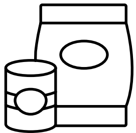
Live Life Well®

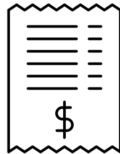
Loblaw Companies Limited

2022 Annual Report



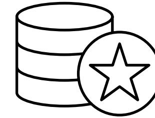
25%

On average savings by switching from comparable brand to no name®



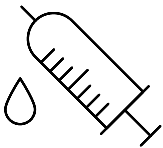
10%

Amount fully-engaged PC Optimum™ members can save on their grocery bills



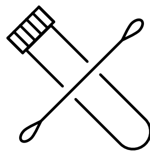
$1 billion +

Value of PC Optimum™ Points redeemed by customers



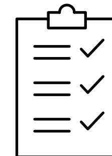
4.4 million

COVID vaccinations administered



3.7 million

COVID tests and screenings administered

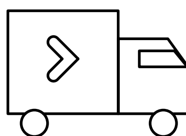


250

Carbon reduction projects completed

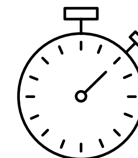
$3 billion

E-commerce revenue for the year



50%

PC Express™ Delivery coverage across the country



30 minutes

Launched PC Express™ Rapid Delivery, with delivery in as little as 30 minutes

Table of Contents

2 Our Stores, Our Colleagues, Our Strategy
4 Financial Highlights
5 Chairman's Message
8 Environmental, Social and Governance
10 Our Divisions
12 Our Leading Assets
14 Corporate Governance Practices
16 Board of Directors
16 Leadership
17 Financial Review

Helping Canadians *Live Life Well®*

In 2022, we once again proved that our business is uniquely positioned to help address the prevailing forces of the day. As Canadians demonstrated an eagerness to return to school, work and play, we were there – with cosmetic, cough and cold sales reaching record levels. As Canadians faced an inflationary crisis unseen in decades, we were there – with an unprecedented freeze on no name® prices and over 1 billion in PC Optimum™ point awards and redemptions. As Canadians continued to demand more engagement around the issues that matter most to them and their families, we were there – actively fighting climate change and advancing social equity. Being a purpose-led organization is tough but important work, and we're unapologetically proud of our efforts.

None of this is possible without our 221,000 colleagues and employees, who serve their communities with pride and passion every day, and the millions of Canadians who offer us their trust each and every week. To all of you, we say thank you.

Our Stores
Our Colleagues
Our Strategy

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

Our strategy keeps us intently focused on the realities of today, the opportunities of tomorrow, and the needs and expectations of consumers decades from now. Our efforts are underpinned by a solid foundation – an energetic colleague base working in great stores and pharmacies that operate efficiently and effectively from one day to the next. From there, we layer on value – everyday digital retail solutions, meaningful payment options, and outstanding loyalty offerings. And looking to the future, we envision connecting Canadians to healthcare solutions, both in our stores and online.

Retail Excellence

Through disciplined execution within our core retail operations, and by leveraging our scale and strategic assets, we are able to grow sales, optimize gross margins, and reduce operating costs – all while captivating and engaging customers. This requires promotional effectiveness, personalized value, quality service, and continued network investment and optimization to not only meet customer needs but improve overall profitability.

Driving Business Growth

We continue to invest in three targeted growth areas to further differentiate our portfolio of assets and generate competitive advantage: Digital Retail, Loblaw Media™, and PC Optimum™.

Investing for the Future

Capital investments in the modernization and automation of our supply chain, the expansion of our retail network, and the evolution of our Connected Healthcare strategy are all examples of Loblaw investing for long-term success.

Environment, Social and Governance (ESG)

We have a number of commitments within our two ESG priorities – fighting climate change and advancing social equity – that guide our support for the communities we serve.

Colleagues, Culture and CORE Values

An engaged and collaborative workforce is a key to our success, which is why we welcome authenticity, encourage strong connections, value trust, and make daily decisions with our CORE values – Care, Ownership, Respect, Excellence – top of mind.

Our CORE values

guide how we think, act and interact with one another.

Adarsh's Curiosity Makes a Big Impact

Adarsh Soomal, Senior Regional Maintenance Manager for the Western Region noticed plastic wrap was getting caught in the gears on loading machines, melting, and causing drive train units to fail. He designed a small deflector piece that could be added to the loading machine and prevent plastic from getting sucked into the gears. The next year's avoidable cost dropped from $70,000 to $24,000 and in the next two years there were no single drive train unit failures at all.

"Look at a different way to fix a problem – that's the way I approach things," he says. "I always recommend being curious. Ask questions, look at other possibilities."

ADARSH SOOMAL

Shirley's Dream Comes True

When Shirley Ibe started Madeup Beauty, an inclusive, Black-owned cosmetics brand aimed at women of colour, getting it on shelves at Shoppers Drug Mart® was an ambitious goal. Shirley attended a session where the Black Business Professionals Association connected small businesses with Loblaw, from there she had several presentations to Loblaw. All of her hard work paid off. Shirley is proud to see her line of makeup that prioritizes Black and other women of colour stocked alongside some of the biggest names in makeup.

"From the time I started Madeup Beauty, I've always said I would love to be in Shoppers Drug Mart® stores. It was one of my top choices because it's Canadian owned," she says. "And I'm always at Shoppers! I have about a million PC Optimum™ points."

SHIRLEY IBE

Financial Highlights

+4.7%

FOOD RETAIL SAME STORE SALES

+6.9%

DRUG RETAIL SAME STORE SALES

+8.2%

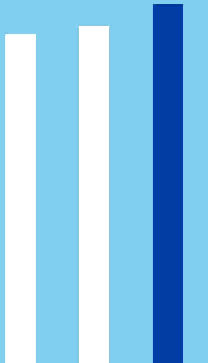
FRONT OF STORE

+5.7%

PHARMACY

+6.3%

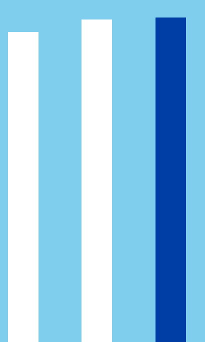
REVENUE[2]
($ millions)



2020 51,836 | 2021 53,170 | 2022 56,504

30.9%

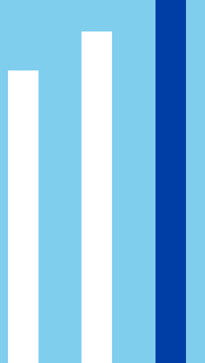
ADJUSTED RETAIL SEGMENT GROSS PROFIT MARGIN[1,2]



2020 29.5% | 2021 30.7% | 2022 30.9%

+10.6%

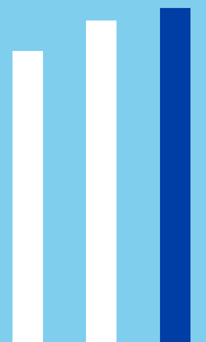
CONSOLIDATED ADJUSTED EBITDA[1,2]
($ millions)



2020 4,937 | 2021 5,587 | 2022 6,181

10.9%

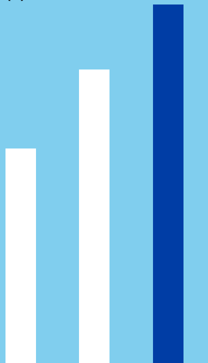
CONSOLIDATED ADJUSTED EBITDA MARGIN[1,2]



2020 9.5% | 2021 10.5% | 2022 10.9%

+22.0%

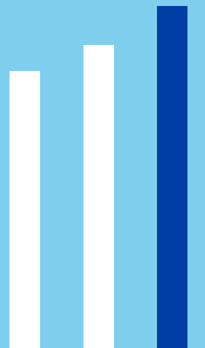
ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE[1,2]
($)



2020 4.09 | 2021 5.59 | 2022 6.82

+12.9%

DIVIDEND DECLARED PER COMMON SHARE
($)



2020 1.28 | 2021 1.40 | 2022 1.58

[1] See the Non-GAAP Financial Measures section of the 2022 Annual Report – Financial Review
[2] Excluding the impact of the 53rd week in 2020

Chairman's Message

Galen G. Weston
Chairman and President

More than ever, our businesses are well positioned to serve the everyday needs of Canadians. In a challenging year of inflationary pressures, each of our businesses delivered value, care and convenience while performing at the high-end of expectations. Collectively, our stores, our colleagues and our employees achieved our purpose – to help Canadians *Live Life Well*® – in unique and impactful ways.

Fellow Shareholders,

Our business entered 2022 with momentum, optimism, and a focus on the fundamentals.

A year later, we remain confident. Our supermarkets are doing more than ever to offer consumers value. The convenience of our e-commerce platforms drove $3 billion in revenue, stabilizing well above pre-pandemic levels. Joe Fresh® made essential style accessible to everyone. We continued to grow Canada's most rewarding no-fee financial services with more than 2 million PC® Mastercard® and PC Money™ account holders. And, our pharmacy business is stronger than ever, providing patients with greater access and choice through new services and enhanced care.

As we go, we are making meaningful progress against our Environmental, Social and Governance (ESG) goals, executing our strategy in pursuit of our purpose.

Supporting Canadians Today

In 2022, we enhanced our core through a commitment to *retail excellence*. More specifically, we drove day-to-day operating efficiency, and focused on being the best buyers in Canada. This improved our performance, drawing more customers while delivering solid financial results.

Those successes showed up in many ways. Our no name® price freeze, which capped the price of 1,500 iconic yellow *no name* products for over three months, led to increases in both market share and customer satisfaction. Our Shoppers Drug Mart® division had record performance, answering the demand for cough, cold and cosmetic products while expanding Canadians' access to primary care.

That retail excellence drove results. We achieved same store sales growth of +4.7 per cent in food retail and +6.9 per cent in drug retail, with revenue of $56.5 billion, growing +6.3 per cent. Consolidated adjusted EBITDA was $6.18 billion, or +10.6 per cent. Adjusted diluted net earnings per share were $6.82 or +22.0 per cent. We generated $1.53 billion in free cash flow and continued to return capital to shareholders by increasing our dividend +12.9 per cent and by repurchasing 12.1 million shares under a common share repurchase program.

In 2022, we enhanced our core through a commitment to *retail excellence*.

Investing for the Future

While delivering today, we invested for tomorrow.

Expanded pharmacy services, the launch of pharmacist-led clinics, the acquisition of Lifemark, and the growth in PC Health™ app users, all give us increased confidence in our Connected Healthcare strategy and its ability to improve care for patients.

Our business is also increasingly digital. We integrated our retail platforms, adding new functionality to improve customer experiences. And, we advanced Loblaw Media™, providing more targeted opportunities for our suppliers to reach customers online and in-store.

PC Optimum™ continues to evolve. Already recognized as a powerful tool for delivering value, we're increasing our ability to engage customers with more meaningful personalized offers and more effective promotions. As a result, *PC Optimum* held its place among the nation's top 10 most influential brands, according to an Ipsos survey of Canadians. We were the highest-ranking Canadian name, alongside many global giants.

Focused on the Communities We Serve

For decades, Canadians have offered us their trust and confidence. We know this is a privilege and we take our responsibility to the communities we serve to heart. That shows up in many ways.

Notably, it underpins our approach to fighting climate change and advancing social equity – our two Environmental, Social and Governance (ESG) priorities. These are challenges that matter to Canadians, and where our efforts can have an impact. We are well on our way, having already made specific commitments and progress towards meaningful change.

While the pages that follow offer more detail on our ESG efforts, our ambitions are clear:

Fighting Climate Change

- Achieve net-zero greenhouse gas emissions for our scope 1 and 2 by the end of 2040, and scope 3 by 2050
- Ensure all of our control brand and in-store plastic packaging is either reusable or recyclable by 2025
- Send zero food waste to landfill by the end of 2030

Advancing Social Equity

- Be Canada's most diverse and inclusive employer by deploying inclusion training across our entire workforce by 2024
- Support the health of women and children, by feeding 1 million kids a year by 2025, and providing nation-leading support for women's health and access to care

For more specifics, visit our Responsibility page at **loblaw.ca**.

Looking ahead, we'll continue to move our business forward. We'll invest over $2 billion to grow and improve our store network, provide more health and wellness care to Canadians, create jobs, reduce waste and meet our ESG commitments. And we will do so while delivering consistently against our long-term financial framework.

We are proud of all that we accomplished in 2022, and with 221,000 committed and hard-working colleagues standing ready to help Canadians *Live Life Well®*, we are well-positioned for the year ahead.

Galen G. Weston
Chairman and President

Looking ahead, we'll invest over $2 billion to grow and improve our store network, provide more health and wellness care to Canadians, create jobs, reduce waste and meet our ESG commitments.

Environmental, Social and Governance

Our purpose-led approach has strong relevance to our Environmental, Social and Governance (ESG) priorities, guiding us as we work to fight climate change and advance social equity.

Fighting Climate Change

Net-zero scope 1 and 2 by 2040, and scope 3 by 2050

In 2020, we met our goal of a 30% reduction in our carbon footprint, ten years early. We have since extended our focus to net-zero, which includes eliminating our enterprise green-house gas (GHG) emissions by 2050. In 2022 we:

- Completed 250 carbon reduction projects.
- Completed our climate risk assessment, evaluating our risk exposure and opportunities across multiple climate scenarios.
- Published our inaugural TCFD-aligned report.

Tackling Plastic Waste

Loblaw has a longstanding commitment to tackling plastic waste, working both at home and internationally on solutions. In 2022 we:

- Assessed over 10,000 control brand and in-store packaging products relative to the Golden Design Rules; we established 35% compliance and a plan to achieve 100% compliance by 2025.
- Replaced plastic box corners from banana shipping boxes, eliminating 220,000 kilograms of plastic waste.

Our progress in diverse representation earned us spots on The Globe and Mail's

Top 100 Employers for Young People, and Best Diversity Employers.

Eliminating Food Waste Sent to Landfill By 2030

After reaching our goal of cutting food waste by 50% by 2025 (five years early), we set a new target: send zero food to landfill by 2030 and achieve measurable food waste reductions in every one of our stores by the end of 2023. In 2022 we:

- Ensured 100% of our corporate, food franchise, associate-owned Shoppers Drug Mart® stores, and distribution centres were partnered with a food recovery agency and were actively donating to that partner.

Advancing Social Equity

Be Canada's most diverse and inclusive employer

We've set goals to achieve industry-leading representation for Management, Executives and our Board of Directors by 2024. We have excellent momentum, the specifics of which will be reported in our 2022 ESG Report.

Support the health and well-being of children and women

We recognize that women and children are the building blocks of healthy communities, and we are proud to support programs and partners who work tirelessly to support them. In 2022 we:

- Raised and donated more than $110 million to support research, charities and non-profits across Canada.
- Announced our commitment to Feed More Families™, with a pledge to donate one billion pounds of food to charities by 2028.
- Supported Canadians experiencing period poverty though our LOVE YOU by Shoppers Drug Mart™ program; in partnership with Ontario's Ministry of Education donated 7,000,000 period products, and an additional 3,250,000 to Manitoba school divisions.

How We Diverted the Weight of an Airplane in Plastics

Sebastian Kmiecik, Director of Bananas, Melons, and Tropical worked with four banana vendors to replace plastic cornerboards with cardboard ones. The project required collaboration and testing but in the end the cardboard cornerboards were durable, supported the cases of bananas through transit and could withstand the humidity of the tropics. When they calculated the savings they found they had already diverted approximately 220,000 kilograms of plastic from landfill in less than a year – a little bit heavier than a large airplane.

"It's extraordinary how you can make such a big impact," says Sebastian. "Especially when you work for a company the size of Loblaw—anything you do, can have a big, positive impact on the environment. Cardboard cornerboards is just one example – we should all strive to look for more sustainable solutions across the enterprise."

