill by $75 million to $2,360 million. The finalized purchase price allocation is summarized as follows:

(millions of Canadian dollars)

Net Assets Acquired:		
Cash and cash equivalents	$	27
Accounts receivable		534
Inventories		3,003
Prepaid expenses and other assets		67
Fixed assets		1,792
Investment properties		16
Intangible assets		9,440
Goodwill		2,360
Deferred income tax assets		68
Other assets		7
Bank indebtedness		(295)
Trade payables and other liabilities		(1,026)
Income taxes payable		(11)
Associate interest		(174)
Provisions		(19)
Long term debt		(1,127)
Deferred income tax liabilities		(2,225)
Other liabilities		(164)
Total Net Assets Acquired	**$**	**12,273**

In the fourth quarter of 2014, the Company finalized its fair value estimate of intangible assets and updated the purchase price equation. The result was to decrease intangible assets by $35 million and deferred income tax liabilities by $9 million, and increase goodwill by $26 million.

Goodwill is attributable to synergies expected following the integration of Shoppers Drug Mart, improved competitive positioning in the retail market, and future growth of the Company's customer base as a result of the acquisition. The goodwill arising from this acquisition is not deductible for tax purposes.

Intangible assets are comprised of the following:

(millions of Canadian dollars except where otherwise indicated)

Intangible Assets:			**Estimated Useful Life**
Prescription files	$	5,005	11 years
Brands		3,390	indefinite
Shoppers Optimum loyalty program		490	18 years
Other		555	5 to 10 years
Total Intangible Assets	**$**	**9,440**	

Pursuant to a Consent Agreement reached with the Competition Bureau in 2014, the Company was required to divest 16 Shoppers Drug Mart stores, two of the Company's franchise grocery stores, as well as nine of the Company's in-store pharmacy operations. In the first quarter of 2015, the Company met this requirement by completing all required divestitures with the sale of three remaining Shoppers Drug Mart stores. The Company received gross proceeds of $9 million and recorded a loss of $2 million in operating income related to these final divestitures. Since the closing of the acquisition, the Company received gross proceeds of $69 million and recognized a cumulative net divestitures loss of $14 million.

In 2014, the Company incurred costs of $75 million related to the acquisition of Shoppers Drug Mart. Of this amount, $60 million was recorded in SG&A and $15 million was recorded in net interest expense and other financing charges.

Consolidation of Franchises The Company treats the consolidation of existing franchises as business acquisitions. The acquisition date was the date the franchisee entered into a new Franchise Agreement with the Company. The assets acquired and liabilities assumed through the consolidation were 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 were included in the Company's results of operations from the date of acquisition. As at January 2, 2016, the Company has not yet finalized the purchase price allocation related to these acquisitions.

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

(millions of Canadian dollars)		
Net Assets Acquired:		
Cash and cash equivalents	$	33
Inventories		46
Fixed assets		52
Trade payables and other liabilities(i)		(33)
Other liabilities(i)		(84)
Non-controlling interests		(14)
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.

Other Business Acquisitions In 2015, the Company acquired the net assets of a grocery store, including land and a building, for total consideration of $41 million, and has allocated $21 million to goodwill. The Company has not yet finalized the purchase price allocation related to this acquisition.

Note 6. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)		2015		2014
Interest expense and other financing charges:				
Long term debt	$	475	$	466
Shoppers Drug Mart acquisition-related costs (note 5)		—		18
Borrowings related to credit card receivables		37		37
Trust Unit distributions		45		44
Post-employment and other long term employee benefits (note 27)		13		12
Independent funding trusts		14		15
Dividends on capital securities (note 24)		8		14
Fair value adjustment to the Trust Unit Liability (note 30)		81		17
Bank indebtedness		6		6
Capitalized interest (capitalization rate 5.7% (2014 – 6.2%)) (notes 14 and 16)		(5)		(4)
	$	674	$	625
Interest income:				
Accretion income	$	(21)	$	(25)
Short term interest income		(9)		(12)
Security deposits[(i)]		—		(4)
	$	(30)	$	(41)
Net interest expense and other financing charges	$	644	$	584

(i) 2014 includes interest income of $3 million related to $1,600 million of proceeds from the issuance of senior unsecured notes previously held in escrow, which were used to partially fund the acquisition of all of the outstanding common shares of Shoppers Drug Mart.

Note 7. Income Taxes

Income taxes recognized in the consolidated statement of earnings were as follows:

(millions of Canadian dollars)		2015		2014
Current income taxes:				
Current period	$	340	$	297
Adjustment in respect of prior periods		3		(18)
	$	343	$	279
Deferred income taxes:				
Origination and reversal of temporary differences		(43)		(273)
Effect of change in income tax rates		38		—
Adjustment in respect of prior periods		(4)		19
		(9)		(254)
Income taxes	$	334	$	25

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

(millions of Canadian dollars)		2015		2014
Defined benefit plan actuarial gains and losses	$	52	$	(16)
Total income tax expense (recovery) recognized in Other Comprehensive Income	$	52	$	(16)

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:

	2015	2014
Weighted average basic Canadian federal and provincial statutory income tax rate	**26.4%**	26.1%
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	**0.7**	(3.2)
Non-deductible and non-taxable items	**1.6**	2.2
Impact of fair value adjustments of the Trust Unit Liability	**2.3**	5.8
Impact of statutory income tax rate changes on deferred income tax balances	**4.0**	—
Adjustments in respect of prior periods	**(0.1)**	1.2
Effective income tax rate applicable to earnings before income taxes	**34.9%**	32.1%

In 2015, the government of Alberta announced an increase to the provincial corporate income tax rate from 10% to 12%. As a result, the Company recorded a charge of $38 million related to the remeasurement of deferred tax liabilities.

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

(millions of Canadian dollars)	**2015**	2014
Deductible temporary differences	**$ 36**	$ 19
Income tax losses	**80**	57
Unrecognized deferred tax assets	**$ 116**	$ 76

The income tax losses expire in the years 2027 to 2035. 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 January 2, 2016**	As at January 3, 2015[(i)]
Trade payables and other liabilities	**$ 79**	$ 83
Other liabilities	**302**	347
Fixed assets	**(487)**	(517)
Goodwill and intangible assets	**(1,742)**	(1,816)
Other assets	**63**	10
Non-capital loss carryforwards (expiring 2030 to 2034)	**33**	161
Capital loss carryforwards	**23**	20
Other	**27**	52
Net deferred income tax liabilities	**$ (1,702)**	$ (1,660)
Recorded on the consolidated balance sheet as follows:		
Deferred income tax assets	**132**	193
Deferred income tax liabilities	**(1,834)**	(1,853)
Net deferred income tax liabilities	**$ (1,702)**	$ (1,660)

(i) Certain 2014 figures have been amended (see note 5).

Note 8. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	2015	2014
Net earnings attributable to shareholders of the Company	**$ 632**	$ 53
Dividends on Preferred Shares in Equity	**(7)**	—
Net earnings available to common shareholders	**$ 625**	$ 53
Weighted average common shares outstanding (in millions) (note 24)	**411.5**	380.5
Dilutive effect of equity-based compensation (in millions)	**3.7**	3.4
Dilutive effect of certain other liabilities (in millions)	**—**	0.5
Diluted weighted average common shares outstanding (in millions)	**415.2**	384.4
Basic net earnings per common share ($)	**$ 1.52**	$ 0.14
Diluted net earnings per common share ($)	**$ 1.51**	$ 0.14

Excluded from the computation of diluted net earnings per common share were 10,828,275 (2014 – 10,620,095) potentially dilutive instruments, as they were anti-dilutive.

Note 9. Cash and Cash Equivalents, Short Term Investments and Security Deposits

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

Cash and Cash Equivalents

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015
Cash	**$ 352**	$ 464
Cash equivalents:		
Government treasury bills	**208**	463
Bank term deposits	**129**	—
Bankers' acceptances	**213**	57
Corporate commercial paper	**96**	15
Government agencies securities	**20**	—
Total cash and cash equivalents	**$ 1,018**	$ 999

Short Term Investments

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015
Government treasury bills	**$ 60**	$ 17
Bankers' acceptances	**2**	2
Corporate commercial paper	**—**	1
Other	**2**	1
Total short term investments	**$ 64**	$ 21

Security Deposits

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Cash	**$ 2**	$ 7
Total security deposits	**$ 2**	$ 7

As at January 2, 2016, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $149 million (January 3, 2015 – $141 million), of which $2 million (January 3, 2015 – $7 million) was deposited with major financial institutions and classified as security deposits.

Note 10. Accounts Receivable

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

(millions of Canadian dollars)				**As at January 2, 2016**				As at January 3, 2015
	0-90 days	**91-180 days**	**> 180 days**	**Total**	0-90 days	91-180 days	> 180 days	Total
Accounts receivable	**$ 1,204**	**$ 58**	**$ 63**	**$ 1,325**	$ 1,104	$ 38	$ 67	$ 1,209

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

(millions of Canadian dollars)	**2015**	2014
Allowances, beginning of year	**$ (96)**	$ (118)
Net (additions) reversals	**(6)**	22
Allowances, end of year	**$ (102)**	$ (96)

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

Note 11. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Gross credit card receivables	**$ 2,844**	$ 2,684
Allowance for credit card receivables	**(54)**	(54)
Credit card receivables	**$ 2,790**	$ 2,630
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust®*	**$ 650**	$ 750
Securitized to Other Independent Securitization Trusts	**550**	605

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* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The associated liability of *Eagle* is recorded in long term debt (see note 22). The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt (see note 20).

During 2015, PC Bank decreased its co-ownership interest in securitized receivables held with *Eagle* by $100 million. In addition, PC Bank recorded a $55 million net reduction of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts. Subsequent to the end of 2015, PC Bank reduced $100 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts.

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

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at January 2, 2016 and throughout 2015.

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

(millions of Canadian dollars)				**As at January 2, 2016**				As at January 3, 2015
	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	**$ 2,652**	**$ 162**	**$ 30**	**$ 2,844**	$ 2,505	$ 150	$ 29	$ 2,684

The following are continuities of the Company's allowances for credit card receivables:

(millions of Canadian dollars)	**2015**	2014
Allowances, beginning of year	**$ (54)**	$ (47)
Provision for losses	**(118)**	(121)
Recoveries	**(16)**	(19)
Write-offs	**134**	133
Allowances, end of year	**$ (54)**	$ (54)

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

Note 12. Inventories

For inventories recorded as at January 2, 2016, the Company recorded $85 million (January 3, 2015 – $23 million) as an expense for the write-down of inventories below cost to net realizable value, of which $46 million related to the anticipated sale of certain assets of the Shoppers ancillary healthcare businesses (see note 35). The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during 2015 and 2014.

In connection with the acquisition of Shoppers Drug Mart in the second quarter of 2014, acquired assets and liabilities were recorded on the Company's consolidated balance sheet at their fair value. This resulted in a fair value adjustment to Shoppers Drug Mart inventory on the date of acquisition of $798 million representing the difference between inventory cost and its fair value. This difference was subsequently recognized in cost of merchandise inventories sold throughout 2014, with a resulting negative impact to operating income.

In 2014, the Company recognized a $190 million charge to cost of merchandise inventories sold and a corresponding reduction in inventory, representing the estimate of the difference between the measurement of the cost of corporate grocery store inventory using a system generated weighted average cost compared to the retail inventory method and other conversion differences associated with the implementation of a perpetual inventory system.

Note 13. Assets Held for Sale

The Company holds 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 2015, the Company recorded a $1 million gain (2014 – $4 million) from the sale of these assets, excluding the impact of completed divestitures related to the acquisition of Shoppers Drug Mart (see note 5). There were no impairment or other charges recognized on these properties during 2015 (2014 – nil).

In 2015, the Company commenced actively marketing the sale of certain assets of its Shoppers ancillary healthcare businesses. As at January 2, 2016, assets totaling $17 million, including inventory of $16 million and fixed assets of $1 million, were classified as assets held for sale.

As at January 3, 2015, assets of $8 million, including intangible assets of $3 million, inventories of $3 million and fixed assets of $2 million, relating to the three Shoppers Drug Mart stores sold in the first quarter of 2015, were included in assets held for sale.

Note 14. Fixed Assets

The following are continuities of the cost and the accumulated depreciation and impairment losses of fixed assets for the years ended January 2, 2016 and January 3, 2015:

	2015						
(millions of Canadian dollars)	Land	Buildings	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	**$ 1,800**	**$ 7,368**	**$ 5,949**	**$ 1,765**	**$ 817**	**$ 537**	**$ 18,236**
Additions	**2**	**—**	**151**	**114**	**103**	**726**	**1,096**
Business acquisitions	**8**	**9**	**52**	**—**	**—**	**—**	**69**
Disposals	**—**	**(1)**	**(89)**	**(53)**	**(37)**	**(10)**	**(190)**
Net transfer to assets held for sale	**—**	**—**	**(2)**	**—**	**—**	**—**	**(2)**
Transfers from intangible assets	**—**	**—**	**1**	**—**	**—**	**—**	**1**
Net transfer to investment properties	**(10)**	**(29)**	**—**	**—**	**—**	**—**	**(39)**
Transfer from assets under construction	**66**	**350**	**235**	**26**	**—**	**(677)**	**—**
Balance, end of year	**$ 1,866**	**$ 7,697**	**$ 6,297**	**$ 1,852**	**$ 883**	**$ 576**	**$ 19,171**
Accumulated depreciation and impairment losses							
Balance, beginning of year	**$ 3**	**$ 2,605**	**$ 4,407**	**$ 620**	**$ 295**	**$ 10**	**$ 7,940**
Depreciation	**—**	**200**	**432**	**159**	**57**	**—**	**848**
Impairment losses	**—**	**19**	**42**	**13**	**—**	**—**	**74**
Reversal of impairment losses	**—**	**(14)**	**—**	**(1)**	**—**	**—**	**(15)**
Disposals	**—**	**(2)**	**(87)**	**(46)**	**(14)**	**—**	**(149)**
Net transfer to investment properties	**—**	**(7)**	**—**	**—**	**—**	**—**	**(7)**
Balance, end of year	**$ 3**	**$ 2,801**	**$ 4,794**	**$ 745**	**$ 338**	**$ 10**	**$ 8,691**
Carrying amount as at: January 2, 2016	**$ 1,863**	**$ 4,896**	**$ 1,503**	**$ 1,107**	**$ 545**	**$ 566**	**$ 10,480**

(millions of Canadian dollars)	Land	Buildings	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
	2014(i)						
Cost							
Balance, beginning of year	$ 1,678	$ 6,849	$ 5,309	$ 846	$ 567	$ 521	$ 15,770
Additions	7	13	101	82	102	636	941
Business acquisitions	88	268	374	830	162	72	1,794
Disposals	(11)	(13)	(105)	(11)	(14)	(13)	(167)
Net transfer to assets held for sale	(5)	(16)	(11)	(14)	—	—	(46)
Net transfer (to) from investment properties	5	12	—	—	—	(73)	(56)
Transfer from assets under construction	38	255	281	32	—	(606)	—
Balance, end of year	$ 1,800	$ 7,368	$ 5,949	$ 1,765	$ 817	$ 537	$ 18,236
Accumulated depreciation and impairment losses							
Balance, beginning of year	$ 2	$ 2,429	$ 4,063	$ 493	$ 261	$ 7	$ 7,255
Depreciation	—	201	426	132	47	1	807
Impairment losses	1	11	12	13	1	2	40
Reversal of impairment losses	(1)	(31)	(1)	(2)	—	—	(35)
Disposals	—	(9)	(83)	(9)	(14)	—	(115)
Transfer to assets held for sale	—	(4)	(10)	(7)	—	—	(21)
Net transfer from investment properties	1	8	—	—	—	—	9
Balance, end of year	$ 3	$ 2,605	$ 4,407	$ 620	$ 295	$ 10	$ 7,940
Carrying amount as at: January 3, 2015	$ 1,797	$ 4,763	$ 1,542	$ 1,145	$ 522	$ 527	$ 10,296

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

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 January 2, 2016, the net carrying amount of leased land and buildings was $479 million (January 3, 2015 – $466 million), and the net carrying amount of leased equipment and fixtures was $66 million (January 3, 2015 – $56 million).

Assets under Construction The cost of additions to properties under construction for the year ended January 2, 2016 was $726 million (January 3, 2015 – $636 million). Included in this amount are capitalized borrowing costs of $4 million (2014 – $3 million), with a weighted average capitalization rate of 5.7% (2014 – 6.2%).

Security and Assets Pledged As at January 2, 2016, fixed assets with a carrying amount of $231 million (January 3, 2015 – $191 million) were encumbered by mortgages of $82 million (January 3, 2015 – $86 million).

Fixed Asset Commitments As at January 2, 2016, the Company had entered into commitments of $54 million (January 3, 2015 – $192 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses For the year ended January 2, 2016, the Company recorded $18 million (2014 – $26 million) of impairment losses on fixed assets in respect of eight CGUs (2014 – 13 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 75% (2014 – 23%) of impaired CGUs had carrying values which were $14 million (2014 – $7 million) greater than their fair value less costs to sell. The remaining 25% (2014 – 77%) of impaired CGUs had carrying values which were $4 million (2014 – $19 million) greater than their value in use.

For the year ended January 2, 2016, the Company recorded $15 million (2014 – $35 million) of impairment reversals on fixed assets in respect of six CGUs (2014 – 14 CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. Approximately 50% (2014 – 93%) of CGUs with impairment reversals had fair value less costs to sell which were $7 million (2014 – $33 million) greater than their carrying values. The remaining 50% (2014 – 7%) of CGUs with impairment reversals had value in use which were $8 million (2014 – $2 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 January 2, 2016 (January 3, 2015 – 8.0% to 8.5%).

In 2015, the Company recorded impairment losses on its fixed assets of $23 million relating to the announced closures of approximately 52 unprofitable retail locations across a range of banners and formats, and $24 million relating to the anticipated sale of certain assets of the Shoppers ancillary healthcare businesses (see note 35).

Additional impairment losses of $9 million (2014 – $14 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.

Note 15. Investment Properties

The following are continuities of the cost and the accumulated depreciation and impairment losses of investment properties for the years ended January 2, 2016 and January 3, 2015:

(millions of Canadian dollars)		**2015**		2014
Cost				
Balance, beginning of year	**$**	**255**	$	172
Business acquisitions(i)		**—**		16
Additions		**—**		16
Disposals		**(5)**		(4)
Net transfer from fixed assets		**39**		56
Net transfer to assets held for sale		**(53)**		(1)
Balance, end of year	**$**	**236**	$	255
Accumulated depreciation and impairment losses				
Balance, beginning of year	**$**	**70**	$	73
Depreciation		**3**		2
Impairment losses		**12**		11
Reversal of impairment losses		**(1)**		—
Disposals		**(3)**		(2)
Net transfer from (to) fixed assets		**7**		(9)
Net transfer to assets held for sale		**(12)**		(5)
Balance, end of year	**$**	**76**	$	70
Carrying amount	**$**	**160**	$	185
Fair value		**194**		225

(i) Relates to the acquisition of Shoppers Drug Mart (see note 5).

During 2015, the Company recognized in operating income $7 million of rental income (2014 – $7 million) and incurred direct operating costs of $2 million (2014 – $3 million) related to its investment properties. In addition, the Company recognized direct operating costs of $3 million (2014 – $2 million) related to its investment properties for which no rental income was earned.

An external, independent valuation company, having appropriate recognized professional qualifications and recent experience in the location and category of property being valued, provided appraisals for certain of the Company's investment properties. For the other investment properties, the Company determined the fair value by relying on comparable market information. Where available, the fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. Where market values are not available, valuations are prepared using the income approach by considering the estimated cash flows expected from renting out the property based on existing lease terms and where appropriate, the ability to renegotiate the lease terms once the initial term or option term(s) expire plus the net proceeds from a sale of the property at the end of the investment horizon.

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 January 2, 2016, the pre-tax discount rates used in the valuations for investment properties ranged from 7.75% to 9.50% (January 3, 2015 – 6.00% to 9.75%) and the terminal capitalization rates ranged from 6.75% to 8.75% (January 3, 2015 – 5.50% to 8.50%).

For the year ended January 2, 2016, the Company recorded $12 million (2014 – $11 million) of impairment losses in operating income on investment properties, including $9 million relating to the announced closures of approximately 52 unprofitable retail locations, as the carrying amounts of all impaired properties were lower than their recoverable amounts (see note 35). The Company recorded $1 million of reversals of impairment losses on investment properties (2014 – nil) in operating income where their fair values less costs to sell were greater than their carrying values.

Note 16. Intangible Assets

The following are continuities of the cost and the accumulated amortization and impairment losses of intangible assets for the years ended January 2, 2016 and January 3, 2015:

	2015				
(millions of Canadian dollars)	Indefinite Life Intangible Assets	Definite Life Internally Generated Intangible Assets	Software	Definite Life Other Intangible Assets	Total
Cost					
Balance, beginning of year	$ 3,461	$ 20	$ 1,639	$ 5,868	$ 10,988
Additions	—	—	216	17	233
Business acquisitions	—	—	—	14	14
Disposal	—	—	(2)	(3)	(5)
Transfer to property, plant and equipment	—	—	(1)	—	(1)
Write off of cost for fully amortized assets	—	—	—	(1)	(1)
Balance, end of year	$ 3,461	$ 20	$ 1,852	$ 5,895	$ 11,228
Accumulated amortization and impairment losses					
Balance, beginning of year	$ —	$ 19	$ 852	$ 442	$ 1,313
Amortization	—	1	220	531	752
Disposal	—	—	(2)	(1)	(3)
Impairment losses	—	—	—	3	3
Write off of amortization for fully amortized assets	—	—	—	(1)	(1)
Balance, end of year	$ —	$ 20	$ 1,070	$ 974	$ 2,064
Carrying amount as at: January 2, 2016	$ 3,461	$ —	$ 782	$ 4,921	$ 9,164

(millions of Canadian dollars)	Indefinite Life Intangible Assets	Definite Life Internally Generated Intangible Assets	Software	Definite Life Other Intangible Assets	Total
	2014(i)				
Cost					
Balance, beginning of year	$ 71	$ 20	$ 1,190	$ 71	$ 1,352
Business acquisitions(ii)	3,390	—	230	5,824	9,444
Additions	—	3	222	5	230
Disposal	—	(3)	(3)	(2)	(8)
Transfer to assets held for sale	—	—	—	(29)	(29)
Write off of cost for fully amortized assets	—	—	—	(1)	(1)
Balance, end of year	$ 3,461	$ 20	$ 1,639	$ 5,868	$ 10,988
Accumulated amortization and impairment					
Balance, beginning of year	$ —	$ 19	$ 600	$ 32	$ 651
Amortization	—	—	255	414	669
Transfer to assets held for sale	—	—	—	(3)	(3)
Write off of amortization for fully amortized assets	—	—	(3)	(1)	(4)
Balance, end of year	$ —	$ 19	$ 852	$ 442	$ 1,313
Carrying amount as at: January 3, 2015	$ 3,461	$ 1	$ 787	$ 5,426	$ 9,675

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

(ii) Includes $9,440 million related to the acquisition of Shoppers Drug Mart (see note 5).