SEBASTIAN KMIECIK

Empowering Communities to Give Food a Second Life

"Loblaw operates in virtually every community across Canada, and as such, we have a responsibility to the communities we serve," says Alain Brandon, Vice President, Sustainability, Social Impact and Government Relations. Loblaw has partnered with Food Banks Canada to distribute a series of grants totaling $200,000 that have helped five local food banks purchase refrigeration equipment and community garden equipment. In October, select Ontario banners helped raise $174,000 for Second Harvest, helping to provide fresh, healthy food to social services and food organizations in our local communities equating to approximately 348,000 meals. In November the Flashfood® program reached a milestone of diverting 40 million pounds of food from landfill while saving Canadians $110 million on groceries, since launching in 2019. Loblaw remains committed to zero food waste to landfill by 2030.

"Unlocking access to perishable food – whether it's meals made by volunteers, fresh produce, meat, or frozen items – is critical in a time where food bank use has soared."

ALAIN BRANDON

Our Divisions

We operate more than 2,500 stores across Canada, employing directly or through our franchisees approximately 221,000 Canadians in full-time and part-time positions. With 90% of Canadians living within 10 kilometers of one of our stores, we are immersed in the communities we serve, and welcome the opportunity to help our customers lead better and healthier lives.

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

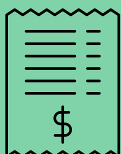
DISCOUNT

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

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

Shoppers Drug Mart® is Canada's leading drug store retailer, offering customers incredible convenience and the products and services they need throughout all stages of life. We operate more than 1,300 Associate-owned locations that deliver care and wellness to millions of Canadians weekly – both in-store and virtually making healthcare accessible, convenient and seamless. We also operate home healthcare and luxury beauty retail outlets, a specialty drug distribution network, pharmacy services for long-term care and retirement communities, a generic drug manufacturer, a unique health app, and an electronic medical records platform.

PC Financial® brings value and innovation to Canadians. More than 2 million PC® Mastercard® cardholders have collectively saved billions in bank fees while earning trillions of points to redeem for groceries and other essentials. And in 2022, the PC Money™ Account continued to grow, with Canadians valuing this no monthly fee account that gets them even more PC Optimum™ points. We also offer digital verification for authentication, in-platform spend insights, automatic savings goals, and sophisticated analysis of how Canadians earn and redeem PC Optimum™ points.



1 Billion

Customer transactions annually across grocery, pharmacy and financial services.

How the Pandemic Deepened Canada's Relationship with Pharmacists

Ruchi Kumar, Senior Director of Pharmacy Services at Shoppers Drug Mart® says she's seen a change in how Canadians view pharmacists and their services coming out of the pandemic. "More often, patients are seeing Shoppers Drug Mart® pharmacists as healthcare professionals they have easy access to, and I think through the pandemic, pharmacists have demonstrated that they can really help patients achieve their care goals. The relationship between patient and pharmacist, and the loyalty that exists there, has continued to build. Patients' adoption of digital tools, like the PC Health™ app, has also accelerated, and I'm looking forward to seeing how this trend will shape the future delivery of services in our stores."

"I'm proud to have played a role in helping millions of people access these services, while at the same time, keeping Canadians and our pharmacy teams safe and healthy."

RUCHI KUMAR

Alessandra Mentors the Business Leaders of Tomorrow

Alessandra Bisaillon, Director of Marketing, Customer Management at PC® Bank volunteers with PC Financial's® Resilience Project Accelerator which partners six teams of university students across Canada with an Advisor and together they are tasked with creating a project that promotes financial literacy and education in underserved populations. Alessandra's team from Capilano University in Vancouver developed an online platform of financial modules to educate young people about the fundamentals of budgeting, taxes, saving, credit and understanding a balance sheet. The team is actively pitching to school boards across the country and is coming up on their final presentation for the ten judges from PC Financial®.

"Knowing that I'm helping to make a difference in terms of building financial literacy for students and really supporting Canada's future leaders is very inspiring and motivating."

ALESSANDRA BISAILLON

Our Leading Assets

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

Brands

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

PC Optimum™

With over 15.5 million active annual members, PC Optimum™ is unique in its reach and customer engagement. The program is continually refined and enhanced, to provide our customers with greater value and the personalization they seek.

Technology & Analytics

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

Supply Chain

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

Compliance and Ethical Conduct

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

3

Of the country's top 10 brands – President's Choice®, no name®, Farmer's Market™.

Les Becomes More Independent at Work

When Les Alexander works part-time in the health and beauty department at the East Village Real Canadian Superstore®, he is usually found with his support worker Brent. Les has a lifelong learning disability that means he cannot read or write, so Brent – through an organization called Vecova – helps Les navigate his tasks. Recently Brent discovered the OrCam Read, a small pen-shaped device that reads and then recites any printed type. Les' store bought one in the hopes it would better accommodate Les's disability at work, and it has been a game-changer. Now, Les wears the OrCam Read on a lanyard around his neck throughout his whole shift, pulling it out when he needs to read something. It works so well he feels much closer to working his shifts solo.

"I like having a tool that allows me to do things myself instead of having to ask for help because it makes me feel like I have more ownership over my responsibilities."

LES ALEXANDER

Driverless Vehicles Hit the Road

In our company's century-long history, we have led the way with many ground-breaking innovations aimed at serving Canadians. Recently, we added to our list of firsts, making history by deploying the first fully driverless delivery on a public road, in partnership with Gatik, a technology company specializing in autonomous vehicles (AVs).
In our journey to build and operate a customer-centred supply chain, embracing cutting-edge technology plays a key role in improving our day-to-day function. We believe autonomous delivery enables Loblaw to operate more routes and make more frequent trips, establishing a supply chain that is safer, more sustainable and more resilient.

"Working with Gatik, we've demonstrated that autonomous driving technology enables supply chain efficiency, moving more orders more frequently for our customers."

DAVID MARKWELL
CHIEF TECHNOLOGY AND ANALYTICS OFFICER
LOBLAW COMPANIES LIMITED

Corporate Governance Practices

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

The Governance Committee regularly reviews the Company's corporate governance practices to ensure they reflect evolving best practices in a rapidly changing environment. The Company's website, **loblaw.ca**, includes additional governance information, including the Company's Code of Conduct (the "Code"), Disclosure Policy, Majority Voting Policy, the position description for the Chairman and President and mandates of the Board of Directors (the "Board") and of its committees.

Director Independence

The Canadian Securities Administrators' Corporate Governance Guidelines provide that a director is independent if he or she has no material relationship with the Company or its affiliates that could reasonably be expected to interfere with the exercise of the director's independent judgment. Approximately 82% of the directors on the Board are independent. The independent directors meet separately following each Board meeting. Information relating to each of the directors, including their independence, committee memberships, other public company boards on which they serve, as well as their attendance record for all Board and committee meetings, can be found in the Company's Management Proxy Circular.

Board Leadership

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

Board Responsibilities and Duties

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

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

Ethical Business Conduct

The Code reflects the Company's long-standing commitment to high standards of ethical conduct and business practices. The Code is reviewed annually to ensure it is current and reflects best practices in the area of ethical business conduct and integrity and includes a strong "tone from the top" message. All directors, officers and employees of the Company are required to comply with the Code and must acknowledge their commitment to abide by the Code on a periodic basis. The Company encourages the reporting of violations and potential violations and has established an Integrity Action Line, a toll-free number that any director, officer, supplier or employee may use to report conduct which he or she feels violates the Code or otherwise constitutes fraudulent or unethical conduct. A fraud reporting protocol has also been implemented to ensure that fraud is reported to senior management in a timely manner. In addition, the Audit Committee has endorsed procedures for the anonymous receipt, retention and handling of complaints regarding accounting, internal control or auditing matters. These procedures are available on the Company's website, **loblaw.ca**.

Board Committees

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

Audit Committee

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

Governance, Employee Development, Nominating and Compensation Committee

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

Pension Committee

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

Risk and Compliance Committee

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

ESG Governance

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

Board of Directors

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

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

SHELLEY G. BROADER, B.A.[1, 4]
Corporate Director; Former President and Chief Executive Officer of Chicos FAS, Inc.; former President and Chief Executive Officer of Walmart EMEA Ltd. and Walmart Canada; former President and Chief Operating Officer of The Michaels Companies, Inc.; Director, IFCO Systems US LLC; member of the U.S. Advisory Board of Amoobi SA; and former director of Walmart Canada Corporation and Walmart Mexico.

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

DANIEL DEBOW, B.A., J.D./M.B.A., L.L.M.[2, 4]
Vice President, Product, Shopify Inc.; Former founder and Chief Executive Officer, Helpful.com; Co-founder and former Co-Chief Executive Officer of Rypple; Founding team member of Workbrain.

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

JANICE FUKAKUSA, F.C.P.A., F.C.A., B.A., M.B.A.[1, 4*]
Corporate Director; Former Chief Financial Officer and Chief Administrative Officer, Royal Bank Of Canada; Director, Cineplex Inc., Brookfield Asset Management Inc., RioCan REIT; Chancellor, Toronto Metropolitan University.

M. MARIANNE HARRIS, B.Sc., J.D., M.B.A.[1, 2, 3]
Corporate Director; Former Managing Director and President, Corporate and Investment Banking, Merrill Lynch Canada Inc., Former Head of Financial Institutions Group Americas, Merrill Lynch Pierce Fenner & Smith; Director, George Weston Limited, Sun Life Financial Inc., Public Sector Pension Investment Board; Former Director, Hydro One Inc./ Hydro One Limited; Former Chair, Investment Industry Regulatory Organization of Canada (IIROC); Member of Dean's Advisory Council, Schulich School of Business; Advisory Council, Hennick Centre for Business and Law.

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

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

CORNELL WRIGHT, B.A., J.D., M.B.A.[4]
President and Director of Wittington Investments, Limited; Director, George Weston Limited, BCE, Inc.; Trustee, Choice Properties Real Estate Investment Trust, Former Partner, Torys LLP; Board Chair, the National Ballet of Canada; Trustee of University Health Network; and Executive in Residence at the University of Toronto's Rotman School of Management.

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

Leadership

GALEN G. WESTON
President and Chairman

RICHARD DUFRESNE
Chief Financial Officer

ROBERT SAWYER
Chief Operating Officer

ROBERT WIEBE
Chief Administrative Officer

NICK HENN
Executive Vice President, Chief Legal Officer and Secretary

DAVID MARKWELL
Executive Vice President, Chief Technology and Analytics Officer

MARK WILSON
Executive Vice President and Chief Human Resources Officer

BARRY K. COLUMB
President, President's Choice Financial

IAN FREEDMAN
President, Joe Fresh

FRANK GAMBIOLI
President, Discount Division

JEFF LEGER
President, Shoppers Drug Mart

GREG RAMIER
President, Market Division

KEVIN GROH
Senior Vice President, Corporate Affairs and Communication

MARY MACISAAC
Senior Vice President, Marketing

LAUREN STEINBERG
Senior Vice President, Loblaw Digital

Live Life Well®

Loblaw Companies Limited

2022 Annual Report –
Financial Review

2022 Annual Report - Financial Review

Financial Highlights	1
Management's Discussion and Analysis	3
Financial Results	69
Notes to the Consolidated Financial Statements	80
Three Year Summary	141
Glossary of Terms	143

Financial Highlights[1]

As at or for the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	2022 (52 weeks)	2021 (52 weeks)
Consolidated Results of Operations		
Revenue	**$ 56,504**	$ 53,170
Revenue growth	**6.3 %**	0.9 %
Operating income	**$ 3,342**	$ 2,937
Adjusted EBITDA[2]	**6,181**	5,587
Adjusted EBITDA margin[2]	**10.9 %**	10.5 %
Net interest expense and other financing charges	**$ 683**	$ 495
Adjusted net interest expense and other financing charges[2]	**694**	684
Income taxes	**665**	466
Adjusted income taxes[2]	**841**	721
Adjusted effective tax rate[2]	**26.4 %**	26.3 %
Net earnings	**$ 1,994**	$ 1,976
Net earnings attributable to shareholders of the Company	**1,921**	1,875
Net earnings available to common shareholders of the Company[i]	**1,909**	1,863
Adjusted net earnings available to common shareholders of the Company[2]	**2,263**	1,911
Consolidated per Common Share ($)		
Diluted net earnings	**$ 5.75**	$ 5.45
Adjusted diluted net earnings[2]	**$ 6.82**	$ 5.59
Dividends		
Dividends declared per common share ($)	**$ 1.580**	$ 1.400
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents and short term investments	**$ 1,934**	$ 2,440
Cash flows from operating activities	**4,755**	4,827
Capital investments	**1,571**	1,183
Free cash flow[2]	**1,528**	1,959
Financial Measures		
Retail debt to retail adjusted EBITDA[2]	**2.4 x**	2.6 x
Adjusted return on equity[2]	**20.2 %**	17.3 %
Adjusted return on capital[2]	**10.8 %**	9.8 %

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

Financial Highlights[1]

As at or for the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)
Retail Results of Operations		
Sales	**$ 55,492**	$ 52,269
Operating income	**3,260**	2,713
Adjusted gross profit[2]	**17,165**	16,041
Adjusted gross profit %[2]	**30.9 %**	30.7 %
Adjusted EBITDA[2]	**$ 5,939**	$ 5,322
Adjusted EBITDA margin[2]	**10.7 %**	10.2 %
Depreciation and amortization	**$ 2,746**	$ 2,623
Retail Operating Statistics		
Food retail same-store sales growth	**4.7 %**	0.3 %
Drug retail same-store sales growth	**6.9 %**	5.0 %
Drug retail same-store pharmacy sales growth	**5.7 %**	8.4 %
Drug retail same-store front store sales growth	**8.2 %**	2.1 %
Total retail square footage (in millions)	**71.2**	71.2
Number of corporate stores[4]	**547**	548
Number of franchise stores	**551**	551
Number of Associate-owned drug stores	**1,346**	1,342
Financial Services Results of Operations		
Revenue	**$ 1,338**	$ 1,182
Earnings (Losses) before income taxes	**(2)**	160
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	**$ 3,607**	$ 3,128
Credit card receivables	**3,954**	3,443
Allowance for credit card receivables	**206**	205
Annualized yield on average quarterly gross credit card receivables	**13.0 %**	12.7 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.7 %**	2.5 %

Management's Discussion and Analysis

1. Forward-Looking Statements 4
2. Overview 6
3. Strategic Framework 6
4. Key Financial Performance Indicators 7
5. Overall Financial Performance 8
   - 5.1 Consolidated Results of Operations 8
   - 5.2 Selected Financial Information 12
6. Reportable Operating Segments Results of Operations 14
   - 6.1 Retail Segment 14
   - 6.2 Financial Services Segment 16
7. Liquidity and Capital Resources 17
   - 7.1 Cash Flows 17
   - 7.2 Liquidity and Capital Structure 19
   - 7.3 Components of Total Debt 20
   - 7.4 Financial Condition 22
   - 7.5 Credit Ratings 22
   - 7.6 Share Capital 22
   - 7.7 Off-Balance Sheet Arrangements 24
   - 7.8 Contractual Obligations 25
8. Financial Derivative Instruments 25
9. Quarterly Results of Operations 27
   - 9.1 Results by Quarter 27
   - 9.2 Fourth Quarter Results 29
10. Disclosure Controls and Procedures 37
11. Internal Control over Financial Reporting 37
12. Enterprise Risks and Risk Management 38
    - 12.1 Operating Risks and Risk Management 39
    - 12.2 Financial Risks and Risk Management 47
13. Related Party Transactions 48
14. Critical Accounting Estimates and Judgments 52
    - 14.1 Consolidation 52
    - 14.2 Business Combinations - Valuation of Intangible Assets 52
    - 14.3 Inventories 52
    - 14.4 Impairment of Non-Financial Assets 52
    - 14.5 Impairment of Credit Card Receivables 53
    - 14.6 Income and Other Taxes 53
    - 14.7 Segment Information 53
    - 14.8 Provisions 54
    - 14.9 Leases 54
15. Accounting Standards 54
16. Strategic Update and Outlook 55
17. Non-GAAP Financial Measures 56
18. Additional Information 68

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes included on page 69 to 140 of this Annual Report – Financial Review ("Annual Report").

The Company's annual audited consolidated financial statements and the accompanying notes for the year ended December 31, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB") and include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except when otherwise noted.

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

The information in this MD&A is current to February 22, 2023, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 143.