Indefinite Life Intangible Assets Indefinite life intangible assets are comprised of brand names, trademarks, and import purchase quota. 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, and import purchase quota 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 that 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 17).

Software Software is comprised of software purchases and development costs. Included in these amounts are capitalized borrowing costs of $1 million (2014 – $1 million).

Definite Life Other Intangible Assets Definite life intangible assets are primarily comprised of Shoppers Drug Mart prescription files and the carrying value of the *Shoppers Optimum* loyalty program (see note 5).

Note 17. Goodwill

The following is a continuity of the cost and the accumulated amortization and impairment losses of goodwill for the years ended January 2, 2016 and January 3, 2015:

(millions of Canadian dollars)	**2015**	2014[i]
Cost		
Balance, beginning of year	**$ 4,307**	$ 1,932
Business acquisitions[ii]	**44**	2,375
Balance, end of year	**$ 4,351**	$ 4,307
Accumulated amortization and impairment losses		
Balance, beginning of year	**$ 989**	$ 989
Balance, end of year	**$ 989**	$ 989
Carrying amount as at the end of the year:	**$ 3,362**	$ 3,318

(i) Certain comparative figures have been restated. See note 5.

(ii) Business acquisitions in 2015 included $21 million related to the acquisition of a grocery store. Business acquisitions in 2014 included $2,360 million related to the acquisition of Shoppers Drug Mart (see note 5).

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

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Shoppers Drug Mart	**$ 2,390**	$ 2,369
Market	**360**	337
Discount	**459**	459
T&T Supermarket Inc.	**129**	129
All other	**24**	24
Carrying amount of goodwill	**$ 3,362**	$ 3,318

The Company completed its annual impairment tests for goodwill and concluded that there was no impairment as fair value less costs to sell exceeded the carrying amount of each CGU grouping.

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 in the range of 6.0% to 7.0% (January 3, 2015 – 6.0% to 6.5%) 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 the Company.

Cash flow projections have been discounted using a range of rates derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to each CGU. At January 2, 2016, the after-tax discount rates used in the recoverable amount calculations ranged from 6.5% to 9.5% (January 3, 2015 – 8.5% to 9.5%). The pre-tax discount rates ranged from 8.7% to 12.9% (January 3, 2015 – 11.4% to 13.0%).

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 estimated long term growth rate of 2.0% (January 3, 2015 – 2.0%). The budgeted EBITDA[1] growth is based on the Company's three year strategic plan approved by the Board.

Note 18. Other Assets

(millions of Canadian dollars)		As at January 2, 2016		As at January 3, 2015
Sundry investments and other receivables	$	119	$	141
Accrued benefit plan asset		190		90
Interests in joint ventures		9		6
Other		137		44
Other assets	$	455	$	281

Note 19. Customer Loyalty Awards Program Liability

The liability associated with the Company's customer loyalty awards programs ("loyalty liability") is included in trade payables and other liabilities. The carrying amount of the loyalty liability is as follows:

(millions of Canadian dollars)		As at January 2, 2016		As at January 3, 2015
Loyalty liability	$	229	$	229

Note 20. Short Term Debt

The outstanding short term debt balance of $550 million (January 3, 2015 – $605 million) relates to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 11). During 2015, PC Bank recorded a $55 million net reduction of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts.

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 2015, with their respective maturity dates extended to 2017 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 January 2, 2016 were $175 million (January 3, 2015 – $120 million).

Note 21. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring (see note 35), self-insurance, commodity taxes, environmental and decommissioning liabilities and onerous lease arrangements. The following is a continuity of provisions for the years ended January 2, 2016 and January 3, 2015:

(millions of Canadian dollars)		2015		2014
Provisions, beginning of year	$	160	$	122
Acquisition of Shoppers Drug Mart		—		19
Additions		193		81
Payments		(84)		(60)
Reversals		(11)		(2)
Provisions, end of year	$	258	$	160

(millions of Canadian dollars)		As at January 2, 2016		As at January 3, 2015
Recorded on the consolidated balance sheet as follows:				
Current portion of provisions	**$**	**127**	$	84
Non-current portion of provisions		**131**		76
Total provisions	**$**	**258**	$	160

Note 22. Long Term Debt

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015
Unsecured Term Loan Facility		
1.13% + Bankers' Acceptance, due 2019	**$ 250**	$ —
1.45% + Bankers' Acceptance, due 2019	**48**	1,229
Debentures and Medium Term Notes		
Loblaw Companies Limited Notes		
7.10%, due 2016	**300**	300
3.75%, due 2019	**800**	800
5.22%, due 2020	**350**	350
4.86%, due 2023	**800**	800
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(46)**	(57)
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		
2.01%, due 2016	**225**	225
2.36%, due 2018	**275**	275
Choice Properties Senior Unsecured Debentures		
Series A 3.55%, due 2018	**400**	400
Series B 4.90%, due 2023	**200**	200
Series C 3.50%, due 2021	**250**	250
Series D 4.29%, due 2024	**200**	200
Series E 2.30%, due 2020	**250**	—
Series F 4.06%, due 2025	**200**	—
Series 5 3.00%, due 2016	**300**	300
Series 6 3.00%, due 2017	**200**	200
Series 7 3.00%, due 2019	**200**	200
Series 8 3.60%, due 2020	**300**	300
Series 9 3.60%, due 2021	**200**	200
Series 10 3.60%, due 2022	**300**	300
Long Term Debt Secured by Mortgage		
3.15% – 7.42%, due 2017 – 2029 (note 14)	**82**	86
Guaranteed Investment Certificates		
1.10% – 3.78%, due 2016 – 2020	**809**	634
Independent Securitization Trust		
3.58%, due 2015	**—**	350
2.91%, due 2018	**400**	400
2.23%, due 2020	**250**	—
Independent Funding Trusts	**529**	498
Finance Lease Obligations	**629**	600
Choice Properties Credit Facility	**—**	122
Transaction costs and other	**(21)**	(31)
Total long term debt	**$ 11,011**	$ 11,462
Less amount due within one year	**998**	420
Long Term Debt	**$ 10,013**	$ 11,042

Significant long term debt transactions are described below.

Unsecured Term Loan Facility In 2015, the Company obtained $250 million through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.13%, maturing March 30, 2019.

In connection with the financing of the acquisition of Shoppers Drug Mart, the Company obtained a $3,500 million unsecured term loan facility ("Acquisition Term Loan"). As at January 2, 2016, the outstanding balance on the Acquisition Term Loan was $48 million (January 3, 2015 – $1,229 million). During 2015, the Company repaid $1,181 million of the Acquisition Term Loan. Since the acquisition, the Company has repaid $3,452 million of the Acquisition Term Loan, including the use of net proceeds of $1,500 million from the sale of Choice Properties Transferor Notes to third parties and proceeds from the $250 million unsecured term loan obtained in 2015, both of which had a neutral impact on long term debt. Also included in the total amount repaid was $66 million of net proceeds from the store divestitures required pursuant to the Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart.

The Company incurred $41 million in financing costs related to the unsecured term loan facility, which were capitalized. During 2015, the amortization of the financing costs related to the Acquisition Term Loan was $16 million (2014 – $25 million). Of the amortized amount, $15 million (2014 – $23 million) was accelerated due to early repayments on the facility.

The unsecured term loan facilities contain certain financial covenants (see note 25).

Debentures and Medium Term Notes The following table summarizes the debentures and Medium Term Notes ("MTNs") issued by the Company in 2015 and 2014:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2015**	Principal Amount 2014
Choice Properties Series senior unsecured debentures(i)				
– Series E	2.30%	September 14, 2020	$ 250	$ —
– Series F	4.06%	November 24, 2025	200	—
– Series C	3.50%	February 8, 2021	—	250
– Series D	4.29%	February 8, 2024	—	200
Shoppers Drug Mart MTNs(ii)	2.01%	May 24, 2016	—	225
Shoppers Drug Mart MTNs(ii)	2.36%	May 24, 2018	—	275
Total Medium Term Notes issued			$ 450	$ 950

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus.
(ii) The Company assumed these MTNs in connection with the acquisition of Shoppers Drug Mart.

The following table summarizes the MTNs repaid by the Company in 2015 and 2014:

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	**Principal Amount 2015**	Principal Amount 2014
Loblaw MTNs	6.00%	March 3, 2014	$ —	$ 100
Loblaw MTNs	4.85%	May 8, 2014	—	350
Total Medium Term Notes repaid			$ —	$ 450

Subsequent to the end of 2015, Choice Properties issued an early redemption notice for its $300 million Series 5 3.00% senior unsecured debentures at par effective March 7, 2016.

In 2014, Choice Properties Limited Partnership entered into a Master Trust Indenture agreement with Computershare Trust Company of Canada to create supplemental indentures in order to facilitate the replacement of all tranches of Transferor Notes held by Loblaw, with Series 5 to Series 10 notes containing the same principal amounts, interest rates and maturity dates. These replacement notes bear fixed interest rates between 3.00% and 3.60% and mature in 2016 through 2022. The remaining terms and conditions were substantially similar to the original notes. Loblaw subsequently sold the replacement notes to unrelated parties and received net proceeds of $1,500 million. Loblaw used these proceeds and existing cash to partially repay the Acquisition Term Loan as discussed above.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the years ended 2015 and 2014:

(millions of Canadian dollars)	**2015**	2014
Balance, beginning of year	**$ 634**	$ 430
GICs issued	**211**	261
GICs matured	**(36)**	(57)
Balance, end of year	**$ 809**	$ 634

Independent Securitization Trust In 2015, the five-year $350 million 3.58% senior and subordinated term notes issued by *Eagle* matured and were repaid. In addition, *Eagle* issued $250 million senior and subordinated term notes with a weighted average interest rate of 2.23%, maturing on September 17, 2020. The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (see note 11). The Company has arranged letters of credit for the benefit of the *Eagle* notes issued prior to 2015 and outstanding as at January 2, 2016 (see note 33).

Independent Funding Trusts As at January 2, 2016, the independent funding trusts had drawn $529 million (January 3, 2015 – $498 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. In 2014, the Company renewed the revolving committed credit facility and extended the maturity date to May 6, 2017, with all other terms and conditions remaining substantially the same. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts (see note 33).

Committed Credit Facilities The components of the committed lines of credit as of January 2, 2016 and January 3, 2015 were as follows:

	As at January 2, 2016		As at January 3, 2015	
(millions of Canadian dollars)	**Available**	**Drawn**	Available	Drawn
Loblaw's Committed Credit Facility[(i)]	**$ 1,000**	**—**	$ 1,000	$ —
Choice Properties Committed Credit Facility[(ii)]	**500**	**—**	500	122
Total Committed Lines of Credit	**$ 1,500**	**—**	$ 1,500	$ 122

(i) In 2015, the Company amended its Credit Facility agreement to extend the maturity date to March 31, 2020, with all other terms and conditions remaining substantially the same.

(ii) In 2015, Choice Properties amended its credit facility agreement to extend the maturity date to July 5, 2020, with all other terms and conditions remaining substantially the same.

These facilities contain certain financial covenants (see note 25).