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2022 (12 weeks ended December 31, 2022) are against results for the fourth quarter of 2021 (12 weeks ended January 1, 2022) and all comparisons of results for the full-year of 2022 (52 weeks ended December 31, 2022) are against the results for the full-year of 2021 (52 weeks ended January 1, 2022).

1. Forward-Looking Statements

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, Section 3 "Strategic Framework", Section 5.1 "Consolidated Results of Operations", Section 6.1 "Retail Segment", Section 6.2 "Financial Services Segment", Section 7 "Liquidity and Capital Resources", Section 9 "Quarterly Results of Operations", Section 12 "Enterprise Risks and Risk Management", Section 14 "Critical Accounting Estimates and Judgments", Section 15 "Accounting Standards", Section 16 "Strategic Update and Outlook" and Section 17 "Non-GAAP Financial Measures". Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's 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 the Company's MD&A in the 2022 Annual Report, and the Company's 2022 Annual Information Form ("AIF") for the year ended December 31, 2022. Such risks and uncertainties include:

- changes in economic conditions, including inflation, levels of employment, costs of borrowing, household debt, political uncertainty and government regulation, the impact of natural disasters, war or acts of terrorism, pandemics, changes in interest rates, tax rates, or exchange rates, and access to consumer credit;
- failure to attract and retain colleagues may impact the Company's ability to effectively operate and achieve financial performance goals;
- inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at the store and digital retail level;
- 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;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to adapt to environmental and social risks, including failure to execute against the Company's climate change and social equity initiatives;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- adverse outcomes of legal and regulatory proceedings and related matters;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to shifts in the retail landscape caused by digital advances;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and Associates (as defined within);
- failure to realize benefits from investments in the Company's new IT systems and related processes;
- inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink; and
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business and located in both advanced and developing markets.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2022 AIF (for the year ended December 31, 2022). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. Overview

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, and the nation's largest retailer. The Company has two operating segments: Retail and Financial Services. The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, which includes in-store pharmacies, health care services and other health and beauty products, apparel and other general merchandise. The Company's Financial Services segment provides credit card and everyday banking services, the PC Optimum™ Program, insurance brokerage services, and telecommunication services. The businesses are underpinned by the *PC Optimum* Program, a customer loyalty program that provides more than a billion dollars in annual rewards and is unique to each consumer across their network-wide purchases.

3. Strategic Framework

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

The Company strives to be the "best in food, health and beauty" and with its focus on retail excellence, it is constantly improving its retail operations to differentiate its customer offerings and deliver scale through its national logistics infrastructure. Building for the future, its purpose guides its investments in strategic growth initiatives to further differentiate its portfolio of assets, generate competitive advantages in products, services and price, improve its operational efficiencies, and create new areas of growth. Retail operations benefit from more than one billion customer touchpoints annually and deliver a unique customer experience driven by industry leading control brands, healthy alternatives and a choice of in-store shopping, pick-up and delivery. The approach to being "best in food" is driven by fresh food selection, competitive value and customized assortments across banners. The approach to being "best in health and beauty" is supported by high quality health and wellness products, an expanding offer of healthcare services, and a diverse and differentiated beauty offering.

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

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

4. Key Financial Performance Indicators[1]

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

As at or for the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)
Consolidated		
Revenue growth	**6.3 %**	0.9 %
Operating income	**$ 3,342**	$ 2,937
Adjusted EBITDA[2]	**6,181**	5,587
Adjusted EBITDA margin[2]	**10.9 %**	10.5 %
Net earnings	**$ 1,994**	$ 1,976
Net earnings attributable to shareholders of the Company	**1,921**	1,875
Net earnings available to common shareholders of the Company[i]	**1,909**	1,863
Adjusted net earnings available to common shareholders of the Company[2]	**2,263**	1,911
Diluted net earnings per common share ($)	**$ 5.75**	$ 5.45
Adjusted diluted net earnings per common share[2] ($)	**$ 6.82**	$ 5.59
Cash and cash equivalents and short term investments	**$ 1,934**	$ 2,440
Cash flows from operating activities	**4,755**	4,827
Free cash flow[2]	**1,528**	1,959
Financial Measures		
Retail debt to retail adjusted EBITDA[2]	**2.4 x**	2.6 x
Adjusted return on equity[2]	**20.2 %**	17.3 %
Adjusted return on capital[2]	**10.8 %**	9.8 %
Retail Segment		
Food retail same-store sales growth	**4.7 %**	0.3 %
Drug retail same-store sales growth	**6.9 %**	5.0 %
Operating income	**$ 3,260**	$ 2,713
Adjusted gross profit[2]	**17,165**	16,041
Adjusted gross profit %[2]	**30.9 %**	30.7 %
Adjusted EBITDA[2]	**$ 5,939**	$ 5,322
Adjusted EBITDA margin[2]	**10.7 %**	10.2 %
Financial Services Segment		
Earnings (Losses) before income taxes	**$ (2)**	$ 160
Annualized yield on average quarterly gross credit card receivables	**13.0 %**	12.7 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.7 %**	2.5 %

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

5. Overall Financial Performance

5.1 Consolidated Results of Operations

The following is a summary of selected consolidated financial information for 2022:

As at or for the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	$ Change	% Change
Revenue	**$ 56,504**	$ 53,170	$ 3,334	6.3 %
Operating income	**3,342**	2,937	405	13.8 %
Adjusted EBITDA[(2)]	**6,181**	5,587	594	10.6 %
Adjusted EBITDA margin[(2)]	**10.9 %**	10.5 %		
Depreciation and amortization	**$ 2,795**	$ 2,664	$ 131	4.9 %
Net interest expense and other financing charges	**683**	495	188	38.0 %
Adjusted net interest expense and other financing charges[(2)]	**694**	684	10	1.5 %
Income taxes	**665**	466	199	42.7 %
Adjusted income taxes[(2)]	**841**	721	120	16.6 %
Adjusted effective tax rate[(2)]	**26.4 %**	26.3 %		
Net earnings attributable to non-controlling interests	**$ 73**	$ 101	$ (28)	(27.7)%
Net earnings attributable to shareholders of the Company	**$ 1,921**	$ 1,875	$ 46	2.5 %
Net earnings available to common shareholders of the Company[(i)]	**1,909**	1,863	46	2.5 %
Adjusted net earnings available to common shareholders of the Company[(2)]	**2,263**	1,911	352	18.4 %
Diluted net earnings per common share ($)	**$ 5.75**	$ 5.45	$ 0.30	5.5 %
Adjusted diluted net earnings per common share[(2)] ($)	**$ 6.82**	$ 5.59	$ 1.23	22.0 %
Diluted weighted average common shares outstanding (in millions)	**331.7**	341.8		

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

Loblaw continued to deliver strong and consistent financial and operating results across its various businesses in 2022. Global inflationary pressures and lessened impact from COVID-19 influenced consumer behaviours and positively impacted Retail sales. Loblaw's portfolio of best in class assets was well positioned to meet customer's everyday needs across food, health and wellness, further bolstered by its acquisition of Lifemark Health Group ("Lifemark") during the year. The Company's relentless focus on retail excellence leveraged these assets to deliver strong sales growth, gross margin improvements, and leverage its operating costs.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share
Net earnings available to common shareholders of the Company were $1,909 million ($5.75 per common share) in 2022. This represented an increase of $46 million ($0.30 per common share) or 2.5% when compared to 2021. The increase included an improvement in underlying operating performance of $352 million which was partially offset by the unfavourable change in adjusting items totaling $306 million, as described below:

- the improvement in underlying operating performance of $352 million ($1.03 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment driven by an increase in adjusted gross profit[2], partially offset by an increase in selling, general and administrative expenses ("SG&A") and depreciation and amortization; and
  - the favourable impact from non-controlling interests;

  partially offset by,
  - a decline in the Financial Services segment primarily due to the year-over-year impact of the expected credit loss provision from lapping a larger prior year release versus the current year increase and from lapping a prior year reversal of certain commodity tax accrued.
- the unfavourable change in adjusting items totaling $306 million ($0.93 per common share) was primarily due to the following:
  - the year-over-year unfavourable impact of the recovery related to Glenhuron Bank Limited ("Glenhuron") of $271 million ($0.79 per common share);
  - the unfavourable impact of the charge related to a President's Choice Bank ("PC Bank") commodity tax matter of $86 million ($0.25 per common share); and
  - the unfavourable impact of the Lifemark transaction costs of $12 million ($0.04 per common share);

  partially offset by,
  - the year-over-year favourable impact from the gains on the sale of non-operating properties of $35 million ($0.11 per common share); and
  - the year-over-year favourable change in restructuring and other related costs of $24 million ($0.07 per common share).
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months ($0.20 per common share).

In July 2022, the Tax Court of Canada ("Tax Court") released a decision relating to PC Bank, a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29th, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, the Company recorded a charge of $111 million, inclusive of interest, in the second quarter of 2022. The Company believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

Between 2015 and 2019, the Company was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court of Canada ("Supreme Court") ruled in favour of the Company on the Glenhuron matter and the Company reversed $301 million of previously recorded charges, of which $173 million was recorded as interest income and $128 million was recorded as income tax recovery, and an additional $16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, the Company reversed another $35 million of previously recorded charges, of which $2 million was recorded as interest income and $33 million was recorded as an income tax recovery, and an additional $9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

Adjusted net earnings available to common shareholders of the Company[2] were $2,263 million, an increase of $352 million or 18.4% compared to 2021. Adjusted net earnings per common share[2] in 2022 were $6.82 per common share, an increase of $1.23 or 22.0%. The increase includes the favourable impact of the repurchase of common shares.

Revenue

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	$ Change	% Change
Retail	**$ 55,492**	$ 52,269	$ 3,223	6.2 %
Financial Services	**1,338**	1,182	156	13.2 %
Eliminations	**(326)**	(281)	(45)	(16.0)%
Revenue	**$ 56,504**	$ 53,170	$ 3,334	6.3 %

Revenue was $56,504 million in 2022, an increase of $3,334 million, or 6.3% compared to 2021. The increase was primarily driven by an increase in Retail segment sales of $3,223 million, due to positive same-store sales growth and Lifemark revenue since the date of acquisition. Furthermore, there was an improvement in Financial Services segment sales of $156 million.

Operating Income Operating income was $3,342 million in 2022, an increase of $405 million, or 13.8% compared to 2021. The increase in operating income was driven by an improvement in underlying operating performance of $454 million, partially offset by an unfavourable change in certain adjusting items totaling $49 million as described below:

- the improvement in the underlying operating performance of $454 million was primarily due to the following:
  - an improvement in the underlying operating performance of the Retail segment due to an increase in adjusted gross profit[(2)], partially offset by an increase in SG&A and depreciation and amortization;

  partially offset by,
  - a decline in the Financial Services segment primarily due to the year-over-year impact of the expected credit loss provision from lapping a larger prior year release versus the current year increase and from lapping a prior year reversal of certain commodity tax accrued.
- the unfavourable year-over-year impact of certain adjusting items totaling $49 million was primarily due to the following:
  - the unfavourable impact of the charge related to a PC Bank commodity tax matter of $111 million; and
  - the unfavourable impact of the Lifemark transaction costs of $16 million;

  partially offset by,
  - the year-over-year favourable impact from the gains on the sale of non-operating properties of $45 million; and
  - the year-over-year favourable change in restructuring and other related costs of $28 million.

Adjusted EBITDA[(2)]

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	$ Change	% Change
Retail	**$ 5,939**	$ 5,322	$ 617	11.6 %
Financial Services	**242**	265	(23)	(8.7)%
Adjusted EBITDA[(2)]	**$ 6,181**	$ 5,587	$ 594	10.6 %

Adjusted EBITDA[(2)] was $6,181 million in 2022, an increase of $594 million, or 10.6% compared to 2021. The increase in adjusted EBITDA[(2)] was primarily due to an increase in the Retail segment of $617 million which was partially offset by a decrease in the Financial Services segment of $23 million.

Depreciation and Amortization Depreciation and amortization was $2,795 million in 2022, an increase of $131 million or 4.9% compared to 2021. The increase in depreciation and amortization in 2022 was primarily driven by an increase in IT assets and leased assets. Included in depreciation and amortization was accelerated depreciation of $24 million (2021 – nil) due to the reassessment of the estimated useful life of certain IT assets, and the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") and Lifemark of $497 million (2021 – $506 million).

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $683 million in 2022, an increase of $188 million or 38.0% compared to 2021. The increase was primarily driven by prior year interest income related to Glenhuron as discussed in the Income Taxes section below, an increase in interest expense from higher interest rates, and an increase in long term debt and borrowings related to credit card receivables. This was partially offset by higher interest income on certain short term investments and post-employment and other long term employee benefits due to higher interest rates. Included in interest expense from long term debt is an early repayment premium charge of $7 million recorded in 2022.

Income Taxes

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	$ Change	% Change
Income taxes	**$ 665**	$ 466	$ 199	42.7 %
Add impact of the following				
Tax impact of items included in adjusted earnings before taxes	**143**	127	16	12.6 %
Recovery related to Glenhuron	**33**	128	(95)	(74.2)%
Adjusted income taxes[2]	**$ 841**	$ 721	$ 120	16.6 %
Effective tax rate	**25.0 %**	19.1 %		
Adjusted effective tax rate[2]	**26.4 %**	26.3 %		

Income tax expense was $665 million (2021 – $466 million) and the effective tax rate was 25.0% (2021 – 19.1%). The increase in the effective tax rate was primarily attributable to the recovery of income taxes related to Glenhuron in 2021 and the impact of the reversal of the non-deductible interest related to Glenhuron in 2021.

Adjusted income tax expense[2] in 2022 was $841 million (2021 – $721 million) and the adjusted effective tax rate[2] was 26.4% (2021 – 26.3%). The increase in the adjusted effective tax rate[2] was primarily attributable to the impact of certain non-deductible items.

Between 2015 and 2019, the Company was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of the Company on the Glenhuron matter and the Company reversed $301 million of previously recorded charges, of which $173 million was recorded as interest income and $128 million was recorded as income tax recovery, and an additional $16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, the Company reversed another $35 million of previously recorded charges, of which $2 million was recorded as interest income and $33 million was recorded as an income tax recovery, and an additional $9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

Net Earnings Attributable to Non-Controlling Interests Net earnings attributable to non-controlling interests were $73 million in 2022, a decrease of $28 million or 27.7% compared to 2021. Non-controlling interests represent the share of earnings that relates to the Company's Food Retail franchisees and is impacted by the timing of when profit sharing with franchisees is agreed and finalized under the terms of the agreements. The decrease in non-controlling interests was primarily driven by the normalizing of franchisee earnings after profit sharing.

5.2 Selected Financial Information

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated December 31, 2022, January 1, 2022, and January 2, 2021. 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 December 31, 2022 and January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	2020 (53 weeks)
Revenue	**$ 56,504**	$ 53,170	$ 52,714
Operating income	**3,342**	2,937	2,365
Adjusted EBITDA[2]	**6,181**	5,587	5,004
Adjusted EBITDA margin[2]	**10.9 %**	10.5 %	9.5 %
Depreciation and amortization	**$ 2,795**	$ 2,664	$ 2,596
Adjusted net interest expense and other financing charges[2]	**694**	684	742
Adjusted effective tax rate[2]	**26.4 %**	26.3 %	26.7 %
Net earnings	**$ 1,994**	$ 1,976	$ 1,192
Net earnings attributable to the shareholders of the Company	**1,921**	1,875	1,108
Net earnings available to common shareholders of the Company[i]	**1,909**	1,863	1,096
Adjusted net earnings available to common shareholders of the Company[2]	**2,263**	1,911	1,499
Basic net earnings per common share ($)	**$ 5.82**	$ 5.49	$ 3.08
Diluted net earnings per common share ($)	**$ 5.75**	$ 5.45	$ 3.06
Adjusted diluted net earnings per common share[2] ($)	**$ 6.82**	$ 5.59	$ 4.18
Diluted weighted average common shares (in millions)	**331.7**	341.8	$ 358.2
Dividends declared per common share ($)	**$ 1.580**	$ 1.400	$ 1.280
Dividends declared per Second Preferred Share, Series B ($)	**$ 1.325**	$ 1.325	$ 1.325
Total assets	**$ 38,147**	$ 36,614	$ 35,873
Total long term debt	**$ 7,783**	$ 7,213	$ 7,046
Lease liabilities	**9,115**	8,839	8,901
Long term financial liabilities	**$ 16,898**	$ 16,052	$ 15,947

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

Revenue Revenue was $56,504 million in 2022, an increase of $3,334 million when compared to 2021. Food retail same-store sales growth was 4.7% (2021 – 0.3%). Drug retail same-store sales growth was 6.9% (2021 – 5.0%).

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

The Company's Retail segment sales have continued to grow despite the pressure of a competitive retail market, impacts of global economic uncertainties, and regulatory environment over the last three years. In 2020, the COVID-19 pandemic had a significant impact on the Company's colleagues, customers, suppliers and other stakeholders. The Company experienced sales volatility and changes in sales mix as the pandemic impacted consumer behaviour throughout the year. In 2021, COVID-19 continued to have a significant impact on the Company, continuing to accelerate some long-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments and Rewards. In Food Retail, sales remained strong as eat-at-home trends remained elevated even in period where social restrictions loosened. In Drug Retail, sales benefited from growth in pharmacy services as COVID-19 testing and vaccinations ramped up throughout the year. Higher margin front-store categories within Drug Retail, that had previously negatively impacted earnings, increased sales momentum as the economy opened up. In 2022, COVID-19 continued to impact Retail segment sales through the first half of the year. Food Retail benefited from elevated eat-at-home trends, and Drug Retail from strong cosmetics and over-the-counter ("OTC") product sales, as customers returned to pre-pandemic activities, while COVID-19 related testing and vaccines continued at elevated levels. Retail segment sales growth in the second half of 2022 benefited from global inflationary pressures and reflected continued strength in cosmetics and OTC sales in Drug Retail.

The Financial Services segment sales have continued to grow, however, have been impacted by the COVID-19 pandemic. During 2020, the Company's Financial Services segment sales were negatively impacted by the COVID-19 pandemic from lower credit card related revenues from lower customer spending and lower sales attributable to the partial closure of The Mobile Shop™ kiosks during the second quarter of 2020. The Financial Services segment also launched the PC Money™ Account in the third quarter of 2020, an everyday banking product that allows account holders to earn *PC Optimum* points by making payments. The underlying operating performance of the Company's Financial Services segment improved in 2021. In 2021, the Financial Services segment benefited from an increase in customer spending and higher sales attributable to *The Mobile Shop* kiosks. In 2022, the Financial Services segment continued to benefit from an increase in customer spending. Further, the segment benefited from growing credit card receivables in 2022 driven by growth in the active customer base.

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

- the impact of the 53rd week in fiscal year 2020;
- changes in underlying operating performance of the Retail segment due to COVID-19. The Company's financial results for the year ended December 31, 2022 and January 1, 2022 had higher revenue and cost of sales when compared to 2020. In addition, SG&A increased in 2020 as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers which have stabilized in 2021 and 2022;
- cost savings and operating efficiencies and investments in and benefits from strategic initiatives;
- fluctuations in the performance of the Financial Services segment driven by the impact of the increase in customer spending, the reversal of certain commodity taxes accrued, and year-over-year movement of the expected credit loss provision;
- the favourable impact of the repurchase of common shares for cancellation; and
- the impact of certain adjusting items, including:
    - charge related to PC Bank commodity tax matter;
    - Lifemark transaction costs;
    - the recovery relating to Glenhuron;
    - fair value adjustment on non-operating properties;
    - fair value adjustment on fuel and foreign currency;
    - restructuring and other related recoveries and costs; and
    - the gain on sale of non-operating properties.

Total Assets and Long Term Financial Liabilities In 2022, total assets of $38,147 million increased by 4.2% compared to 2021. The increase was primarily driven by an increase in inventory, credit card receivables, and goodwill. This was partially offset by a decrease in cash and cash equivalents and a decrease in income tax recoverable due to collection of income tax refunds from Glenhuron. Long term financial liabilities of $16,898 million, increased by 5.3% compared to 2021. This was primarily driven by an increase in lease liability and long term debt driven by an increase in guaranteed investment certificates ("GIC").

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

6. Reportable Operating Segments Results of Operations

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, which includes in-store pharmacies, health care services and other health and beauty products, 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; and
- The Financial Services segment provides credit card and everyday banking services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

6.1 Retail Segment

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	$ Change	% Change
Sales	**$ 55,492**	$ 52,269	$ 3,223	6.2 %
Operating income	**3,260**	2,713	547	20.2 %
Adjusted gross profit[(2)]	**17,165**	16,041	1,124	7.0 %
Adjusted gross profit %[(2)]	**30.9 %**	30.7 %		
Adjusted EBITDA[(2)]	**$ 5,939**	$ 5,322	$ 617	11.6 %
Adjusted EBITDA margin[(2)]	**10.7 %**	10.2 %		
Depreciation and amortization	**$ 2,746**	$ 2,623	$ 123	4.7 %

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**		2021 (52 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 39,398**	**4.7 %**	$ 37,481	0.3 %
Drug retail	**16,094**	**6.9 %**	14,788	5.0 %
Pharmacy and healthcare services	**7,944**	**5.7 %**	7,224	8.4 %
Front store	**8,150**	**8.2 %**	7,564	2.1 %

Sales Retail segment sales were $55,492 million in 2022, an increase of $3,223 million, or 6.2% compared to 2021, primarily driven by the following factors:

- Food retail same-store sales growth was 4.7% (2021 – 0.3%) for 2022.
  - Sales growth in food was strong, mainly due to higher than normal inflation;
  - Sales growth in pharmacy was modest;
  - The Consumer Price Index as measured by The Consumer Price Index for Food Purchased From Stores was 9.7% (2021 – 2.2%) which was generally in line with the Company's internal food inflation; and
  - Food Retail traffic increased and basket size decreased.
- Drug retail same-store sales growth was 6.9% (2021 – 5.0%).
  - Pharmacy same-store sales growth was 5.7% (2021 – 8.4%). Pharmacy and healthcare services same-store sales growth benefited from an increase in acute and chronic prescription volumes from the economic re-opening. The number of prescriptions dispensed increased by 2.5% (2021 – 0.9%). On a same-store basis, the number of prescriptions dispensed increased by 2.6% (2021 – 2.7%) and the average prescription value increased by 2.4% (2021 – 4.7%);
  - Pharmacy and healthcare services sales include Lifemark revenues of $279 million. Lifemark revenues are excluded from same-store sales; and
  - Front store same-store sales growth was 8.2% (2021 – 2.1%). Front store same-store sales growth benefited from the economic re-opening and higher consumer spending.

In 2022, 13 food and drug stores were opened, and 10 food and drug stores were closed, and net retail square footage has remained constant at 71.2 million square feet.

Operating Income Operating income was $3,260 million in 2022, an increase of $547 million, or 20.2% compared to 2021. The increase was driven by an improvement in underlying operating performance of $485 million and the favourable change in adjusting items totaling $62 million, as described below:

- the improvement in underlying operating performance of $485 million was primarily from an increase in adjusted gross profit(2), partially offset by an increase in SG&A and an increase in depreciation and amortization; and
- the favourable change in adjusting items totaling $62 million was primarily due to the following:
  - the year-over-year favourable impact from the gains on the sale of non-operating properties of $45 million; and
  - the year-over-year favourable change in restructuring and other related costs of $28 million;

  partially offset by,
  - the unfavourable impact of the Lifemark transaction costs of $16 million.

Adjusted Gross Profit(2) Adjusted gross profit(2) was $17,165 million in 2022, an increase of $1,124 million, or 7.0% compared to 2021. Adjusted gross profit percentage(2) of 30.9% increased by 20 basis points when compared to 2021, driven by growth in higher margin Drug Retail front store categories. Compared to 2021, when inflation started to accelerate, Food Retail gross margins were flat.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $5,939 million in 2022, an increase of $617 million, or 11.6% compared to 2021. The increase was driven by an increase in adjusted gross profit(2) of $1,124 million, partially offset by an increase in SG&A of $507 million. SG&A as a percentage of sales was 20.2%, a decrease of 30 basis points when compared to 2021. The favourable decrease of 30 basis points was primarily due to operating leverage gained from higher sales and lower COVID-19 related expenses.

Depreciation and Amortization Depreciation and amortization was $2,746 million in 2022, an increase of $123 million when compared to 2021. The increase in depreciation and amortization was primarily driven by an increase in IT and leased assets. Included in depreciation and amortization in 2022 was accelerated depreciation of $24 million (2021 – nil) due to the reassessment of the estimated useful life of certain IT assets, and the amortization of intangibles assets related to the acquisitions of Shoppers Drug Mart and Lifemark of $497 million (2021 – $506 million).

Lifemark Health Group On May 10, 2022, the Company acquired all of the outstanding common shares of Lifemark for total cash purchase consideration of $829 million. Lifemark is the Canadian leading provider of outpatient physiotherapy, massage therapy, occupational therapy, chiropractic, mental health, and other ancillary rehabilitation services through its more than 300 clinics across Canada. The acquisition of Lifemark adds to the Company's growing role as a healthcare service provider, with a network of health and wellness solutions, accessible in-person and digitally. Revenue of $279 million and nominal net earnings were contributed by Lifemark from the date of acquisition. In 2022, net earnings includes amortization related to the acquired intangible assets of $8 million.

6.2 Financial Services Segment

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	$ Change	% Change
Revenue	**$ 1,338**	$ 1,182	$ 156	13.2 %
Earnings (Losses) before income taxes	**(2)**	160	(162)	(101.3)%

(millions of Canadian dollars except where otherwise indicated)	**As at December 31, 2022**	As at January 1, 2022	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,607**	$ 3,128	$ 479	15.3 %
Credit card receivables	**3,954**	3,443	511	14.8 %
Allowance for credit card receivables	**206**	205	1	0.5 %
Annualized yield on average quarterly gross credit card receivables	**13.0 %**	12.7 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**2.7 %**	2.5 %		

Revenue Revenue was $1,338 million in 2022, an increase of $156 million compared to 2021. The increase was primarily driven by:

- higher interest income from growth in credit card receivables; and
- higher interchange income and credit card related fees from an increase in customer spending;

partially offset by,

- lower sales attributable to *The Mobile Shop*.

Earnings (Losses) before income taxes Losses before income taxes were $2 million in 2022, a decrease of $162 million compared to 2021. The decrease was primarily driven by:

- a charge related to a commodity tax matter of $111 million recorded in the second quarter of 2022;
- higher loyalty program costs, operating costs, contractual charge-off and funding costs from an increase in customer spending and an increase in interest rates;
- prior year reversal of certain commodity tax accrued in the amount of $37 million; and
- the year-over-year impact of the expected credit loss provision from lapping a larger prior year release of $32 million versus the current year increase of $1 million;

partially offset by,

- higher revenue as described above.

In July 2022, the Tax Court released a decision relating to PC Bank, a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29th, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, the Company recorded a charge of $111 million, inclusive of interest, in the second quarter of 2022. The Company believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

Credit Card Receivables As at December 31, 2022, credit card receivables were $3,954 million, an increase of $511 million compared to January 1, 2022. This increase was primarily driven by growth in the active customer base and an increase in customer spending. The allowance for credit card receivables was $206 million, an increase of $1 million compared to January 1, 2022.

7. Liquidity and Capital Resources

7.1 Cash Flows

Major Cash Flow Components

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (52 weeks)**	2021 (52 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of year	**$ 1,976**	$ 1,668	$ 308	18.5 %
Cash flows from (used in):				
Operating activities	**$ 4,755**	$ 4,827	$ (72)	(1.5)%
Investing activities	**(2,368)**	(1,271)	(1,097)	(86.3)%
Financing activities	**(2,751)**	(3,249)	498	15.3 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(4)**	1	(5)	(500.0)%
Change in cash and cash equivalents	**$ (368)**	$ 308	$ (676)	(219.5)%
Cash and cash equivalents, end of year	**$ 1,608**	$ 1,976	$ (368)	(18.6)%

Cash Flows from Operating Activities Cash flows from operating activities were $4,755 million, a decrease of $72 million compared to 2021. The decrease in cash flows from operating activities was primarily driven by an unfavourable change in non-cash working capital and growth in credit card receivables from a rise in customer spending, partially offset by higher cash earnings and net lower income taxes paid due to the recovery of cash taxes related to Glenhuron.

Cash Flows used in Investing Activities Cash flows used in investing activities were $2,368 million, an increase of $1,097 million compared to 2021. The increase in cash flows used in investing activities was primarily driven by the acquisition of Lifemark and an increase in investments in fixed and intangible assets, partially offset by a decrease in short term investments.

Capital Investments and Store Activity

As at or for the periods ended December 31, 2022 and January 1, 2022	**2022 (52 weeks)**	2021[i] (52 weeks)	% Change
Corporate square footage (in millions)	**34.9**	35.1	(0.6)%
Franchise square footage (in millions)	**17.3**	17.2	0.6 %
Associate-owned drug store square footage (in millions)	**19.0**	18.9	0.5 %
Total retail square footage (in millions)	**71.2**	71.2	— %
Number of corporate stores	**547**	548	(0.2)%
Number of franchise stores	**551**	551	— %
Number of Associate-owned drug stores	**1,346**	1,342	0.3 %
Total number of stores	**2,444**	2,441	0.1 %
Average store size (square feet)			
Corporate	**63,800**	64,100	(0.5)%
Franchise	**31,400**	31,200	0.6 %
Associate-owned drug store	**14,100**	14,100	— %

(i) Comparative figures for the number of corporate stores has been restated to conform with current year presentation, which separately counts in-store health clinics.

Capital Investments Capital investments were $1,571 million, an increase of $388 million or 32.8%, compared to 2021.

Cash Flows used in Financing Activities Cash flows used in financing activities were $2,751 million, a decrease of $498 million compared to 2021. The decrease in cash flows used in financing activities was primarily driven by higher net issuances of long term debt and an increase in short term debt, partially offset by higher repurchases of common shares in the current year.

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

Free Cash Flow[2]

				2022 (52 weeks)				2021 (52 weeks)
For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations[i]**	**Total**	Retail	Financial Services	Eliminations[i]	Total
Cash flows from (used in) operating activities	**$ 5,133**	**$ (444)**	**$ 66**	**$ 4,755**	$ 4,775	$ (16)	$ 68	$ 4,827
Less:								
Capital investments	**1,538**	**33**	**—**	**1,571**	1,154	29	—	1,183
Interest paid	**278**	**—**	**66**	**344**	271	—	68	339
Lease payments, net	**1,312**	**—**	**—**	**1,312**	1,346	—	—	1,346
Free cash flow[2]	**$ 2,005**	**$ (477)**	**$ —**	**$ 1,528**	$ 2,004	$ (45)	$ —	$ 1,959

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

Free cash flow[2] from the Retail segment was $2,005 million in 2022, in line with 2021.

Free cash flow[2] used in the Financial Services segment was $477 million in 2022, an increase of $432 million compared to the same period in 2021. The increase was primarily driven by growth in credit card receivables from an increase in the active customer base and a rise in customer spending, and lower cash earnings.

7.2 Liquidity and Capital Structure

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

PC Bank expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle* notes and GICs.

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

	As at December 31, 2022			As at January 1, 2022		
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total
Bank indebtedness	**$ 8**	**$ —**	**$ 8**	$ 52	$ —	$ 52
Demand deposits from customers	**—**	**125**	**125**	—	75	75
Short term debt	**—**	**700**	**700**	—	450	450
Long term debt due within one year	**—**	**727**	**727**	570	432	1,002
Long term debt	**4,866**	**2,190**	**7,056**	4,297	1,914	6,211
Certain other liabilities[(i)]	**153**	**—**	**153**	131	—	131
Total debt excluding lease liabilities	**$ 5,027**	**$ 3,742**	**$ 8,769**	$ 5,050	$ 2,871	$ 7,921
Lease liabilities due within one year	**1,401**	**—**	**1,401**	1,297	—	1,297
Lease liabilities	**7,714**	**—**	**7,714**	7,542	—	7,542
Total debt including total lease liabilities	**$ 14,142**	**$ 3,742**	**$17,884**	$ 13,889	$ 2,871	$ 16,760

(i) As at December 31, 2022, certain other liabilities include financial liabilities of $73 million related to the sale of retail properties to Choice Properties Real Estate Investment Trust (January 1, 2022 — $57 million).