In 2014, upon closing of the Shoppers Drug Mart acquisition, the outstanding balance of $478 million owing on Shoppers Drug Mart's revolving bank credit facility, was repaid and the facility was cancelled.

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

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Loblaw Companies Limited Notes	**$ 300**	$ —
Choice Properties Notes	**300**	—
Shoppers Drug Mart Notes	**225**	—
Independent Securitization Trusts	**—**	350
Guaranteed Investment Certificates	**112**	29
Finance Lease Obligations	**56**	38
Long term debt secured by mortgage	**5**	3
Long term debt due within one year	**$ 998**	$ 420

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

(millions of Canadian dollars)		As at January 2, 2016
2016	$	998
2017		903
2018		1,377
2019		1,567
2020		1,339
Thereafter		4,894
Total Long Term Debt (excludes transaction costs and effect of coupon repurchases)	$	11,078

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

Note 23. Other Liabilities

(millions of Canadian dollars)		As at January 2, 2016		As at January 3, 2015
Net defined benefit plan obligation	$	312	$	311
Other long term employee benefit obligation		116		116
Deferred lease obligation		101		77
Fair value adjustment to acquired leases		90		104
Equity-based compensation liability (note 26)		5		7
Other		130		167
Other liabilities	$	754	$	782

Note 24. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no First Preferred Shares outstanding as at January 2, 2016 and January 3, 2015.

Second Preferred Share Capital (authorized – unlimited) In 2015, the Company redeemed all of the outstanding 9.0 million 5.95% non-voting Second Preferred Shares, Series A, for a face value of $225 million and recorded a corresponding decrease to capital securities, which were classified as other financial liabilities. The redemption was funded primarily through the proceeds received from the issuances of the Second Preferred Shares, Series B.

In 2015, the Company issued 9.0 million 5.30% non-voting Second Preferred Shares, Series B, with a face value of $225 million. These shares entitle the holder to receive fixed cumulative preferential cash dividends of approximately $1.325 per share per annum, as and when declared by the Board, which will accrue from the date of issue and are payable quarterly on the last day of March, June, September and December of each year.

As at January 2, 2016, the Second Preferred Shares, Series B in the amount of $221 million, net of $4 million of after-tax issuance costs, are presented as a component of equity in the consolidated balance sheet.

The Second Preferred Shares, Series B do not have a fixed maturity date and are not redeemable at the option of the holder. The following table outlines the redemption price at which the Company may redeem the Second Preferred Shares, Series B for cash, in whole or in part, and in each case together with all accrued and unpaid dividends to, but not including, the redemption date.

Redemption Period			**Redemption Price**
On and After:	**Prior to:**		
June 30, 2020	June 30, 2021	$	26.00
June 30, 2021	June 30, 2022		25.75
June 30, 2022	June 30, 2023		25.50
June 30, 2023	June 30, 2024		25.25
June 30, 2024	–		25.00

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:

	January 2, 2016 (52 weeks)			January 3, 2015 (53 weeks)		
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**		**Common Share Capital**	Number of Common Shares		Common Share Capital
Issued and outstanding, beginning of period	**412,480,891**	**$**	**7,860**	282,311,573	$	1,648
Issued for settlement of stock options	**1,841,174**		**84**	3,536,489		156
Issued for acquisition of Shoppers Drug Mart (note 5)	**—**		**—**	119,471,382		5,619
Issued to controlling shareholder (note 5)	**—**		**—**	10,515,247		500
Purchased and cancelled	**(4,336,839)**		**(83)**	(3,353,800)		(63)
Issued and outstanding, end of period	**409,985,226**	**$**	**7,861**	412,480,891	$	7,860
Shares held in trust, beginning of period	**(555,046)**	**$**	**(3)**	(1,067,323)	$	(6)
Purchased for future settlement of RSUs and PSUs	**(971,894)**		**(19)**	—		—
Released for settlement of RSUs and PSUs (note 26)	**883,488**		**12**	512,277		3
Shares held in trust, end of period	**(643,452)**	**$**	**(10)**	(555,046)	$	(3)
Issued and outstanding, net of shares held in trust, end of period	**409,341,774**	**$**	**7,851**	411,925,845	$	7,857
Weighted average outstanding, net of shares held in trust	**411,543,393**			380,540,877		

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 time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to reduce debt and finance future growth. In the second quarter of 2015 and 2014, the Board raised the quarterly dividend by $0.005 to $0.25 and $0.245 per common share, respectively.

The following table summarizes the Company's cash dividends declared for 2015 and 2014:

		2015(i)		2014
Dividends declared per share ($):				
Common share	**$**	**0.995**	$	0.975
Second Preferred Share, Series A	**$**	**0.74**	$	1.49
Second Preferred Share, Series B	**$**	**0.74**	$	—

(i) The fourth quarter dividends for 2015 of $0.25 per share declared on common shares were paid on December 30, 2015. The fourth quarter dividends for 2015 of $0.33 per share declared on Second Preferred Shares, Series B were paid on December 31, 2015.

For financial statement presentation purposes, Second Preferred Shares, Series A dividends for 2015 of $8 million (2014 – $14 million) were recognized on an accrued basis and included as a component of net interest expense and other financing charges in the consolidated statement of earnings (see note 6).

Subsequent to the end of the year, the Board declared a quarterly dividend of $0.25 per common share, payable on April 1, 2016 to shareholders of record on March 15, 2016 and a dividend on the Second Preferred Shares, Series B of $0.33 per share payable on March 31, 2016 to shareholders of record on March 15, 2016.

Normal Course Issuer Bid Activity under the Company's Normal Course Issuer Bid ("NCIB") is summarized as follows:

(millions of Canadian dollars except where otherwise indicated)		**2015**		2014
Common shares repurchased under the NCIB for cancellation (number of shares)		**4,336,839**		3,353,800
Cash consideration paid	**$**	**280**	$	178
Premium charged to Retained Earnings		**197**		115
Reduction in Common Share Capital		**83**		63
Common shares repurchased under the NCIB and held in trust (number of shares)		**971,894**		—
Cash consideration paid	**$**	**63**	$	—
Premium charged to Retained Earnings		**44**		—
Reduction in Common Share Capital		**19**		—

In 2015, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 21,931,288 of the Company's common shares, representing approximately 10% of the public float. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares from time to time at the then market price of such 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 January 2, 2016		As at January 3, 2015
Bank indebtedness	**$**	**143**	$	162
Short term debt		**550**		605
Long term debt due within one year		**998**		420
Long term debt		**10,013**		11,042
Capital securities		**—**		225
Certain other liabilities		**30**		28
Total debt		**11,734**		12,482
Equity attributable to shareholders of the Company		**13,151**		12,779
Total capital under management	**$**	**24,885**	$	25,261

Short Form Base Shelf Prospectus Filings On March 19, 2015, the Company filed a Short Form Base Shelf Prospectus ("Base Prospectus") for the potential issuance of up to $1,500 million of debentures and/or preferred shares. The Base Prospectus expires in 2017. In 2015, the Company issued $225 million of preferred shares under this prospectus.

On October 14, 2015, Choice Properties filed a new base shelf prospectus allowing for the issuance, from time to time, of Units and debt securities, or any combination thereof, having an aggregate offering price of up to $2 billion. The new prospectus is effective for a 25-month period from the date of issuance.

In 2015, *Eagle* filed a short form base shelf prospectus for the potential issuance of up to $1,000 million 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 MTNs and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at January 2, 2016 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

Choice Properties has certain key financial and non-financial covenants in its Debentures and the Choice Properties Credit Facility, which include debt service ratios and leverage ratios. These ratios are measured by Choice Properties on a quarterly basis to ensure compliance. As at January 2, 2016 and throughout the year, Choice Properties was in compliance with 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%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio effective January 1, 2015. As at the end of 2015 and throughout the year, PC Bank has met all applicable regulatory requirements.

In 2014, OSFI released the final Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio ("LCR") standard effective January 1, 2015. As at the end of 2015, PC Bank was in compliance with the LCR standard.

Note 26. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, RSU, PSU, DSU, EDSU plans, and the unit-based compensation plans of Choice Properties, was $71 million during 2015 (2014 – $73 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, are recorded on the consolidated balance sheet as follows:

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Trade payables and other liabilities	**$ 4**	$ 3
Other liabilities	**5**	7
Contributed surplus	**102**	104

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 for up to 28,137,162 common shares which is the Company's guideline for the number of stock option grants.

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

	2015		2014	
	Options (number of shares)	**Weighted Average Exercise Price / Share**	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	**8,364,884**	**$ 38.42**	10,995,995	$ 37.37
Granted	**1,571,495**	**$ 63.62**	1,688,368	$ 47.67
Converted options	**—**	**$ —**	1,026,118	$ 35.26
Exercised	**(1,735,959)**	**$ 36.19**	(3,536,489)	$ 36.47
Forfeited/cancelled	**(789,015)**	**$ 44.13**	(1,074,427)	$ 40.75
Expired	**—**	**$ —**	(734,681)	$ 45.49
Outstanding options, end of year	**7,411,405**	**$ 43.77**	8,364,884	$ 38.42
Options exercisable, end of year	**2,862,545**	**$ 37.41**	3,195,241	$ 35.95

	2015 Outstanding Options			**2015 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**
$30.99 – $36.26	**2,311,974**	**3**	**$ 34.56**	**1,138,051**	**$ 34.20**
$36.27 – $47.03	**2,547,326**	**3**	**$ 39.19**	**1,553,901**	**$ 38.62**
$47.04 – $69.83	**2,552,105**	**6**	**$ 56.69**	**170,593**	**$ 47.78**
	7,411,405		**$ 43.77**	**2,862,545**	**$ 37.41**

During 2015, the Company issued common shares on the exercise of stock options with a weighted average market share price of $67.04 (2014 – $51.20). The Company received cash consideration of $63 million (2014 – $129 million) related to the exercise of these option.

The fair value of stock options granted during 2015 was $14 million (2014 – $13 million). The fair value of converted Shoppers Drug Mart stock options to Loblaw stock options in 2014 was $13 million.The assumptions used to measure the fair value of options granted and converted during 2015 and 2014 under the Black-Scholes valuation model at date of grant were as follows:

	2015	2014
Expected dividend yield	**1.5%**	1.8%
Expected share price volatility	**18.3% – 20.1%**	18.5% – 23.2%
Risk-free interest rate	**0.6% – 1.4%**	1.1% – 1.9%
Expected life of options	**3.9 – 6.3 years**	1.0 – 6.5 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at January 2, 2016 was 10.0% (January 3, 2015 – 11.0%).

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

(Number of Awards)	2015	2014
RSUs, beginning of year	**1,462,790**	1,084,514
Granted	**313,964**	435,976
Converted RSUs	**—**	542,175
Settled	**(802,957)**	(494,912)
Forfeited	**(92,213)**	(104,963)
Reinvested	**6,208**	—
RSUs, end of year	**887,792**	1,462,790

The fair value of RSUs granted during 2015 was $19 million (2014 – $20 million).

In connection with the acquisition of Shoppers Drug Mart, the Company converted Shoppers Drug Mart RSUs to Loblaw RSUs, which initially required settlement in cash. On November 10, 2014, the Company amended the plan for the remaining 542,175 converted RSUs to require settlement in shares. The fair value of these converted awards on the amendment date was $32 million. These converted RSUs vested on December 1, 2015 and earned Loblaw dividends during the vesting period, which were reinvested as additional RSUs.

During 2014, the Company settled $2 million of Shoppers Drug Mart converted RSUs in cash prior to amending the RSU plan for converted awards to require settlement in shares on November 10, 2014.