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

	As at December 31, 2022	As at January 1, 2022
Retail debt to retail adjusted EBITDA[(2)]	**2.4 x**	2.6 x

The Retail debt to retail adjusted EBITDA[(2)] ratio as at December 31, 2022 decreased compared to January 1, 2022, primarily due to an improvement in adjusted EBITDA[(2)] of the retail segment.

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

Covenants and Regulatory Requirements The Company is required to comply with certain financial covenants for various debt instruments. As at December 31, 2022 and throughout the year, the Company was in compliance with such covenants. As at December 31, 2022 and throughout the year, PC Bank has met all applicable regulatory requirements.

7.3 Components of Total Debt

Debentures The following table summarizes the debentures issued in 2022. There were no debentures issued in 2021.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2022
Loblaw Companies Limited Notes[(i)]	5.01%	September 13, 2032	**$ 400**
Loblaw Companies Limited Notes[(i)]	5.34%	September 13, 2052	**400**
Total debentures issued			**$ 800**

(i) During 2022, the Company completed a dual-tranche issuance of $800 million aggregate principal amount of senior unsecured notes. In connection with this issuance, the Company used the net proceeds of the issuance to redeem $800 million outstanding principal amount of its Series 2023 unsecured notes.

The following table summarizes the debentures repaid in 2022. There were no debentures repaid in 2021.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount 2022
Loblaw Companies Limited Notes[(i)]	4.86%	September 12, 2023	**$ 800**
Total debentures repaid			**$ 800**

(i) The Company recorded an early repayment premium charge of $7 million in net interest expense and other financing charges when the Company redeemed the $800 million outstanding principal amount of its Series 2023 senior unsecured notes with original maturity date of September 12, 2023 on September 21, 2022.

Committed Credit Facility The Company has a $1.0 billion committed credit facility with a maturity date of July 15, 2027, provided by a syndicate of lenders. The Company extended the maturity date during 2022 with all other terms and conditions remaining substantially the same. This committed credit facility contains certain financial covenants. As at December 31, 2022 and January 1, 2022, there were no amounts drawn under this facility.

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

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

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust®*	**$ 1,350**	$ 1,350
Securitized to Other Independent Securitization Trusts	**700**	450
Total securitized to independent securitization trusts	**$ 2,050**	$ 1,800

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 31, 2022 and throughout 2022.

During 2022, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the issuance of up to $1.25 billion of notes over a 25-month period.

During 2022, *Eagle* issued $250 million (2021 – $300 million) of senior and subordinated term notes with a maturity date of July 17, 2027 (2021 – June 17, 2026). These notes have a weighted average interest rate of 4.89% (2021 – 1.61%). In connection with this issuance, $140 million (2021 – $175 million) of bond forward agreements were settled, resulting in a realized fair value gain of $8 million (2021 – loss of $1 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to the settlement of the agreement. The gain will be reclassified to net earnings over the life of the *Eagle* notes. This settlement resulted in a net effective interest rate of 4.24% (2021 – 1.65%) on the *Eagle* notes issued.

During 2022, $250 million of senior and subordinated term notes at weighted average interest rate of 2.71%, previously issued by *Eagle,* matured and were repaid on October 17, 2022. As a result, during 2022, there was no net change in the balances related to *Eagle* notes.

There were no repayments of notes issued by *Eagle* in 2021.

Independent Funding Trusts As at December 31, 2022, the independent funding trusts had drawn $574 million (January 1, 2022 – $570 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at December 31, 2022, the Company provided a credit enhancement of $64 million (January 1, 2022 – $64 million) for the benefit of the independent funding trusts representing not less than 10% (January 1, 2022 – not less than 10%) of the principal amount of loans outstanding.

The Company has a $700 million revolving committed credit facility that is the source of funding to the independent funding trusts that has a maturity date of April 14, 2025. The Company extended the maturity date during 2022 with all other terms and conditions remaining substantially the same.

Guaranteed Investment Certificates The following table summarizes PC Bank's GICs activity, before commissions in 2022 and 2021:

(millions of Canadian dollars)	**December 31, 2022 (52 weeks)**	January 1, 2022 (52 weeks)
Balance, beginning of year	**$ 996**	$ 1,185
GICs issued	**764**	414
GICs matured	**(193)**	(603)
Balance, end of year	**$ 1,567**	$ 996

As at December 31, 2022, $477 million in GICs were recorded as long term debt due within one year (January 1, 2022 – $182 million).

Associate Guarantees The Company has arranged for its pharmacist owners of corporations licensed to operate retail drug stores at specific locations using the Company's trademarks ("Associates") to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at December 31, 2022, the Company's maximum obligation in respect of such guarantees was $580 million (January 1, 2022 – $580 million) with an aggregate amount of $473 million (January 1, 2022 – $469 million) in available lines of credit allocated to the Associates by the various banks. As at December 31, 2022, Associates had drawn an aggregate amount of $8 million (January 1, 2022 – $52 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse, in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

7.4 Financial Condition

Adjusted return on equity(2) and Adjusted return on capital(2)

	As at December 31, 2022	As at January 1, 2022
Adjusted return on equity(2)	**20.2 %**	17.3 %
Adjusted return on capital(2)	**10.8 %**	9.8 %

Adjusted return on equity(2) as at December 31, 2022 increased compared to January 1, 2022, primarily due to an improvement in the underlying operating performance of the Retail segment.

Adjusted return on capital(2) as at December 31, 2022 increased compared to January 1, 2022, primarily due to an improvement in tax-effected adjusted operating income(2).

7.5 Credit Ratings

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

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

During 2022, Dominion Bond Rating Service Morningstar confirmed the credit ratings and trend of the Company, and Standard and Poor's Global Ratings confirmed the credit ratings and outlook of the Company.

7.6 Share Capital

First Preferred Shares (authorized - 1.0 million shares) There were no First Preferred Shares outstanding as at December 31, 2022 and January 1, 2022.

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

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

	2022 (52 weeks)		2021 (52 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**333,527,369**	**$ 6,643**	347,361,480	$ 6,837
Issued for settlement of stock options	**1,487,377**	**100**	1,829,170	116
Purchased and cancelled	**(10,952,138)**	**(254)**	(15,663,281)	(310)
Issued and outstanding, end of period	**324,062,608**	**$ 6,489**	333,527,369	$ 6,643
Shares held in trust, beginning of period	**(595,495)**	**$ (12)**	(672,784)	$ (13)
Purchased for future settlement of RSUs and PSUs	**(1,172,000)**	**(23)**	(510,000)	(10)
Released for settlement of RSUs and PSUs	**545,217**	**11**	587,289	11
Shares held in trust, end of period	**(1,222,278)**	**$ (24)**	(595,495)	$ (12)
Issued and outstanding, net of shares held in trust, end of period	**322,840,330**	**$ 6,465**	332,931,874	$ 6,631
Weighted average outstanding, net of shares held in trust	**328,068,749**		339,097,833	

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board of Directors ("Board"), which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarter of 2022 and in the third quarter of 2021, the Board raised the quarterly dividend by $0.04 to $0.405 and $0.03 to $0.365 per common share, respectively.

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

	2022[(i)]	2021
Dividends declared per share ($)		
Common Share	**$ 1.580**	$ 1.400
Second Preferred Share, Series B	**$ 1.325**	$ 1.325

(i) The Common Share dividends declared in the fourth quarter of 2022 of $0.405 per share had a payment date of December 30, 2022. The Second Preferred Shares, Series B dividends declared in the fourth quarter of 2022 of $0.33125 per share had a payment date of December 31, 2022.

(millions of Canadian dollars)	2022	2021
Dividends declared		
Common Share	**$ 517**	$ 472
Second Preferred Share, Series B	**12**	12
Total dividends declared	**$ 529**	$ 484

Subsequent to December 31, 2022, the Board declared a quarterly dividend of $0.405 per common share, payable on April 1, 2023 to shareholders of record on March 15, 2023 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on March 31, 2023 to shareholders of record on March 15, 2023.

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

(millions of Canadian dollars except where otherwise indicated)	2022	2021
Common shares repurchased under the NCIB for cancellation (number of shares)[(i)]	**10,952,138**	15,647,886
Cash consideration paid	**$ 1,258**	$ 1,200
Premium charged to retained earnings[(ii)]	**1,204**	890
Reduction in common share capital[(iii)]	**254**	310
Common shares repurchased under the NCIB and held in trust (number of shares)	**1,172,000**	510,000
Cash consideration paid	**$ 138**	$ 50
Premium charged to retained earnings	**115**	40
Reduction in common share capital	**23**	10

(i) Common shares repurchased and cancelled as at December 31, 2022 do not include the shares that may be repurchased subsequent to the end of the quarter under the automatic share repurchase plan, as described below.

(ii) Includes $166 million related to the automatic share purchase plan, as described below.

(iii) Includes $34 million related to the automatic share purchase plan, as described below.

In the second quarter of 2022, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 16,647,384 of the Company's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As at December 31, 2022, the Company had purchased 9,609,720 common shares for cancellation under its current NCIB.

During 2020, the TSX accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from George Weston Limited ("Weston") under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company. The maximum number of common shares that may be purchased pursuant to the NCIB will be reduced by the number of common shares purchased from Weston.

During 2022, 10,952,138 common shares (2021 – 15,647,886) were purchased under the NCIB program for cancellation, for aggregate consideration of $1,258 million (2021 – $1,200 million), including 4,868,949 common shares (2021 – 7,399,437) purchased from Weston, for aggregate consideration of $558 million (2021 – $563 million).

From time to time, the Company participates in an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its NCIB. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market. As at December 31, 2022, an obligation to repurchase shares of $200 million was recognized under the ASPP in trade payables and other liabilities.

7.7 Off-Balance Sheet Arrangements

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

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, surety bond, securitization of PC Bank's credit card receivables, letter of credit and third party financing made available to the Company's franchisees. The gross potential liability related to the Company's letters of credit is approximately $450 million as at December 31, 2022 (January 1, 2022 – $518 million).

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

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The Company has guaranteed lease obligations of a third party distributor in the amount of $4 million (January 1, 2022 – $2 million).

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard International Incorporated ("MasterCard") for accepting PC Bank as a card member and licensee of MasterCard. As at December 31, 2022, the guarantee on behalf of PC Bank to MasterCard was USD $190 million (January 1, 2022 – USD $190 million).

Cash Collateralization As at December 31, 2022, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $93 million (January 1, 2022 – $93 million), of which a nominal amount (January 1, 2022 – nominal) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

7.8 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at December 31, 2022:

Summary of Contractual Obligations

	Payments due by year						
(millions of Canadian dollars)	2023	2024	2025	2026	2027	Thereafter	Total
Total debt (including interest payments[(i)])	$ 1,886	$ 1,393	$ 1,413	$ 761	$ 803	$ 5,428	$ 11,684
Foreign exchange forward contracts	543	157	—	—	—	—	700
Financial Liabilities[(ii)]	4	4	5	5	5	42	65
Lease payments	1,426	1,352	1,291	1,058	910	3,201	9,238
Contracts for purchases of investment projects[(iii)]	325	172	125	40	157	47	866
Purchase obligations[(iv)]	900	707	554	523	16	16	2,716
Total contractual obligations	$ 5,084	$ 3,785	$ 3,388	$ 2,387	$ 1,891	$ 8,734	$25,269

(i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities. Variable interest payments are based on the forward rates as of December 31, 2022.

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

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

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

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

8. Financial Derivative Instruments

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

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

	December 31, 2022 (52 weeks)			January 1, 2022 (52 weeks)		
(millions of Canadian dollars)	**Net asset/ (liability) Fair value**	**Gain/(loss) recorded in OCI**	**Gain/(loss) recorded in operating income**	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges						
Foreign Exchange Forwards[(i)]	**$ 4**	**$ 4**	**$ 2**	$ —	$ —	$ (1)
Bond Forwards[(ii)]	**1**	**18**	**(5)**	(1)	6	(7)
Interest Rate Swaps[(iii)]	**1**	**(1)**	**4**	1	1	—
Total derivatives designated as cash flow hedges	**$ 6**	**$ 21**	**$ 1**	$ —	$ 7	$ (8)

(i) PC Bank uses foreign exchange forwards, with a notional value of $37 million USD, to manage its foreign exchange risk related to certain U.S. payables. The fair value of the derivatives is included in trade payables and other liabilities. During the first quarter of 2022, the Company entered into foreign exchange forwards, as described below.

(ii) PC Bank uses bond forwards, with notional value of $25 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities. During 2022, PC Bank settled $140 million of bond forwards.

(iii) PC Bank uses interest rate swaps, with notional value of $180 million to mitigate the impact of increases in interest rate. The fair value of the derivatives is included in prepaid expenses and other assets.

Foreign Exchange Forwards In the fourth quarter of 2022, PC Bank entered into foreign exchange forward agreements with a notional value of $20 million USD (2021 – $19 million USD) to hedge its exposure to certain USD payables. The Company has assessed that these hedge agreements were effective at at year-end and has included any fluctuations relating to foreign exchange forwards in other comprehensive income.

In the first quarter of 2022, the Company entered into foreign exchange forwards. The purpose of these forward exchange forwards was to hedge the risk that the future cash flows of an anticipated fixed asset purchase transaction will fluctuate because of changes in foreign exchange rates. The Company concluded that these hedges were effective and accordingly, the gains or losses on these foreign exchange forwards are recognized in other comprehensive income. Upon settlement of these foreign exchange forwards, the accumulated other comprehensive income will be included in the initial cost of the fixed asset.

The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates on its underlying operations. These derivative instruments are not designated in a formal hedging relationship. For further details on the impact of these instruments during 2022 see Section 17 "Non-GAAP Financial Measures" of the MD&A.

The following is a summary of the fair values recognized on the consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's financial derivative instruments not designated in a formal hedging relationship:

	December 31, 2022 (52 weeks)			January 1, 2022 (52 weeks)		
(millions of Canadian dollars)	**Net asset/ (liability) Fair value**	**Gain/(loss) recorded in OCI**	**Gain/(loss) recorded in operating income**	Net asset/ (liability) Fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	**$ 13**	**$ —**	**$ 32**	$ 2	$ —	$ 1
Other Non-Financial Derivatives	**1**	**—**	**24**	3	—	18
Total derivatives not designated in a formal hedging relationship	**$ 14**	**$ —**	**$ 56**	$ 5	$ —	$ 19

9 Quarterly Results of Operations

9.1 Results by Quarter

The Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks due to an accounting convention common in the retail industry. Fiscal years 2022 and 2021 were both 52 weeks. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

The following is a summary of selected unaudited consolidated financial information for each of the eight most recently completed quarters:

Summary of Consolidated Quarterly Results

					2022					2021
(millions of Canadian dollars except where otherwise indicated)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**Total (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)
Revenue	**$12,262**	**$12,847**	**$17,388**	**$14,007**	**$56,504**	$ 11,872	$ 12,491	$16,050	$12,757	$53,170
Adjusted EBITDA[(2)]	**1,343**	**1,499**	**1,846**	**1,493**	**6,181**	1,218	1,371	1,674	1,324	5,587
Net earnings available to common shareholders of the Company	**437**	**387**	**556**	**529**	**1,909**	313	375	431	744	1,863
Adjusted net earnings available to common shareholders of the Company[(2)]	**459**	**566**	**663**	**575**	**2,263**	392	464	540	515	1,911
Net earnings per common share:										
Basic ($)	**$ 1.31**	**$ 1.17**	**$ 1.71**	**$ 1.63**	**$ 5.82**	$ 0.91	$ 1.10	$ 1.28	$ 2.23	$ 5.49
Diluted ($)	**$ 1.30**	**$ 1.16**	**$ 1.69**	**$ 1.62**	**$ 5.75**	$ 0.90	$ 1.09	$ 1.27	$ 2.20	$ 5.45
Adjusted diluted net earnings per common share[(2)] ($)	**$ 1.36**	**$ 1.69**	**$ 2.01**	**$ 1.76**	**$ 6.82**	$ 1.13	$ 1.35	$ 1.59	$ 1.52	$ 5.59
Food Retail same-store sales growth/ (decline)	**2.1 %**	**0.9 %**	**6.9 %**	**8.4 %**	**4.7 %**	0.1 %	(0.1)%	0.2 %	1.1 %	0.3 %
Drug Retail same-store sales growth/ (decline)	**5.2 %**	**5.6 %**	**7.7 %**	**8.7 %**	**6.9 %**	(1.7)%	9.6 %	4.4 %	7.9 %	5.0 %

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

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage has increased by 0.2 million square feet to 71.2 million square feet.