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

(Number of Awards)	2015	2014
PSUs, beginning of year	**1,019,304**	309,110
Granted	**306,027**	871,355
Settled	**(80,881)**	(17,365)
Forfeited	**(144,094)**	(143,796)
PSUs, end of year	**1,100,356**	1,019,304

The fair value of PSUs granted during 2015 was $19 million (2014 – $39 million).

Settlement of Awards from Shares Held in Trust During 2015, the Company settled RSUs and PSUs totaling 883,838 (2014 – 512,277), of which 883,488 (2014 – 512,277) 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 (2014 – $3 million) increase to share capital and a $37 million (2014 – $18 million) increase to retained earnings.

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

(Number of Awards)	**2015**	2014
DSUs outstanding, beginning of year	**263,824**	226,601
Granted	**28,598**	31,322
Reinvested	**3,731**	5,901
Settled	**(112,431)**	—
DSUs outstanding, end of year	**183,722**	263,824

The fair value of DSUs granted during 2015 was $2 million (2014 – $2 million).

In 2014, in addition to the awards granted under the Company's equity settled DSU plan, the Company converted Shoppers Drug Mart DSUs to Loblaw DSUs. These converted DSUs, which have all vested, will be settled in cash. As at January 2, 2016, the number of converted DSUs outstanding was 62,547 (January 3, 2015 – 101,788).

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

(Number of Awards)	**2015**	2014
EDSUs outstanding, beginning of year	**22,915**	22,126
Granted	**5,087**	4,929
Reinvested	**381**	599
Settled	**(4,360)**	(4,739)
EDSUs outstanding, end of year	**24,023**	22,915

The fair value of EDSUs granted during 2015 was nominal (2014 – nominal).

Choice Properties The following are details related to the unit-based compensation plans of Choice Properties:

Unit Option Plan Choice Properties maintains a Unit Option plan for certain employees. Under this plan, Choice Properties may grant Options totaling up to 19,744,697 Units, as approved at the annual and special meeting of Unitholders on April 29, 2015 (December 31, 2014 – 4,075,000 Units). The Unit Options vest in tranches over a period of four years. The following is a summary of Choice Properties' Unit Option plan activity:

		2015		2014
	Number of awards	**Weighted average exercise price/unit**	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	**1,682,510**	**$ 10.48**	1,196,866	$ 10.04
Granted	**2,127,532**	**$ 11.49**	1,247,247	$ 10.80
Exercised	**(30,461)**	**$ 10.54**	(118,309)	$ 10.05
Forfeited	**(279,925)**	**$ 11.00**	(643,294)	$ 10.35
Outstanding Unit Options, end of year	**3,499,656**	**$ 11.05**	1,682,510	$ 10.48
Unit Options exercisable, end of year	**533,796**	**$ 10.36**	157,167	$ 10.05

The assumptions used to measure the fair value of the Unit Options under the Black-Scholes model were as follows:

	2015	2014
Expected average distribution yield	**5.5%**	6.2%
Expected average Unit price volatility	**15.4% – 17.4%**	14.2% – 18.9%
Average risk-free interest rate	**0.5% – 0.8%**	1.0% – 1.4%
Expected average life of options	**1.5 – 5.4 years**	2.5 – 5.4 years

Estimated forfeiture rates are incorporated into the measurement of the Unit Option expense. The forfeiture rate applied as at January 2, 2016 was nil (January 3, 2015 – nil).

Restricted Unit Plan 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 Trust Unit at the balance sheet date.

The following is a summary of Choice Properties' RU plan activity:

(Number of awards)	2015	2014
Outstanding RUs, beginning of year	**184,154**	108,746
Granted	**90,813**	100,523
Reinvested	**14,140**	10,804
Settled	**(5,433)**	—
Forfeited	**(15,953)**	(35,919)
Outstanding RUs, end of year	**267,721**	184,154

RUs vest over a period of three years. There were no RUs vested as at January 2, 2016 (January 3, 2015 – nil).

Trustee Deferred Unit Plan 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. A summary of the DU plan activity is as follows:

(Number of awards)	2015	2014
Outstanding DUs, beginning of year	**99,230**	31,936
Granted	**52,736**	64,150
Reinvested	**6,812**	3,144
Outstanding DUs, end of year	**158,778**	99,230

All the DUs vest when issued, however, they cannot be settled while Trustees are members of the Board.

Note 27. 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 ("The Committee") oversees the Company's pension plans. The Committee is responsible for assisting the Board in fulfilling its general oversight responsibilities for the plans. The 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 2016 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:

	2015				2014			
(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	**$**	**(1,990)**	**$**	**—**	$	(2,077)	$	—
Present value of unfunded obligations		**(134)**		**(161)**		(81)		(197)
Total present value of defined benefit obligation	**$**	**(2,124)**	**$**	**(161)**	$	(2,158)	$	(197)
Fair value of plan assets		**2,167**		**—**		2,136		—
Total funded status of surpluses (obligations)	**$**	**43**	**$**	**(161)**	$	(22)	$	(197)
Assets not recognized due to asset ceiling		**(4)**		**—**		(2)		—
Total net defined benefit plan surplus (obligation)	**$**	**39**	**$**	**(161)**	$	(24)	$	(197)
Recorded on the consolidated balance sheet as follows:								
Other Assets (note 18)	**$**	**190**	**$**	**—**	$	90	$	—
Other Liabilities (note 23)		**(151)**		**(161)**		(114)		(197)

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

(millions of Canadian dollars)	2015 Defined Benefit Pension Plans	2015 Other Defined Benefit Plans	2015 Total	2014 Defined Benefit Pension Plans	2014 Other Defined Benefit Plans	2014 Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$ 2,136**	**$ —**	**$ 2,136**	$ 1,709	$ —	$ 1,709
Additions from the acquisition of Shoppers Drug Mart	**—**	**—**	**—**	161	—	161
Employer contributions(i)	**(15)**	**—**	**(15)**	55	—	55
Employee contributions	**3**	**—**	**3**	3	—	3
Benefits paid	**(86)**	**—**	**(86)**	(83)	—	(83)
Interest Income	**84**	**—**	**84**	86	—	86
Actuarial gains in other comprehensive income	**117**	**—**	**117**	210	—	210
Settlements(ii)	**(65)**	**—**	**(65)**	—	—	—
Other	**(7)**	**—**	**(7)**	(5)	—	(5)
Fair value, end of year	**$ 2,167**	**$ —**	**$ 2,167**	$ 2,136	$ —	$ 2,136
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 2,158**	**$ 197**	**$ 2,355**	$ 1,668	$ 167	$ 1,835
Additions from the acquisition of Shoppers Drug Mart	**—**	**—**	**—**	173	6	179
Current service cost	**61**	**7**	**68**	51	7	58
Interest cost	**87**	**8**	**95**	86	8	94
Benefits paid	**(93)**	**(6)**	**(99)**	(87)	(6)	(93)
Employee contributions	**3**	**—**	**3**	3	—	3
Actuarial (gains) losses in other comprehensive income (loss)	**(35)**	**(45)**	**(80)**	261	15	276
Settlements(ii)	**(57)**	**—**	**(57)**	—	—	—
Contractual termination benefits(iii)	**—**	**—**	**—**	1	—	1
Special termination benefits(iii)	**—**	**—**	**—**	2	—	2
Balance, end of year	**$ 2,124**	**$ 161**	**$ 2,285**	$ 2,158	$ 197	$ 2,355

(i) 2015 employer contributions are offset by a $50 million refund of employer contributions from the assets of one of the Company's supplemental plans.

(ii) Settlements relate to annuity purchases and pension buy-outs completed in 2015.

(iii) Includes $3 million of contractual and special termination benefits in 2014 related to the reduction of head office and administrative positions.

In 2015, the Company completed several annuity purchases and pension buy-outs 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 $65 million from the impacted plans' assets to settle $57 million of pension obligations and recorded settlement charges of $8 million in SG&A. The settlement charges resulted from the discount rates used to value the annuity purchases and pension buy-outs being lower than the discount rates used to value the Company's defined benefit plan obligations.

For the fiscal year ended 2015, the actual return on plan assets was $201 million (2014 – $296 million).

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

- Active plan participants 47% (2014 – 46%)
- Deferred plan participants 10% (2014 – 11%)
- Retirees 43% (2014 – 43%)

During 2016, the Company expects to contribute approximately $29 million (2015 – contributed $35 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:

	2015			2014		
(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	**$ 61**	**$ 7**	**$ 68**	$ 51	$ 7	$ 58
Interest cost on net defined benefit plan obligations	**3**	**8**	**11**	—	8	8
Settlement charges(i)	**8**	**—**	**8**	—	—	—
Contractual and special termination benefits(ii)	**—**	**—**	**—**	3	—	3
Other	**7**	**—**	**7**	5	—	5
Net post-employment defined benefit cost	**$ 79**	**$ 15**	**$ 94**	$ 59	$ 15	$ 74

(i) Relates to annuity purchases and pension buy-outs completed in 2015.

(ii) Includes $3 million of contractual and special termination benefits in 2014 related to the reduction in head office and administrative positions (see note 35)

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

	2015			2014		
(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	**$ (117)**	**$ —**	**$ (117)**	$ (210)	$ —	$ (210)
Experience adjustments	**(7)**	**(44)**	**(51)**	11	(1)	10
Actuarial (gains) losses from change in demographic assumptions	**(20)**	**(1)**	**(21)**	23	3	26
Actuarial (gains) losses from change in financial assumptions	**(8)**	**—**	**(8)**	227	13	240
Change in liability arising from asset ceiling	**2**	—	**2**	(4)	—	(4)
Total net actuarial (gains) losses recognized in other comprehensive income (loss) before income taxes	**$ (150)**	**$ (45)**	**$ (195)**	$ 47	$ 15	$ 62
Income tax expenses (recoveries) on actuarial (gains) losses (note 7)	**40**	**12**	**52**	(12)	(4)	(16)
Actuarial (gains) losses net of income tax expense (recoveries)	**$ (110)**	**$ (33)**	**$ (143)**	$ 35	$ 11	$ 46

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

	2015			2014		
(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	**$ 170**	**$ (16)**	**$ 154**	$ 123	$ (31)	$ 92
Net actuarial (gains) losses recognized in the year before income taxes	**(150)**	**(45)**	**(195)**	47	15	62
Cumulative amount, end of year	**$ 20**	**$ (61)**	**$ (41)**	$ 170	$ (16)	$ 154

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)	**2015**		2014	
Equity securities				
Canadian:				
- pooled funds	**$ 92**	**4%**	$ 303	14%
Foreign:				
- pooled funds	**825**	**38%**	511	24%
Total Equity Securities	**$ 917**	**42%**	$ 814	38%
Debt securities				
Fixed income securities:				
- government	**$ 577**	**27%**	$ 665	31%
- corporate	**187**	**9%**	239	11%
Fixed income pooled funds(i):				
- government	**378**	**17%**	314	15%
- corporate	**20**	**1%**	19	1%
Total Debt Securities	**$ 1,162**	**54%**	$ 1,237	58%
Other investments	**$ 70**	**3%**	$ 54	3%
Cash and cash equivalents	**18**	**1%**	16	1%
Refundable tax on account with CRA	**—**	**—%**	15	—%
Total	**$ 2,167**	**100%**	$ 2,136	100%

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

As at January 2, 2016 and January 3, 2015, 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):

	2015		2014	
	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%**	4.00%	4.00%
Rate of compensation increase	**3.50%**	**n/a**	3.50%	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	**4.00%**	**4.00%**	4.75%	4.50%
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table[(i)]	**CPM-RPP2014 Pub/Priv Generational**	**CPM-RPP2014 Pub/Priv Generational**	CPM-RPP2014 Priv Generational	CPM-RPP2014 Priv Generational

n/a – not applicable

(i) Public or private sector mortality table is used depending on the prominent demographics of each plan.

The weighted average duration of the defined benefit obligation as at January 2, 2016 is 16.9 years (January 3, 2015 – 15.8 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at the end of the year was estimated at 4.50% and is expected to remain at 4.50% at the end of 2016 and thereafter.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2015 (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.

	2015			
	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%**	**4.00%**	**4.00%**	**4.00%**
Impact of:				
1% increase	**$ (331)**	**$ (29)**	**$ (20)**	**$ —**
1% decrease	**$ 393**	**$ 28**	**$ 25**	**$ 1**
Expected growth rate of health care costs			**4.50%**	**4.50%**
Impact of:				
1% increase	**n/a**	**n/a**	**$ 18**	**$ 2**
1% decrease	**n/a**	**n/a**	**$ (15)**	**$ (2)**

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 2015, the Company recognized an expense of $60 million (2014 – $55 million) in operating income, which represents the contributions made in connection with MEPPs. During 2016, 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 52,000 (2014 – 52,000) employees as members. Included in the 2015 expense described above are contributions of $59 million (2014 – $54 million) to CCWIPP.

Post-Employment and Other Long Term Employee Benefit Costs

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

(millions of Canadian dollars)		**2015**		2014
Net post-employment defined benefit cost(i)	**$**	**94**	$	74
Defined contribution costs(ii)		**21**		20
Multi-employer pension plan costs(iii)		**60**		55
Total net post-employment benefit costs	**$**	**175**	$	149
Other long term employee benefit costs(iv)		**27**		28
Net post-employment and other long term employee benefit costs	**$**	**202**	$	177
Recorded on the consolidated statement of earnings as follows:				
Selling, general and administrative expenses	**$**	**189**	$	165
Net interest expense and other financing charges		**13**		12
Net post-employment and other long term employee benefit costs	**$**	**202**	$	177

(i) Includes settlement charges of $8 million related to annuity purchases and pension buy-outs completed in 2015.

(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 $2 million (2014 – $4 million) of net interest expense and other financing charges.

Note 28. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)		**2015**		2014
Wages, salaries and other short term employment benefits	**$**	**4,958**	$	4,494
Post-employment benefits		**164**		141
Other long term employee benefits		**25**		24
Equity-based compensation		**69**		71
Capitalized to fixed assets		**(37)**		(30)
Total employee costs	**$**	**5,179**	$	4,700

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 January 2, 2016**	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	**Total**	Total
Operating lease payments	$ 682	$ 658	$ 617	$ 571	$ 504	$ 2,606	**$ 5,638**	$ 5,868
Sub-lease income	(54)	(45)	(38)	(28)	(18)	(79)	**(262)**	(295)
Net operating lease payments	$ 628	$ 613	$ 579	$ 543	$ 486	$ 2,527	**$ 5,376**	$ 5,573

During 2015, the Company recorded $686 million (2014 – $572 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 $1 million (2014 – $1 million) and sub-lease income earned totaled $62 million (2014 – $58 million), which is recognized in operating income. Contingent rent recognized as income in respect of sub-leased operating leases in 2015 was $6 million (2014 – $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 January 2, 2016**	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	**Total**	Total
Net operating lease income	$ 127	$ 105	$ 90	$ 69	$ 55	$ 163	**$ 609**	$ 647

As at January 2, 2016, the Company leased certain owned land and buildings with a cost of $2,591 million (January 3, 2015 – $2,578 million) and related accumulated depreciation of $698 million (January 3, 2015 – $718 million). For the year ended January 2, 2016, rental income was $141 million (2014 – $148 million) and contingent rent was $5 million (2014 – $3 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 January 2, 2016**	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	**Total**	Total
Finance lease payments	$ 89	$ 82	$ 69	$ 62	$ 58	$ 700	**$ 1,060**	$ 1,091
Less future finance charges	(33)	(31)	(28)	(26)	(25)	(288)	**(431)**	(491)
Present value of minimum lease payments	$ 56	$ 51	$ 41	$ 36	$ 33	$ 412	**$ 629**	$ 600

During 2015, contingent rent recognized by the Company as an expense in respect of finance leases was $1 million (2014 – $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 the these sub-lease agreements are as follows:

	Payments to be received by year						As at January 2, 2016	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	**Total**	Total
Sub-lease income	$ 15	$ 13	$ 12	$ 12	$ 11	$ 35	**$ 98**	$ 89

At January 2, 2016, the sub-lease income earned under finance leases was $15 million (January 3, 2015 – $16 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:

				As at January 2, 2016				As at January 3, 2015
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash and cash equivalents	**$ 922**	**$ 96**	**$ —**	**$ 1,018**	$ 984	$ 15	$ —	$ 999
Short term investments	**62**	**2**	**—**	**64**	19	2	—	21
Security deposits	**2**	**—**	**—**	**2**	7	—	—	7
Franchise loans receivable	**—**	**—**	**329**	**329**	—	—	399	399
Certain other assets(i)	**25**	**2**	**59**	**86**	—	8	64	72
Derivatives included in prepaid expenses and other assets	**—**	**37**	**—**	**37**	—	10	—	10
Financial liabilities:								
Derivatives included in trade payables and other liabilities	**6**	**—**	**7**	**13**	—	11	4	15
Trust unit liability	**821**	**—**	**—**	**821**	722	—	—	722
Long term debt	**—**	**12,003**	**—**	**12,003**	—	12,508	—	12,508
Capital securities(ii)	**—**	**—**	**—**	**—**	234	—	—	234
Certain other liabilities(i)	**—**	**—**	**20**	**20**	—	—	28	28

(i) Certain other assets and Certain other liabilities are included in the consolidated balance sheet in Other Assets and Other Liabilities, respectively.

(ii) In 2015, the Company redeemed its $225 million of Capital Securities, representing all of the outstanding Second Preferred Shares, Series A (see note 24). As at January 3, 2015, capital securities were classified as current liabilities.

The carrying values of the Company's financial instruments approximate their fair values except for long term debt and capital securities.

There were no transfers between levels of the fair value hierarchy.

During 2015, the Company recognized a gain of $18 million (2014 – gain of $11 million) in operating income on financial instruments designated as fair value through profit or loss. In addition, during 2015, a net loss of $33 million (2014 – net loss of $18 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Embedded Derivatives The level 3 financial instruments classified as fair value through profit or loss as at January 2, 2016 and January 3, 2015 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.

The fair value of the embedded foreign currency derivatives classified as Level 3 included in trade payables and other liabilities as at January 2, 2016 was $7 million (January 3, 2015 – $4 million). During 2015, a $3 million loss (2014 – nominal loss) was recorded in operating income. As at January 2, 2016, a 1% increase (decrease) in foreign currency exchange rates would result in a $2 million gain (loss) in fair value.

Other Derivatives The Company also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options, which are classified as fair value through profit or loss. During 2015, the Company recognized a fair value net gain of $51 million (2014 – net loss of $1 million) in operating income related to these derivatives.

The following table summarizes the cumulative unrealized impact of these other derivatives included in the consolidated balance sheet:

(millions of Canadian dollars)	**2015**	2014
Cumulative unrealized gains recorded in prepaid expenses and other assets	**$ 33**	$ 10
Cumulative unrealized losses recorded in trade payables and other liabilities	**6**	11

Subsequent to the end of 2015, Choice Properties entered into certain bond forward agreements with a notional value of $300 million.

Trust Unit Liability As at January 2, 2016, the fair value of the Trust Unit Liability of $821 million (January 3, 2015 – $722 million) was recorded on the consolidated balance sheet. During 2015 the Company recorded a fair value loss of $81 million (2014 – loss of $17 million) in net interest expense and other financing charges related to Choice Properties' Units.

As at January 2, 2016, 69,453,817 Units were held by unitholders other than the Company (January 3, 2015 – 67,755,010) and the Company held an 83.0% (January 3, 2015 – 82.9%) effective ownership interest in Choice Properties.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of $329 million (January 3, 2015 – $399 million) was recorded on the consolidated balance sheet. In 2015, the Company recorded a $1 million impairment loss (2014 – loss of $12 million) in operating income related to these loans receivable.

The value of Loblaw franchise investments of $54 million (January 3, 2015 – $62 million) was recorded in other assets. During 2015, the Company recorded a net gain of $31 million (2014 – loss of $3 million) in operating income related to these investments.

Securities Investments In 2015, PC Bank purchased and designated certain long term investments as available-for-sale financial assets, which are measured at fair value through other comprehensive income. As at January 2, 2016, the fair value of these investments of $25 million was included in other assets. During 2015, PC Bank recorded a nominal fair value loss in other comprehensive income related to these investments. These investments are considered part of the liquid securities required to be held by PC Bank to meet its LCR standard, which was established under OSFI's final Guideline on LARs, effective January 1, 2015.

The following is a description of the Company's financial instruments that qualified for hedge accounting:

Foreign Exchange Forwards During 2015, PC Bank entered into USD foreign exchange forward agreements to hedge its exposure on certain USD payables. These agreements, which mature by December 2016, qualify for hedge accounting as cash flow hedges of future foreign currency transactions. Accordingly, during 2015, PC Bank recorded an unrealized fair value gain of $3 million in other comprehensive income related to the effective portion of these agreements.

As at January 2, 2016, an unrealized fair value gain of $4 million (January 3, 2015 – nil) was included in prepaid expenses and other assets related to these forwards.

Bond Forward During 2015, in connection with expected funding needs in the latter half of the year, PC Bank entered into bond forward agreements with a notional value of $350 million to hedge its exposure to interest rate changes prior to obtaining financing and settled these agreements within the year. These agreements qualified for hedge accounting as cash flow hedges of future interest payments. Accordingly, upon maturity of these bond forward agreements, PC Bank deferred a loss of $2 million in accumulated other comprehensive income to be recognized in income as future interest payments are made.

Note 31. Financial Risk Management

As a result of holding and issuing financial instruments, the Company is exposed to liquidity, credit risk 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 would 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 facility, and maintaining a well-diversified maturity profile of debt and capital obligations.

The following are the undiscounted contractual maturities of significant financial liabilities as at January 2, 2016:

	2016	2017	2018	2019	2020	Thereafter	Total(i)
Derivative Financial Liabilities							
Foreign exchange forward contracts	$ 441	$ —	$ —	$ —	$ —	$ —	$ 441
Non-Derivative Financial Liabilities							
Bank Indebtedness	143	—	—	—	—	—	143
Short term debt(ii)	550	—	—	—	—	—	550
Long term debt including interest payments(iii)	1,440	1,311	1,772	1,911	1,637	7,607	15,678
Other liabilities(iv)	14	5	3	2	3	3	30
	$ 2,588	$ 1,316	$ 1,775	$ 1,913	$ 1,640	$ 7,610	$ 16,842

(i) The Trust Unit Liability have been excluded as these liabilities do not have a contractual maturity date. 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 11).

(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 January 2, 2016.

(iv) Contractual obligation related to certain other liabilities.

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.