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

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- cost savings and operating efficiencies and benefits from strategic initiatives;
- the 2021 reversal of certain commodity taxes accrued;
- the favourable impact of the repurchase of common shares for cancellation; and
- the impact of certain adjusting items, as set out in Section 17 "Non-GAAP Financial Measures", including:
    - charge related to PC Bank commodity tax matter;
    - Lifemark transaction costs;
    - fair value adjustment on fuel and foreign currency;
    - fair value adjustment on non-operating properties;
    - restructuring and other related recoveries and costs;
    - the gain and loss on sale of non-operating properties; and
    - the recovery relating to Glenhuron.

9.2 Fourth Quarter Results

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2022:

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	$ Change	% Change
Revenue	**$ 14,007**	$ 12,757	$ 1,250	9.8 %
Operating income	**871**	705	166	23.5 %
Adjusted EBITDA[(2)]	**1,493**	1,324	169	12.8 %
Adjusted EBITDA margin[(2)]	**10.7 %**	10.4 %		
Depreciation and amortization	**$ 667**	$ 623	$ 44	7.1 %
Net interest expense (recovery) and other financing charges	**172**	(29)	201	693.1 %
Adjusted net interest expense and other financing charges[(2)]	**172**	160	12	7.5 %
Income taxes	**181**	15	166	1,106.7 %
Adjusted income taxes[(2)]	**205**	168	37	22.0 %
Adjusted effective tax rate[(2)]	**26.7 %**	25.5 %		
Net loss attributable to non-controlling interests	**(14)**	(28)	14	(50.0)%
Net earnings attributable to shareholders of the Company	**$ 532**	$ 747	$ (215)	(28.8)%
Net earnings available to common shareholders of the Company[(i)]	**529**	744	(215)	(28.9)%
Adjusted net earnings available to common shareholders of the Company[(2)]	**575**	515	60	11.7 %
Diluted net earnings per common share ($)	**$ 1.62**	$ 2.20	$ (0.58)	(26.4)%
Adjusted diluted net earnings per common share[(2)] ($)	**$ 1.76**	$ 1.52	$ 0.24	15.8 %
Diluted weighted average common shares outstanding (in millions)	**327.4**	338.1		
Cash flows from (used in)[(i)]:				
Operating activities	**$ 1,148**	$ 1,024	$ 124	12.1 %
Investing activities	**(416)**	(249)	(167)	(67.1)%
Financing activities	**(539)**	(578)	39	6.7 %
Dividends declared per common share ($)	**$ 0.405**	$ 0.365	$ 0.04	11.0 %
Dividends declared per Second Preferred Share, Series B ($)	**$ 0.33125**	$ 0.33125	—	—

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

Loblaw continued to deliver strong financial and operating results in the fourth quarter. Retail segment sales grew 9.7% reflecting strong growth in both Food and Drug businesses. Drug Retail sales growth was driven by continued strong demand for cough and cold products and strength in high margin beauty and cosmetics categories. Food Retail sales reflected the Company's efforts to provide value to its customers. The Company's Discount stores outperformed, benefiting from an increased consumer focus on price. Market stores extended strong performance relative to peers with impactful promotional strategies. Gross margins were slightly lower, largely related to the no name® price freeze and increased commitment to promotional activity, partially offset by continued strength in higher margin front-store sales in the Drug business. Higher sales and leverage from focused cost control measures drove earnings growth in the quarter.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share
Net earnings available to common shareholders of the Company in the fourth quarter of 2022 were $529 million ($1.62 per common share). When compared to the fourth quarter of 2021, this represented a decrease of $215 million ($0.58 per common share) or 28.9%. The decrease included an unfavourable change in adjusting items totaling $275 million, partially offset by an improvement in underlying operating performance of $60 million as described below:

- the unfavourable change in adjusting items totaling $275 million ($0.82 per common share) was primarily due to the following:
  - the unfavourable impact of the prior year recovery related to Glenhuron of $313 million ($0.92 per common share);
  - the unfavourable impact of the prior year restructuring and other related recoveries of $6 million ($0.02 per common share); and
  - the year-over-year unfavourable change in fair value adjustment on fuel and foreign currency contracts of $4 million ($0.02 per common share);

  partially offset by:
  - the favourable impact from the gains on the sale of non-operating properties of $41 million ($0.13 per common share).

partially offset by,

- the improvement in underlying operating performance of $60 million ($0.18 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment driven by an increase in adjusted gross profit[(2)], partially offset by an increase in SG&A and an increase in depreciation and amortization.
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months ($0.06 per common share).

Adjusted net earnings available to common shareholders of the Company[(2)] in the fourth quarter of 2022 was $575 million, an increase of $60 million or 11.7% compared to the fourth quarter of 2021. Adjusted net earnings per common share[(2)] in the fourth quarter of 2022 was $1.76, an increase of $0.24 or 15.8% compared to the fourth quarter of 2021. The increase includes the favourable impact from the repurchase of common shares.

Revenue

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	$ Change	% Change
Retail	**$ 13,694**	$ 12,486	$ 1,208	9.7 %
Financial Services	**417**	360	57	15.8 %
Eliminations	**(104)**	(89)	(15)	(16.9)%
Revenue	**$ 14,007**	$ 12,757	$ 1,250	9.8 %

Revenue was $14,007 million in the fourth quarter of 2022. When compared to the fourth quarter of 2021, this represented an increase of $1,250 million, or 9.8%. The increase was primarily driven by an increase in Retail segment sales of $1,208 million due to positive same-store sales growth and Lifemark revenues. Furthermore, there was an improvement in Financial Services segment sales of $57 million.

Operating Income Operating income was $871 million in the fourth quarter of 2022. When compared to the fourth quarter of 2021, this represented an increase of $166 million, or 23.5%. The increase included improvements in the underlying operating performance of $123 million, and a favourable change in adjusting items totaling $43 million, as described below:

- the improvements in underlying operating performance of $123 million was primarily due to the following:
  - an improvement in the underlying operating performance of the Retail Segment due to an increase in adjusted gross profit[2], partially offset by an increase in SG&A and depreciation and amortization.
- the favourable change in adjusting items totaling $43 million was primarily due to the following:
  - the favourable change in net gain on the sale of non-operating properties of $50 million;

  partially offset by,
  - the unfavourable impact of the prior year restructuring and other related recoveries of $8 million.

Adjusted EBITDA[2]

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	$ Change	% Change
Retail	**$ 1,418**	$ 1,244	$ 174	14.0 %
Financial Services	**75**	80	(5)	(6.3)%
Adjusted EBITDA[2]	**$ 1,493**	$ 1,324	$ 169	12.8 %

Adjusted EBITDA[2] was $1,493 million in the fourth quarter of 2022. When compared to the fourth quarter of 2021, this represented an increase of $169 million, or 12.8%. The increase in adjusted EBITDA[2] was primarily due to an improvement in the Retail segment of $174 million, partially offset by a decrease in the Financial Services segment of $5 million.

Depreciation and Amortization Depreciation and amortization was $667 million in the fourth quarter of 2022, an increase of $44 million or 7.1%. The increase in depreciation and amortization was primarily driven by an increase in IT assets and leased assets. Included in depreciation and amortization was accelerated depreciation of $10 million due to the reassessment of the estimated useful life of certain IT assets, and the amortization of intangibles assets related to the acquisitions of Shoppers Drug Mart and Lifemark of $115 million (2021 – $117 million).

Net Interest Expense and Other Financing Charges Net interest expense was $172 million in the fourth quarter of 2022. When compared to the fourth quarter of 2021, this represented an increase of $201 million. The increase in net interest expense and other financing charges in the fourth quarter of 2022 was primarily driven by the prior year interest income related to Glenhuron as discussed in the Income Taxes section below, an increase in interest expense from higher interest rates, and an increase in long term debt. This was partially offset by higher interest income on certain short term investments and post-employment and other long term employee benefits due to higher interest rates.

Income Taxes

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	$ Change	% Change
Income taxes	**$ 181**	$ 15	$ 166	1,106.7 %
Add impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**24**	25	(1)	(4.0)%
Recovery related to Glenhuron	**—**	128	(128)	(100.0)%
Adjusted income taxes[2]	**$ 205**	$ 168	$ 37	22.0 %
Effective tax rate	**25.9 %**	2.0 %		
Adjusted effective tax rate[2]	**26.7 %**	25.5 %		

Income tax expense in the fourth quarter of 2022 was $181 million (2021 – $15 million) and the effective tax rate was 25.9% (2021 – 2.0%). The increase in the effective tax rate was primarily attributable to the recovery of income taxes related to Glenhuron in 2021 and the impact of the reversal of the non-deductible interest related to Glenhuron in 2021.

Adjusted income tax expense[(2)] in the fourth quarter of 2022 was $205 million (2021 – $168 million) and the adjusted effective tax rate[(2)] was 26.7% (2021 – 25.5%). The increase in the adjusted effective tax rate[(2)] was primarily attributable to the impact of certain non-deductible items.

Between 2015 and 2019, the Company was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of the Company on the Glenhuron matter and the Company reversed $301 million of previously recorded charges, of which $173 million was recorded as interest income and $128 million was recorded as income tax recovery, and an additional $16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds.

Net Loss Attributable to Non-Controlling Interests Net loss attributable to non-controlling interests was $14 million in the fourth quarter of 2022, a decrease of $14 million or 50.0% compared to the fourth quarter of 2021. Non-controlling interests represents the share of earnings that relates to the Company's Food Retail franchisees and is impacted by the timing of when profit sharing with franchisees is agreed and finalized under the terms of the agreements. On a full year basis, net earnings attributable to non-controlling interests of $73 million decreased by $28 million or 27.7% when compared to 2021, primarily driven by the normalizing of franchisee earnings after profit sharing.

Cash Flow

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,414**	$ 1,780	$ (366)	(20.6)%
Cash flows from (used in):				
Operating activities	**$ 1,148**	$ 1,024	$ 124	12.1 %
Investing activities	**(416)**	(249)	(167)	(67.1)%
Financing activities	**(539)**	(578)	39	6.7 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	**1**	(1)	2	200.0 %
Change in cash and cash equivalents	**$ 194**	$ 196	$ (2)	(1.0)%
Cash and cash equivalents, end of period	**$ 1,608**	$ 1,976	$ (368)	(18.6)%

Cash Flows from Operating Activities Cash flows from operating activities in the fourth quarter of 2022 were $1,148 million, an increase of $124 million compared to the fourth quarter of 2021. The increase in cash flows from operating activities was primarily driven by higher cash earnings, partially offset by an unfavourable change in non-cash working capital.

Cash Flows used in Investing Activities Cash flows used in investing activities in the fourth quarter of 2022 were $416 million, an increase of $167 million compared to the fourth quarter of 2021. The increase in cash flows used in investing activities was primarily driven by an increase in fixed asset and short term investments, partially offset by the release of $250 million in security deposits to repay *Eagle* notes maturing in the fourth quarter of 2022.

Cash Flows used in Financing Activities Cash flows used in financing activities in the fourth quarter of 2022 were $539 million, a decrease of $39 million compared to the fourth quarter of 2021. The decrease in cash flows used in financing activities was primarily driven by lower repayment of bank indebtedness in the current year, partially offset by a decrease in short-term debt issuances and lower net issuance of long term debt.

Capital Investments In the fourth quarter of 2022, the Company invested $651 million (2021 – $392 million) in fixed asset purchases and intangible asset additions.

Free Cash Flow[2]

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	2022 (12 weeks) Retail	Financial Services	Eliminations[i]	Total	2021 (12 weeks) Retail	Financial Services	Eliminations[i]	Total
Cash flows from (used in) operating activities	**$1,347**	**$ (218)**	**$ 19**	**$ 1,148**	$ 1,193	$ (186)	$ 17	$ 1,024
Less:								
Capital investments	**640**	**11**	**—**	**651**	381	11	—	392
Interest paid	**66**	**—**	**19**	**85**	58	—	17	75
Lease payments, net	**233**	**—**	**—**	**233**	294	—	—	294
Free cash flow[2]	**$ 408**	**$ (229)**	**$ —**	**$ 179**	$ 460	$ (197)	$ —	$ 263

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

Free cash flow[2] from the Retail segment in the fourth quarter of 2022 was $408 million, a decrease of $52 million compared to the fourth quarter of 2021. The decrease in free cash flow[2] from the Retail segment was primarily driven by unfavourable change in non-cash working capital and an increase in fixed asset investments, partially offset by higher cash earnings.

Free cash flow[2] used in the Financial Services segment in the fourth quarter of 2022 was $229 million, an increase of $32 million compared to the fourth quarter of 2021. The increase in free cash flow[2] used in the Financial Services segment was primarily driven by a cash payment made in relation to the PC Bank commodity tax matter.

Segment Information

unaudited (millions of Canadian dollars)	December 31, 2022 (12 weeks) Retail	Financial Services	Eliminations[i]	Total	January 1, 2022 (12 weeks) Retail	Financial Services	Eliminations[i]	Total
Revenue[ii]	**$13,694**	**$ 417**	**$ (104)**	**$14,007**	$12,486	$ 360	$ (89)	$12,757
Operating income	**$ 810**	**$ 61**	**$ —**	**$ 871**	$ 636	$ 69	$ —	$ 705
Net interest expense and other financing charges	**144**	**28**	**—**	**172**	(45)	16	—	(29)
Earnings before income taxes	**$ 666**	**$ 33**	**$ —**	**$ 699**	$ 681	$ 53	$ —	$ 734
Operating income	**$ 810**	**$ 61**	**$ —**	**$ 871**	$ 636	$ 69	$ —	$ 705
Depreciation and amortization	**653**	**14**	**—**	**667**	612	11	—	623
Adjusting items[iii]	**70**	**—**	**—**	**70**	113	—	—	113
Less: amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(115)**	**—**	**—**	**(115)**	(117)	—	—	(117)
Adjusted EBITDA[iii]	**$ 1,418**	**$ 75**	**$ —**	**$ 1,493**	$ 1,244	$ 80	$ —	$ 1,324
Depreciation and amortization[iv]	**538**	**14**	**—**	**552**	495	11	—	506
Adjusted operating income	**$ 880**	**$ 61**	**$ —**	**$ 941**	$ 749	$ 69	$ —	$ 818

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

(ii) Included in Financial Services revenue is $141 million (January 1, 2022 – $111 million) of interest income.

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

(iv) Depreciation and amortization for the calculation of adjusted EBITDA[2] excludes $115 million (January 1, 2022 – $117 million) of amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark.