Choice Properties mitigates the risk of credit loss relating to rent receivables by evaluating the creditworthiness of new tenants, obtaining security deposits wherever permitted by legislation, ensuring its tenant mix is diversified and by limiting its exposure to any one tenant except Loblaw. Choice Properties establishes an allowance for doubtful accounts that represents the estimated losses with respect to rents receivable. The allowance is determined on a tenant-by-tenant basis based on the specific factors related to the tenant.

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 Risk 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 Rate Risk The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. 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 $4 million to net interest expense and other financing charges.

Foreign Currency Exchange Rates The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated based 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.

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 for a portion of its need for certain consumer products that are commodities based. The Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility related to energy. The Company estimates that based on the outstanding derivative contracts held by the Company as at January 2, 2016, a 10% decrease in relevant energy prices, with all other variables held constant, would result in a net loss of $1 million on earnings before income taxes.

Choice Properties' Unit Price The Company is exposed to market price risk as a result of Choice Properties' Units that are held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheet as they are redeemable for cash at the option of the holder. The liability is recorded at fair value at each reporting period based on the market price of Units. The change in the fair value of the liability negatively impacts net earnings when the Unit price increases and positively impacts net earnings when the Unit price declines. A one dollar increase in the market value of Units, with all other variables held constant, would result in a $69 million increase to net interest expense and other financing charges.

Note 32. Contingent Liabilities

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital, commodity, property and other taxes and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but may have a material impact in future periods.

Legal Proceedings The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice 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 the class action is without merit and intends to vigorously defend itself against any claims arising out of any such action.

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 Ontario Superior Court of Justice certified as a class proceeding portions of the action. The Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. While Shoppers Drug Mart continues to believe that the claim is without merit and will vigorously defend the claim, the outcome of this matter cannot be predicted with certainty.

Tax The Company is subject to tax audits from various government and regulatory agencies on an ongoing basis. As a result, from time to time, taxing 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. These reassessments could have a material impact on the Company in future periods.

During the second quarter of 2015, the Company was reassessed by the Canada Revenue Agency ("CRA") and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary, should be treated, and taxed, as income in Canada. The reassessments were for the 2000 to 2010 taxation years totaling $341 million including interest and penalties as at the time of reassessment. The Company believes it is likely that the CRA will issue reassessments for the 2011 to 2013 taxation years on the same or similar basis. The Company strongly disagrees with the CRA's position and has filed a Notice of Appeal. No amount for any reassessments has been provided for in the Company's 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 $448 million as at January 2, 2016 (January 3, 2015 – $293 million). In addition, the Company has provided to third parties the following significant guarantees:

Associate Guarantees The Company has arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at January 2, 2016, the Company's maximum obligation in respect of such guarantees was $570 million (January 3, 2015 – $570 million) with an aggregate amount of $483 million (January 3, 2015 – $476 million) in available lines of credit allocated to the Associates by the various banks. As at January 2, 2016, Associates had drawn an aggregate amount of $143 million (January 3, 2015 – $162 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheet. 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 January 2, 2016 the Company has agreed to provide a credit enhancement of $53 million (January 3, 2015 – $50 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2014 – 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 $18 million (January 3, 2015 – $17 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of $7 million (January 3, 2015 – $13 million).

Glenhuron Bank Limited Surety Bond In 2015, in connection with the CRA's reassessment of the Company on certain income earned by Glenhuron (see note 32), the Company arranged for a surety bond of $132 million to the Ministry of Finance in order to dispute the reassessments.

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at January 2, 2016, the guarantee on behalf of PC Bank to MasterCard® was USD $190 million (January 3, 2015 – USD $170 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 $107 million (January 3, 2015 – $91 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 $56 million (January 3, 2015 – $61 million), which represented approximately 10% (2014 – 10%) of the securitized credit card receivables amount (see note 20). As at January 2, 2016, the aggregate gross potential liability under these arrangements for *Eagle* was $36 million (January 3, 2015 – $68 million), which represented approximately 6% (2014 – 9%) of the *Eagle* notes outstanding (see note 22).

Choice Properties Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at January 2, 2016, the aggregate gross potential liability related to these letters of credit totaled $28 million (January 3, 2015 – $23 million).

The Choice Properties Credit Facility and Choice Properties debentures are guaranteed by each of the General Partner, the Partnership and any other person that becomes a subsidiary of Choice Properties (with certain exceptions). In the case of default by Choice Properties, the Indenture Trustee will be entitled to seek redress from the Guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of Choice Properties. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties' assets being primarily held in its various subsidiaries.

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 46% 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 80,769,249 of Weston's common shares, representing approximately 63% of Weston's outstanding common shares. Mr. Weston also beneficially owns 5,096,189 of the Company's common shares, representing approximately 1% of the Company's outstanding common shares. The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions.

Transactions with Related Parties:

	Transaction Value	
(millions of Canadian dollars)	**2015**	2014
Included in Cost of Merchandise Inventories Sold		
Inventory purchases from a subsidiary of Weston	**$ 642**	$ 615
Inventory purchases from a related party(i)	**25**	24
Operating Income		
Cost sharing agreements with Parent(ii)	**$ 27**	$ 20
Net administrative services provided by Parent(iii)	**23**	18
Choice Properties distributions to Parent(iv)	**14**	14
Lease of office space from a subsidiary of Wittington	**3**	3

(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 January 2, 2016 was $2 million (January 3, 2015 – $3 million).

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

(iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information system, 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) Weston is a unitholder of Choice Properties and is entitled to receive distributions declared by the trust. Unitholders who elect to participate in the Choice Properties Distribution Reinvestment Plan ("DRIP") receive a further distribution, payable in Units, equal in value to 3% of each cash distribution. In 2015, Choice Properties issued 1,317,405 Units (2014 – 1,306,847 Units) to Weston under its DRIP at a weighted average price of $10.86 (2014 – $10.30) per Unit.

The net balances due to Weston are comprised as follows:

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Trade payables and other liabilities	**3**	7

Joint Venture In 2014, a joint venture, formed between Choice Properties and Wittington, completed the acquisition of property from Loblaw. The joint venture intends to develop the acquired site into a mixed-used property, anchored by a Loblaw food store. As at January 2, 2016, the joint venture did not have any operating activity. Choice Properties uses the equity method of accounting to record its 40% interest in the joint venture, which is included in other assets (see note 18).

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 note 27.

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. In 2015, these elections and accompanying agreements did not have a material impact on the Company.

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)	**2015**	2014
Salaries, director fees and other short term employee benefits	**$ 6**	$ 9
Equity-based compensation	**4**	3
Total compensation	**$ 10**	$ 12

Note 35. Restructuring and Other Related Costs

The following is a discussion of the Company's significant restructuring activities in 2015 and 2014.

During 2015, the Company recorded $124 million of restructuring and other related costs in operating income associated with the announced closures of approximately 52 unprofitable retail locations across a range of banners and formats. Of this amount, $92 million related to severance and other store closure costs and $32 million related to impairment of assets. As at January 2, 2016, there were 33 retail location closures. The Company expects that the remaining closures will be completed by the end of the second quarter of 2016.

In 2015, the Company commenced actively marketing the sale of certain assets of its Shoppers ancillary healthcare businesses. As a result, the Company recorded a charge of $112 million of restructuring and other related costs, in operating income. Of this amount, $73 million related to the write-down of various assets with the remainder relating to other closure costs. Subsequent to the end of 2015, the Company signed an agreement for the sale of certain of these assets.

During 2014, the Company recorded $46 million of restructuring and reorganization costs in operating income, primarily associated with the reduction of corporate and store-support positions, the departure of certain executives and the realignment of certain of the Company's central office functions.

As at January 2, 2016, $140 million (January 3, 2015 - $37 million) was included in Provisions relating to these restructuring initiatives (see note 21).

Note 36. Segment Information

The Company has three 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, gas bars and apparel and other general merchandise. 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 Financial Services segment provides credit card services, loyalty programs, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services; and
- The Choice Properties segment owns and leases income-producing commercial properties. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA(2) and adjusted operating income(2), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

					2015					2014
(millions of Canadian dollars)	**Retail**	**Financial Services(4)**	**Choice Properties(4)**	**Consolidation and Eliminations(i)**	**Total**	Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations(i)	Total
Revenue(ii)	**$44,469**	**$ 849**	**$ 743**	**$ (667)**	**$45,394**	$41,731	$ 810	$ 683	$ (613)	$ 42,611
EBITDA(iii)	**$ 2,996**	**$ 173**	**$ 602**	**$ (578)**	**$ 3,193**	$ 1,950	$ 171	$ 568	$ (555)	$ 2,134
Adjusting Items(iii)	**356**	**—**	**—**	**—**	**356**	1,090	—	3	—	1,093
Adjusted EBITDA(iii)	**$ 3,352**	**$ 173**	**$ 602**	**$ (578)**	**$ 3,549**	$ 3,040	$ 171	$ 571	$ (555)	$ 3,227
Depreciation and Amortization(iv)	**1,031**	**10**	**1**	**14**	**1,056**	1,036	7	—	12	1,055
Adjusted Operating Income(iii)	**$ 2,321**	**$ 163**	**$ 601**	**$ (592)**	**$ 2,493**	$ 2,004	$ 164	$ 571	$ (567)	$ 2,172
Net interest expense and other financing charges	**$ 367**	**$ 57**	**$ 756**	**$ (536)**	**$ 644**	$ 386	$ 53	$ 369	$ (224)	$ 584

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $502 million (2014 – $471 million) of rental revenue and $165 million (2014 – $142 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the $502 million (2014 – $471 million) impact of rental revenue described above; the elimination of a $72 million gain (2014 – $82 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the recognition of $14 million (2014 – $12 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of $4 million (2014 – $2 million).
- Net interest expense and other financing charges includes the elimination of $251 million (2014 – $297 million) of interest expense included in Choice Properties related to debt owing to the Company and a $411 million fair value loss (2014 – gain of $12 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of $45 million (2014 – $44 million), which excludes distributions paid to the Company and a $81 million fair value loss (2014 – loss of $17 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is $368 million (2014 – $356 million) of interest income.

(iii) Certain items are excluded from EBITDA(2) 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 $536 million (2014 – $417 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015
Total Assets		
Retail	**$ 29,936**	$ 30,048
Financial Services(i)	**3,267**	3,094
Choice Properties(i)	**8,906**	8,192
Consolidation and Eliminations(ii)	**(8,170)**	(7,575)
Total	**$ 33,939**	$ 33,759

(i) For segment presentation purposes, the balances are as at December 31, 2015 and December 31, 2014, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to January 2, 2016 and January 3, 2015 are included in Consolidation and Eliminations.

(ii) Consolidation and Eliminations includes the elimination of certain investment properties held by Choice Properties measured at fair value, which are presented in the consolidated results as fixed assets and investment properties measured at cost.

(millions of Canadian dollars)	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)
Additions to Fixed Assets and Intangible Assets		
Retail	**$ 1,041**	$ 941
Financial Services(i)	**14**	18
Choice Properties(i)	**410**	280
Consolidation and Eliminations(ii)	**(224)**	(153)
Total	**$ 1,241**	$ 1,086

(i) For segment presentation purposes, the results are for the years ended December 31, 2015 and December 31, 2014, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to January 2, 2016 and January 3, 2015 are included in Consolidation and Eliminations.

(ii) Consolidations and Eliminations includes the elimination of investment properties acquired by Choice Properties from the Retail segment.