Retail Segment Fourth Quarter Results of Operations

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	$ Change	% Change
Sales	**$ 13,694**	$ 12,486	$ 1,208	9.7 %
Operating income	**810**	636	174	27.4 %
Adjusted gross profit[2]	**4,188**	3,859	329	8.5 %
Adjusted gross profit %[2]	**30.6 %**	30.9 %		
Adjusted EBITDA[2]	**$ 1,418**	$ 1,244	$ 174	14.0 %
Adjusted EBITDA margin[2]	**10.4 %**	10.0 %		
Depreciation and amortization	**$ 653**	$ 612	$ 41	6.7 %

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**		2021 (12 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 9,514**	**8.4 %**	$ 8,742	1.1 %
Drug retail	**4,180**	**8.7 %**	3,744	7.9 %
Pharmacy and healthcare services	**1,941**	**5.4 %**	1,728	10.2 %
Front store	**2,239**	**11.5 %**	2,016	6.1 %

Sales Retail segment sales were $13,694 million in the fourth quarter of 2022, an increase of $1,208 million, or 9.7% compared to the fourth quarter of 2021, primarily driven by the following factors:

- Food retail same-store sales grew by 8.4% (2021 – 1.1%) for the quarter.
  - Sales growth in food was strong, mainly due to higher than normal inflation;
  - Sales growth in pharmacy was moderate;
  - The Consumer Price Index as measured by The Consumer Price Index for Food Purchased From Stores was 11.2% (2021 – 4.8%) in the fourth quarter of 2022 which was generally in line with the Company's internal food inflation; and
  - Food Retail traffic increased and basket size decreased slightly in the quarter when compared to the fourth quarter of 2021.
- Drug retail same-store sales grew by 8.7% (2021 – 7.9%).
  - Pharmacy and healthcare services same-store sales growth was 5.4% (2021 – 10.2%). Pharmacy and healthcare services same-store sales growth benefited from an increase in prescription volumes from the economic re-opening. The number of prescriptions dispensed increased by 2.0% (2021 – decreased by 0.5%). On a same-store basis, the number of prescriptions dispensed increased by 2.2% (2021 – 8.8%) and the average prescription value increased by 2.3% (2021 – 1.1%);
  - Pharmacy and healthcare services sales include Lifemark revenues of $110 million. Lifemark revenues are excluded from same-store sales; and
  - Front store same-store sales increased by 11.5% (2021 – 6.1%). Front store same-store sales growth benefited from the economic re-opening and higher consumer spending.

In 2022, 13 food and drug stores were opened, and 10 food and drug stores were closed, net retail square footage has remained constant at 71.2 million square feet.

Operating Income Operating income was $810 million in the fourth quarter of 2022, an increase of $174 million, or 27.4% compared to the fourth quarter of 2021. The increase in operating income was driven by an improvement in underlying operating performance of $131 million and the favourable change in adjusting items totaling $43 million, as described below:

- the improvement in underlying operating performance of $131 million was driven by an increase in adjusted gross profit[2], partially offset by an increase in SG&A and depreciation and amortization; and
- the favourable change in adjusting items totaling $43 million was primarily due to the following:
  - the year-over-year favourable change in net gain on the sale of non-operating properties of $50 million;

  partially offset by,
  - the unfavourable impact of the prior year restructuring and other related recoveries of $8 million.

Adjusted Gross Profit[2] Adjusted gross profit[2] in the fourth quarter of 2022 was $4,188 million, an increase of $329 million compared to the fourth quarter of 2021. Adjusted gross profit percentage[2] of 30.6% decreased by 30 basis points (2021 – increased by 150 basis points), primarily driven by a decrease in Food Retail margin partially offset by growth in higher margin Drug Retail front store categories.

Adjusted EBITDA[2] Adjusted EBITDA[2] was $1,418 million in the fourth quarter of 2022, an increase of $174 million, or 14.0% compared to the fourth quarter of 2021. The increase was driven by a favourable increase in adjusted gross profit[2] of $329 million, partially offset by an unfavourable increase in SG&A of $155 million. SG&A as a percentage of sales was 20.2%, a favorable decrease of 70 basis points. The favourable decrease of 70 basis points was primarily due to operating leverage from higher sales.

Depreciation and Amortization Depreciation and amortization in the fourth quarter of 2022 was $653 million, an increase of $41 million compared to the fourth quarter of 2021. The increase in depreciation and amortization in the fourth quarter of 2022 was primarily driven by an increase in IT assets and leased assets. Included in depreciation and amortization was accelerated depreciation of $10 million (2021 – nil) due to the reassessment of the estimated useful life of certain IT assets, and the amortization of intangibles assets related to the acquisitions of Shoppers Drug Mart and Lifemark of $115 million (2021 – $117 million).

Lifemark Health Group On May 10, 2022, the Company acquired Lifemark for $829 million. Lifemark is the leading provider of outpatient physiotherapy, massage therapy, occupational therapy, chiropractic, mental health, and other ancillary rehabilitation services through its more than 300 clinics across Canada. Revenue of $110 million and nominal net earnings were contributed by Lifemark in the quarter. In the fourth quarter of 2022, net earnings includes amortization related to the acquired intangible assets of $3 million.

Network Optimization In the fourth quarter of 2022, the Company finalized network optimization plans that will result in banner conversions and right-sizing of an additional 34 underperforming retail locations across a range of banners and formats. Charges associated with network optimization will be recorded as incurred and are expected to include equipment, severance, lease related and other costs and will not be considered an adjusting item. The Company expects to realize approximately $40 million in annualized EBITDA run-rate savings related to these plans. In the fourth quarter of 2022, the Company recorded charges of $11 million as a result of this network optimization project and expects to record additional charges of approximately $50 million to $60 million as they are incurred throughout 2023.

Financial Services Segment Fourth Quarter Results of Operations

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022** **(12 weeks)**	2021 (12 weeks)	$ Change	% Change
Revenue	**$ 417**	$ 360	$ 57	15.8 %
Earnings before income taxes	**33**	53	(20)	(37.7)%

(millions of Canadian dollars except where otherwise indicated)	**As at** **December 31, 2022**	As at January 1, 2022	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,607**	$ 3,128	$ 479	15.3 %
Credit card receivables	**3,954**	3,443	511	14.8 %
Allowance for credit card receivables	**206**	205	1	0.5 %
Annualized yield on average quarterly gross credit card receivables	**13.0 %**	12.7 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**2.7 %**	2.5 %		

Revenue Revenue was $417 million in the fourth quarter of 2022, an increase of $57 million compared to the fourth quarter of 2021. The increase in the fourth quarter of 2022 was primarily driven by:

- higher interest income from growth in credit card receivables; and
- higher interchange income and credit card related fees from an increase in customer spending.

Earnings before income taxes Earnings before income taxes were $33 million, a decrease of $20 million compared to the fourth quarter of 2021. The decrease was primarily driven by:

- higher loyalty program costs, operating costs, contractual charge-off and funding costs from an increase in customer spending and an increase in interest rates; and
- prior year reversal of certain commodity tax accrued in the amount of $27 million.

partially offset by,

- higher revenue as described above.

Credit Card Receivables As at December 31, 2022, credit card receivables were $3,954 million, an increase of $511 million compared to January 1, 2022. This increase was primarily driven by growth in the active customer base and an increase in customer spending. The allowance for credit card receivables was $206 million, an increase of $1 million compared to January 1, 2022.

10. Disclosure Controls and Procedures

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

As required by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Chairman and President and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2022.

11. Internal Control over Financial Reporting

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

As required by NI 52-109, the Chairman and President, and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2022.

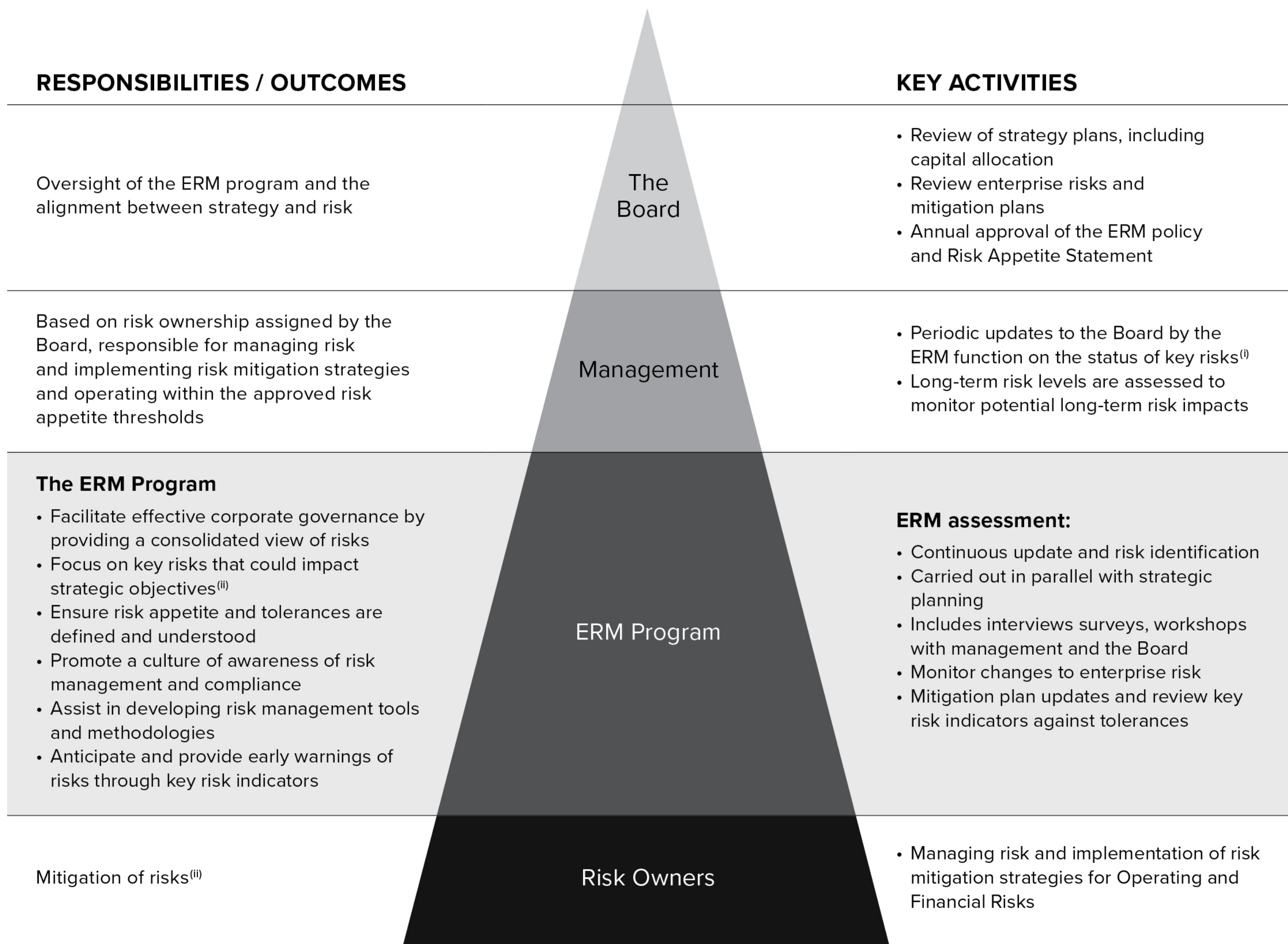
In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required 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 2022 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

12. Enterprise Risks and Risk Management

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

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



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

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

12.1 Operating Risks and Risk Management

The following discussion of risks identifies significant factors that could have a material adverse effect on the Company's business, operations, financial condition or future financial performance. The COVID-19 pandemic may continue to affect the operations and financial performance of the Company, including as a result of uncertain economic conditions, volatile debt and equity markets, and impacts to its workforce, supply chain, and distribution channels that affect the products and services it is able to offer and/or its ability to engage in cross-border commerce.

The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Company's business, as included in the Company's AIF for the year ended December 31, 2022, which is hereby incorporated by reference:

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

Economic Conditions The Company's revenue and profitability are impacted by general economic conditions. These economic conditions include inflation, levels of employment, costs of borrowing, household debt, political uncertainty and government regulation, the impact of natural disasters, war or acts of terrorism, pandemics, changes in interest rates, tax rates, or exchange rates, and access to consumer credit. A number of these conditions could negatively impact consumer spending. As a result, these economic conditions may adversely impact demand for the Company's products and services which could adversely affect the Company's operations or financial performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Failure by the Company to comply with applicable laws, regulations and orders could subject the Company to civil or regulatory actions, investigations or proceedings, including fines, assessments, injunctions, recalls or seizures, which in turn could adversely affect the reputation, operations or financial condition or performance of the Company. In the course of complying with changes to laws, the Company could incur significant costs. Changing laws or interpretations of such laws or enhanced enforcement of existing laws could restrict the Company's operations or profitability and thereby threaten the Company's competitive position and ability to efficiently conduct business. The Company is subject to tax audits from various tax authorities on an ongoing basis. As a result, from time to time, tax authorities may disagree with the positions and conclusions taken by the Company in its tax filings or legislation could be amended or interpretations of current legislation could change, any of which events could lead to reassessments.

The Company is subject to capital requirements from the OSFI, the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework which includes a target common equity Tier 1 capital ratio of 7.0%, a Tier 1 capital ratio of 8.5% and a total capital ratio of 10.5%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio and OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework. PC Bank would be assessed fines and other penalties for non-compliance with these and other regulations. In addition, failure by PC Bank to comply, understand, acknowledge and effectively respond to applicable regulations could result in regulatory intervention and reputational damage.

Business Continuity The Company's ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, work stoppages, prolonged IT systems failure, terrorist activity, power failures, border closures or a pandemic or other national or international catastrophe. The Company has business continuity plans in place to manage any such events. Despite this, ineffective contingency planning, business interruptions, crises or potential disasters could adversely affect the reputation, operations or financial performance of the Company.

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

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

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

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

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

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

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

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

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

Shoppers Drug Mart was previously served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice ("Superior Court") by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who were parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. A summary judgment trial of the matter was held in December 2022 and on February 17, 2023, the Superior Court released its decision in relation to those summary judgment motions (the "Decision"). The Superior Court dismissed the plaintiffs' claims on the majority of the issues including a request for damages at this stage of proceedings. The Court also held that Shoppers Drug Mart breached the 2002 form of Associate Agreement when it did not remit certain amounts that it received from generic drug manufacturers to Associates. The Company is still assessing the Decision and has not yet determined whether it plans to appeal any aspect of it. Accordingly, the Company has not recorded any amounts related to the potential liability associated with this lawsuit. The Company does not believe that the ultimate resolution of this matter will have a material adverse impact on its financial condition or prospects.

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2022 or prior on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks unquantified damages for the expenses incurred by the federal government, provinces, and territories of Canada in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in Canada. During the second quarter of 2021, the claim against Loblaw Companies Limited was discontinued. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. In February 2022, the plaintiff and Sanis Health Inc. agreed to settle the Quebec action for a nominal amount, with no admission of liability and for the express purpose of avoiding the delays, disruption, and expenses associated with the litigation. The settlement has been approved by the court and is now final. In December 2019, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and the Company. The allegations in the Ontario, Quebec, and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and December 2019 claims seek recovery of damages on behalf of opioid users directly. In April 2021, the Company, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with another opioid-related class action that was started in Alberta against multiple defendants. The claim seeks damages on behalf of municipalities and local governments in relation to public safety, social service, and criminal justice costs allegedly incurred due to the opioid crisis. In September 2021, the Company, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with a class action started in Saskatchewan by Peter Ballantyne Cree Nation and Lac La Ronge Indian Band on behalf of all Indigenous, Metis, First Nation and Inuit communities and governments in Canada to recover costs they have incurred as a result of the opioid crisis, including healthcare costs, policing costs and societal costs. The Company believes these proceedings are without merit and is vigorously defending them. The Company does not currently have any significant accruals or provisions for these matters recorded in the consolidated financial statements.

Between 2015 and 2019, the Company was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of the Company on the Glenhuron matter and the Company reversed $301 million of previously recorded charges, of which $173 million was recorded as interest income and $128 million was recorded as income tax recovery, and an additional $16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, the Company reversed another $35 million of previously recorded charges, of which $2 million was recorded as interest income and $33 million was recorded as an income tax recovery, and an additional $9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

In July 2022, the Tax Court released a decision relating to PC Bank, a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29th, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, the Company recorded a charge of $111 million, inclusive of interest, in the second quarter of 2022. The Company believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 OTC derivative instruments to offset certain of these risks. Policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. The fair value of derivative instruments is subject to changing market conditions which could adversely affect the financial performance of the Company.