Three Year Summary[1],[5]

For the years ended January 2, 2016 and January 3, 2015 and December 28, 2013 (millions of Canadian dollars except where otherwise indicated)		2015		2014		2013
Consolidated Results of Operations						
Revenue	**$**	**45,394**	$	42,611	$	32,371
Revenue excluding 53rd week		***45,394***		*41,822*		*32,371*
Revenue growth		**6.5%**		31.6%		2.4%
Revenue growth excluding 53rd week		***8.5%***		*29.2%*		*2.4%*
Adjusted EBITDA[2]	**$**	**3,549**	$	3,227	$	2,106
Adjusted EBITDA[2] excluding 53rd week		***3,549***		*3,156*		*2,106*
Adjusted EBITDA margin[2]		**7.8%**		7.6%		6.5%
Net interest expense and other financing charges	**$**	**644**	$	584	$	468
Adjusted net interest expense and other financing charges[2]		**548**		529		354
Net earnings		**623**		53		627
Net earnings attributable to shareholders of the Company		**632**		53		627
Net earnings available to common shareholders of the Company		**625**		53		627
Net earnings available to common shareholders of the Company excluding 53rd week		***625***		*1*		*627*
Adjusted net earnings available to common shareholders of the Company[2]		**1,422**		1,217		696
Adjusted net earnings available to common shareholders of the Company[2] excluding 53rd week		***1,422***		*1,165*		*696*
Retail debt to retail adjusted EBITDA[2]		**2.0x**		2.6x		3.2x
Adjusted return on equity		**11.1%**		12.3%		10.4%
Adjusted return on capital		**8.5%**		10.4%		10.5%
Consolidated Financial Position and Cash Flows						
Cash and cash equivalents, short term investments and security deposits	**$**	**1,084**	$	1,027	$	4,251
Cash flows from operating activities		**3,079**		2,569		1,491
Capital investments		**1,241**		1,086		877
Free cash flow[2]		**1,347**		977		244
Consolidated Per Common Share ($)						
Basic net earnings	**$**	**1.52**	$	0.14	$	2.23
Basic net earnings excluding 53rd week	***$***	***1.52***	*$*	—	*$*	*2.23*
Adjusted basic net earnings[2]	**$**	**3.46**	$	3.20	$	2.48
Adjusted basic net earnings[2] excluding 53rd week	***$***	***3.46***	*$*	*3.06*	*$*	*2.48*
Dividends						
Dividends declared per common share ($)	**$**	**0.995**	$	0.975	$	0.940
Retail Results of Operations						
Sales	**$**	**44,469**	$	41,731	$	31,600
Sales excluding 53rd week		***44,469***		*40,942*		*31,600*
Gross profit		**11,689**		9,734		6,961
Gross profit excluding 53rd week		***11,689***		*9,534*		*6,961*
Adjusted gross profit[2]		**11,747**		10,722		6,961
Adjusted gross profit[2] excluding 53rd week		***11,747***		*10,522*		*6,961*
Adjusted gross profit %[2]		**26.4%**		25.7%		22.0%
Adjusted EBITDA[2]	**$**	**3,352**	$	3,040	$	1,947
Adjusted EBITDA[2] excluding 53rd week		***3,352***		*2,969*		*1,947*
Adjusted EBITDA margin[2]		**7.5%**		7.3%		6.2%
Depreciation and amortization	**$**	**1,567**	$	1,453	$	809

Three Year Summary(1),(5)

For the years ended January 2, 2016 and January 3, 2015 and December 28, 2013 (millions of Canadian dollars except where otherwise indicated)	2015	2014	2013
Retail Operating Statistics			
Food retail same-store sales growth	**1.9%**	2.0%	1.1%
Drug retail same-store sales growth	**4.3%**	2.6%	—%
Drug retail same-store pharmacy sales growth	**3.7%**	2.7%	—%
Drug retail same-store front store sales growth	**4.7%**	2.4%	—%
Total retail square footage (in millions)	**69.9**	70.0	51.9
Number of corporate stores	**591**	615	570
Number of franchise stores	**525**	527	496
Number of Associate-owned drug stores	**1,313**	1,302	—
Financial Services Results of Operations(4)			
Revenue	**$ 849**	$ 810	$ 739
Adjusted EBITDA(2)	**173**	171	142
Earnings before income taxes	**106**	111	93
Financial Services Operating Measures and Statistics(4)			
Average quarterly net credit card receivables	**$ 2,642**	$ 2,535	$ 2,345
Credit card receivables	**2,790**	2,630	2,538
Allowance for credit card receivables	**54**	54	47
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.7%	13.6%
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	4.4%	4.2%
Choice Properties Results of Operations and Measures(4)			
Revenue	**$ 743**	$ 683	$ 319
Adjusted EBITDA(2)	**602**	571	373
Net interest expense and other financing charges	**756**	369	303
Adjusted funds from operations(2)	**313**	285	131

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120 of the Company's 2015 Annual Report.

(2) See Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis.

(3) See the preface of the Company's Management's Discussion and Analysis for a definition of terms.

(4) The results for the Financial Services and Choice Properties segments are for the periods ended December 31, 2015 and December 31, 2014, consistent with the segments' fiscal calendars. Adjustments to align Financial Services' and Choice Properties' results to January 2, 2016 and January 3, 2015 are included in Consolidation and Eliminations. See Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis and Note 36 "Segment Information".

(5) The Company's comparative results were negatively impacted by the inclusion of an additional selling week, the 53rd week in 2014. The 53rd week resulted in the following impacts to the Company's 2014 fourth quarter and full year results: $789 million of higher retail sales, $71 million of higher EBITDA, and estimated impacts on net earnings and basic net earnings per common share of $52 million and $0.13 per share, respectively. The impact of the 53rd week on net earnings available to common shareholders of the Company is estimated based on operating income of the 53rd week and applying the effective tax rate for the fourth quarter of 2014. The impact of the 53rd week on basic net earnings per common share is based on the estimated net earnings available to common shareholders of the Company divided by the weighted average common shares outstanding for the fourth quarter and year-to-date of 2014, as applicable.

Glossary of Terms

Term	Definition
Adjusted basic net earnings per common share	Adjusted net earnings available to common shareholders divided by the weighted average number of common shares outstanding during the period (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA	Adjusted operating income before depreciation and amortization (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted EBITDA margin	Adjusted EBITDA divided by sales (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted income tax	Income taxes adjusted for the tax impact of items included in adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted income tax rate	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings attributable to shareholders of the Company	Net earnings attributable to shareholders of the Company adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net earnings available to common shareholders of the Company	Adjusted net earnings attributable to shareholders of the Company less preferred dividends (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted net interest and other financing charges	Net interest expense and other financing charges adjusted for items that are not necessarily reflective of the Company's ongoing net financial performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted operating income	Operating income adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on average equity attributable to common shareholders of the Company	Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Adjusted return on capital	Tax-effected adjusted operating income divided by average capital (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Annualized credit loss rate on average quarterly gross credit card receivables	Total credit card losses year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Annualized yield on average quarterly gross credit card receivables	Interest earned on credit card receivables year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Basic net earnings per common share	Net earnings available to common shareholders divided by the weighted average number of common shares of the Company outstanding during the period.
Capital under management	Total debt plus capital securities and equity attributable to shareholders of the Company.
Capital Investments	Fixed asset purchases and intangible asset additions.
Choice Properties adjusted funds from operations	Choice Properties' funds from operations adjusted for items that are not necessarily reflective of Choice Properties' underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Control brand	A brand and associated trademark that is owned by the Company for use in connection with its own products and services.
Conversion	A store that changes from one Company banner to another Company banner.
Diluted net earnings per common share	Net earnings available to common shareholders of the Company adjusted for the impact of dilutive items divided by the weighted average number of common shares outstanding during the period adjusted for the impact of dilutive items.
EBITDA	Operating income before depreciation and amortization (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion & Analysis).
Free Cash Flow	Cash flows from operating activities less intangible asset additions, fixed asset purchases and interest paid (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Major expansion/contraction	Expansion/contraction of a store that results in an increase/decrease in square footage that is greater than 25% of the square footage of the store prior to the expansion/contraction.
Minor expansion	Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.
Net earnings attributable to shareholders of the Company	Net earnings less non-controlling interests.
Net earnings available to common shareholders of the Company	Net earnings attributable to shareholders of the Company less preferred dividends.
New store	A newly constructed store, acquisition, conversion or major expansion.
Operating income	Net earnings before net interest expense and other financing charges and income taxes.
Renovation	A capital investment in a store resulting in no significant change to the store square footage.
Retail debt to retail adjusted EBITDA	Retail segment total debt (see Section 7.2 "Liquidity and Capital Structure" of the Company's Management Discussion and Analysis) divided by Retail segment adjusted EBITDA.
Retail segment adjusted gross profit	Retail segment gross profit, adjusted for items that are not necessarily reflective of the Company's underlying operating performance (see Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis).
Retail segment adjusted gross profit percentage	Retail segment adjusted gross profit divided by Retail segment sales.
Retail segment gross profit	Retail segment sales less cost of merchandise inventories sold.
Retail square footage	Retail square footage includes corporate, franchised stores and associate-owned drug stores.
Same-store sales	Retail segment sales from the same location for stores in operation in that location in both periods excluding sales from a store that has undergone a major expansion/contraction in the period.
Total equity attributable to common shareholders	Total equity less preferred shares outstanding and non-controlling interests.
Total equity attributable to shareholders of the Company	Total equity less non-controlling interests.
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the period the common shares were outstanding to the total time in that period.
Year	The Company's fiscal year ends on the Saturday closest to December 31 and is usually 52 weeks in duration, but includes 53 weeks every 5 to 6 years. The years ended January 2, 2016 and January 3, 2015 contained 52 weeks and 53 weeks,

Corporate Profile

National Head Office and Store Support Centre

Loblaw Companies Limited
1 President's Choice Circle
Brampton, Canada L6Y 5S5
Tel: (905) 459-2500
Fax: (905) 861-2206
Internet: http://loblaw.ca

Stock Exchange Listing and Symbol

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

Common Shares

W. Galen Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 46% of the Company's common shares.

At year-end 2015, there were 409,985,226 common shares issued and outstanding.

The average daily trading volume of the Company's common shares for 2015 was 526,372.

Preferred Shares

At year-end 2015, there were 9,000,000 second preferred shares, Series B issued and outstanding.

The average daily trading volume of the Company's second preferred shares for 2015 was:
Series A: 15,171
Series B: 18,452

Trademarks

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

Common Dividend Policy

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

Common Dividend Dates

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payments dates for 2016 are:

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

Normal Course Issuer Bid

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

Value of Common Shares

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

Investor Relations

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

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1

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

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

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

Independent Auditors

KPMG LLP
Chartered Professional Accountants
Toronto, Canada

Annual General Meeting

The 2016 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday, May 5, 2016 at 11:00 a.m. (EST), at the Mattamy Athletic Centre, 50 Carlton Street, Toronto, Canada M5B 1J2.

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

Preferred Shares, Series B Dividend Dates

The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated payment dates for 2016 are:

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

This report was printed in Canada on recycled paper.

Ce rapport est disponible en français.

Loblaw
COMPANIES LIMITED

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Environmental Savings Summary

By using 3,050 kg. of paper manufactured with 30% post-consumer recycled fibre for the Annual Report and 2,950 kg. of paper manufactured with 100% post-consumer recycled waste fibre for the Financial Review, Loblaw Companies Limited reduced its environmental footprint by:

Wood Use:	19,660 kg.
Total Energy:	49 million BTUs
Greenhouse Gases:	3,810 kg of CO_2 equivalent
Wastewater Flow:	192,678 L
Solid Waste:	1,545 kg

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

LOBLAW COMPANIES LIMITED 2015 ANNUAL REPORT

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