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

Liquidity	Credit
Commodity Prices	Interest Rates
Currency Exchange Rates	Credit Ratings

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

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

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

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

Credit The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, finance lease receivable, pension assets held in the Company's defined benefit plans and accounts receivable, including amounts due from government and third-party drug plans arising from prescription drug sales, independent accounts and amounts owed from vendors. Failure to manage credit risk could adversely affect the financial performance of the Company.

The risk related to derivative instruments, cash and cash equivalents and short term investments is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments.

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

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

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

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

13. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 170,606,070 of the Company's common shares, representing approximately 52.6% of the Company's outstanding common shares. Galen G. Weston beneficially owns or controls, directly and indirectly, including through Wittington Investments, Limited ("Wittington"), a total of 78,650,662 of Weston's common shares, representing approximately 55.9% of Weston's outstanding common shares. Galen G. Weston also beneficially owns 473,636 of the Company's common shares, representing approximately 0.1% of the Company's outstanding common shares.

Weston is the controlling shareholder of Choice Properties. Therefore, Choice Properties is a related party by virtue of common control. As at December 31, 2022, Weston's ownership interest in Choice Properties was approximately 61.7% (January 1, 2022 – 61.7%). The Company is Choice Properties' largest tenant, representing approximately 57.5% (January 1, 2022 – 55.9%) of Choice Properties' rental revenue as at December 31, 2022. The Company also executes various agreements and transactions with Choice Properties.

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

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

Transactions with Related Parties

	Transaction Value	
(millions of Canadian dollars)	**2022**	2021
Included in cost of sales		
Inventory purchases from a subsidiary of Weston[vi]	**$ —**	$ 541
Inventory sold to a subsidiary of Weston[vi]	**—**	1
Inventory purchases from a related party[i]	**39**	32
Operating income		
Transactions with Weston and Wittington		
Cost sharing agreements with Weston[ii]	**$ 71**	$ 54
Net administrative services provided by Weston[iii]	**16**	19
Transactions with Choice Properties		
Lease payments to Choice Properties[iv]	**$ 753**	$ 751
Lease surrender payments paid to Choice Properties	**—**	2
Site intensification payments received from Choice Properties[v]	**(3)**	(2)

(i) Associated British Foods plc is a related party by virtue of a common director of such entity's parent company and Wittington. Total balance outstanding owing to Associated British Foods plc as at December 31, 2022 was $6 million (January 1, 2022 – $1 million).

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

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

(iv) During 2022, lease payments paid to Choice Properties included base rent of $528 million (2021 – $528 million) and operating expenses of $225 million (2021 – $223 million).

(v) During 2022, the Company received site intensification payments from Choice Properties of $3 million (2021 – $2 million). Included in certain investment properties sold to Choice Properties is excess land with development potential. Choice Properties will compensate the Company, over time, with site intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess lands. The payments the Company receives are calculated in accordance with a payment grid, set out in the Strategic Alliance Agreement, that takes into account the region, market ranking and type of use for the property.

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

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

(millions of Canadian dollars)	As at December 31, 2022	As at January 1, 2022
Weston[i]	$ 116	$ 10
Choice Properties[ii]	(18)	3

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

Other Transactions and Agreements with Choice Properties

Strategic Alliance Agreement The Strategic Alliance Agreement established on the initial public offering ("IPO") of Choice Properties creates a series of rights and obligations between Choice Properties and the Company, intended to establish a preferential and mutually beneficial business and operating relationship. The initial term of the Strategic Alliance Agreement expires on July 5, 2023, ten years from the IPO. Upon expiry of the initial term, the Strategic Alliance Agreement will be automatically renewed until the earlier of July 5, 2033 or the date on which George Weston Limited and its affiliates own less than 50% effective interest in Choice Properties (on a fully diluted basis).

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

	Payments due by year						As at December 31, 2022	As at January 1, 2022
(millions of Canadian dollars)	2023	2024	2025	2026	2027	Thereafter	Total	Total
Lease payments	$ 531	$ 534	$ 543	$ 466	$ 418	$ 1,659	$ 4,151	$ 4,122

Financial Liabilities During 2022, the Company disposed of two retail properties (2021 – one retail property) to Choice Properties for total proceeds of $15 million (2021 – $12 million). The properties were leased back by the Company. The transactions did not meet the criteria for sale of asset in accordance with IFRS 15, "Revenue from Contracts with Customers" as the Company did not relinquish control of the properties under the terms of the leases. Total proceeds were recognized as financial liabilities and as at December 31, 2022, $4 million (January 1, 2022 – $3 million) was recorded in trade payables and other liabilities and $69 million (January 1, 2022 – $54 million) was recorded in other liabilities. During 2022, $5 million (2021 – $3 million) of interest expense was recognized in net interest expense and other financing charges and repayments of $4 million (2021 – $4 million) were made on the financial liabilities.

Disposition of Properties to Choice Properties Real Estate Investment Trust In the first quarter of 2022, the Company disposed of a property to Choice Properties for proceeds of $26 million and recognized a gain of $19 million. This property was not leased back by the Company. There were no dispositions of property to Choice Properties in 2021.

Leases with Choice Properties During 2022, the Company renewed 42 retail leases which would have expired in 2023. Upon renewal, the Company recorded right-of-use assets and lease liabilities of $133 million.

In the second quarter of 2022, the Company announced that it intends to build an industrial facility on part of a property in East Gwillimbury, Ontario owned by a joint venture in which Choice Properties has an ownership interest. The Company expects to bring the industrial facility into its operations in the first quarter of 2024. For the first phase of the development, the Company entered into a 25-year land lease with the joint venture. The Company took possession of the land on October 1, 2022, and as a result recorded a right-of-use asset and lease liability of $120 million. The land lease includes a 15-month construction period with lease payments commencing in 2024.

Other Transactions

Venture Fund During 2020, Loblaw, Weston and a wholly owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("Venture Fund I"). A wholly owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee it. The purpose of the Venture Fund I is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have 33% interest in the Venture Fund I. The Company has a total capital commitment of $33 million over a 10-year period. To date, the Company has invested $23 million in the Venture Fund I, of which $8 million was invested in 2022 (2021 – $9 million) (see note 18).

During the third quarter of 2022, Loblaw became a limited partner in another limited partnership formed by Wittington ("Venture Fund II"). A wholly owned subsidiary of Wittington is also the general partner of Venture Fund II, and the general purpose of Venture Fund II is consistent with Venture Fund I. The Company has a 50% interest in Venture Fund II and has a total capital commitment of $60 million over a 10-year period. To date, the Company has invested nil in Venture Fund II.

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. Effective November 21, 2022, Loblaw became the sponsor of a group plan which was previously sponsored by the parent company, Weston. As a participant of the group plan, the Company will continue to make contributions for its share of defined benefit costs, including interest, service and administrative costs. In 2022 and 2021, the Company did not make any contributions to the group plan.

Income Tax Matters From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

Key Management Personnel The Company's key management personnel are comprised of the Board and certain members of the executive team of the Company, as well as both the Board and certain members of the executive team of Weston and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

Compensation of Key Management Personnel Annual compensation of key management personnel that is directly attributable to the Company was as follows:

(millions of Canadian dollars)	**2022**	2021
Salaries, director fees and other short term employee benefits	**$ 8**	$ 9
Equity-based compensation	**2**	9
Total compensation	**$ 10**	$ 18

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 estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements.

14.1 Consolidation

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

14.2 Business Combinations - Valuation of Intangible Assets

Key Estimations The Company applies significant judgment in estimating the fair value of intangible assets. In determining the fair value of customer relationships and brands, various valuation techniques are used. Specifically, the Company used the multi-period excess earnings method to fair value customer relationships and the royalty relief method to fair value brands using a discounted cash flow model. Under these valuation approaches, the Company developed assumptions related to revenue and gross margin forecasts, attrition rate, royalty rate and discount rates.

14.3 Inventories

Key Estimations 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.

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

Judgments Made in Relation to Accounting Policies Applied The Company uses judgment in determining cash generating units ("CGUs") for the purpose of testing fixed assets, right-of-use assets and intangible assets for impairment. Judgment is also used to determine the goodwill CGUs for the purpose of testing goodwill for impairment. The Company has determined that each retail location is a separate CGU. Intangible assets are allocated to the CGUs (or groups of CGUs) to which they relate. Goodwill is allocated to CGUs (or groups of CGUs) based on the level at which management monitors goodwill, which cannot be higher than an operating segment. The allocation of goodwill is made to CGUs (or groups of CGUs) that are expected to benefit from the synergies and future growth of the business combination from which they arose. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. In applying this judgment management considers profitability of the CGU and other qualitative factors. If the the Company cannot estimate the recoverable amount of an individual tangible or intangible asset because it does not generate independent cash inflows, the Company is required to test the entire CGU to which it belongs for impairment.

Key Estimations 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, discount rates and capitalization rates. The Company determines value in use by using estimates including projected future sales and earnings, and discount rates consistent with external industry information reflecting the risk associated with the specific cash flows.

14.5 Impairment of Credit Card Receivables

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

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

14.6 Income and Other Taxes

Judgments Made in Relation to Accounting Policies Applied The calculation of current and deferred income taxes requires management to make certain judgments including expectations about future operating results, the timing and reversal of temporary differences, and the interpretation of tax rules in jurisdictions where the Company performs activities. Where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on the most likely amount of the liability or recovery.

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 healthcare services and other health and beauty products, apparel and other general merchandise. The Company has aggregated its retail operating segments on the basis of their similar economic characteristics, customers and nature of products. This similarity in economic characteristics reflects the fact that the Company's retail operating segments operate primarily in Canada and are therefore subject to the same economic market pressures and regulatory environment. The Company's retail operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The similar economic characteristics also include the provision of centralized, common functions such as marketing and IT across all retail operating segments.

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

14.8 Provisions

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

14.9 Leases

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

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

15. Accounting Standards

Future Accounting Standard

IFRS 17 In 2017, the IASB issued IFRS 17, "Insurance Contracts" ("IFRS 17") replacing IFRS 4. IFRS 17 introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to these contracts. Additionally, IFRS 17 requires an entity to recognize profits as it delivers insurance services, rather than when it receives premiums. The standard is effective for annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has assessed the impact of the standard on its consolidated financial statements and determined that the impact will not be material.

16. Strategic Update and Outlook[3]

Strategic Update Loblaw's portfolio of businesses remains strong and well-positioned as global factors continue to cause unprecedented inflationary pressures and higher food costs. The Company's best in class assets continue to meet customers' everyday needs for food, health and wellness – supporting Loblaw's purpose: helping Canadians *Live Life Well.* In an evolving and challenging landscape, in 2023 the Company will focus on three strategic pillars: delivering retail excellence; driving growth; and investing for the future.

Retail Excellence Loblaw creates value through disciplined execution of core retail operations and by leveraging its scale and strategic assets. This retail excellence is underpinned by process and efficiency initiatives and helps grow sales, optimize gross margins, and reduce operating costs. The Company remains focused on strategic procurement opportunities to deliver reliability, improve product selection and drive economies of scale across its grocery and pharmacy network. Leveraging its customer loyalty program and more than one billion customer transactions across food, pharmacy, apparel, and financial services, Loblaw will increase its promotional effectiveness while delivering personalized value and unmatched service to Canadians. The Company will continue to invest in and optimize its retail network to better meet customer needs and improve its overall profitability. Management's clear commitment to food and drug retail excellence, together with a sense of urgency, is focused on delivering consistent strong operational and financial performance.

Driving Growth Loblaw continues to invest in targeted growth areas to further differentiate its portfolio of assets and generate competitive advantage. The three priority areas are: Digital Retail, Loblaw Media, and *PC Optimum*. The Company will focus on enhancing and integrating its Digital Retail platforms across each of its businesses and improving the customer experience and functionality. The Loblaw Media platform provides expanded advertising opportunities on the Company's digital platforms and in-stores, delivering an unmatched value proposition to vendors. The Company's *PC Optimum* loyalty program continues to evolve, with increasing customer digital engagement, more meaningful personalized offers, and more effective promotions, all toward strengthening the loyalty loop and increasing the share of customer wallet.

Investing For The Future Loblaw will continue to make capital investments towards the modernization and automation of its supply chain and the expansion of its retail network. These investments will be partially funded by proceeds from real estate dispositions. Loblaw will continue to invest in its Connected Healthcare strategy with the goal of growing its healthcare ecosystem by connecting patients and providers through an unmatched network of pharmacies, healthcare professionals and technology solutions. Pharmacies will play an increasing role in the delivery of healthcare services to Canadians through expanded scope of practice changes and the expansion of pharmacist led clinics.

Outlook[3] Loblaw will continue to execute on retail excellence while advancing its growth initiatives in 2023. The Company's businesses remain well placed to service the everyday needs of Canadians. However, the Company cannot predict the precise impacts of global economic uncertainties, including the inflationary environment, on its 2023 financial results.

For the full-year 2023, the Company expects:

- its Retail business to grow earnings faster than sales;
- adjusted net earnings per common share[2] growth in the low double digits;
- to increase investments in our store network and distribution centres by investing a net amount of $1.6 billion in capital expenditures, which reflects gross capital investments of approximately $2.1 billion offset by approximately $500 million of proceeds from real estate dispositions; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

17. Non-GAAP Financial Measures

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

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

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

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

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

				2022 (12 weeks)				2021 (12 weeks)
For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 13,694**	**$ 417**	**$ (104)**	**$ 14,007**	$ 12,486	$ 360	$ (89)	$12,757
Cost of sales	**9,506**	**81**	**—**	**9,587**	8,627	78	—	8,705
Gross profit	**$ 4,188**	**$ 336**	**$ (104)**	**$ 4,420**	$ 3,859	$ 282	$ (89)	$ 4,052
Adjusted gross profit	**$ 4,188**	**$ 336**	**$ (104)**	**$ 4,420**	$ 3,859	$ 282	$ (89)	$ 4,052

				2022 (52 weeks)				2021 (52 weeks)
For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$55,492**	**$ 1,338**	**$ (326)**	**$56,504**	$ 52,269	$ 1,182	$ (281)	$53,170
Cost of sales	**38,327**	**201**	**—**	**38,528**	36,228	208	—	36,436
Gross profit	**$ 17,165**	**$ 1,137**	**$ (326)**	**$ 17,976**	$ 16,041	$ 974	$ (281)	$16,734
Adjusted gross profit	**$ 17,165**	**$ 1,137**	**$ (326)**	**$ 17,976**	$ 16,041	$ 974	$ (281)	$16,734

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

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

			2022 (12 weeks)			2021 (12 weeks)
For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total
Net earnings attributable to shareholders of the Company			**$ 532**			$ 747
Add (deduct) impact of the following:						
Non-controlling interests			**(14)**			(28)
Net interest expense (recovery) and other financing charges			**172**			(29)
Income taxes			**181**			15
Operating income	**$ 810**	**$ 61**	**$ 871**	$ 636	$ 69	$ 705
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 111**	**$ —**	**$ 111**	$ 117	$ —	$ 117
Amortization of intangible assets acquired with Lifemark	**4**	**—**	**4**	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**11**	**—**	**11**	6	—	6
Restructuring and other related recoveries	**—**	**—**	**—**	(8)	—	(8)
Fair value adjustment on non-operating properties	**(6)**	**—**	**(6)**	(2)	—	(2)
Gain on sale of non-operating properties	**(50)**	**—**	**(50)**	—	—	—
Adjusting items	**$ 70**	**$ —**	**$ 70**	$ 113	$ —	$ 113
Adjusted operating income	**$ 880**	**$ 61**	**$ 941**	$ 749	$ 69	$ 818
Depreciation and amortization	**653**	**14**	**667**	612	11	623
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(115)**	**—**	**(115)**	(117)	—	(117)
Adjusted EBITDA	**$ 1,418**	**$ 75**	**$ 1,493**	$ 1,244	$ 80	$ 1,324

			2022 (52 weeks)			2021 (52 weeks)
For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total
Net earnings attributable to shareholders of the Company			**$ 1,921**			$ 1,875
Add impact of the following:						
Non-controlling interests			**73**			101
Net interest expense and other financing charges			**683**			495
Income taxes			**665**			466
Operating income	**$3,260**	**$ 82**	**$3,342**	$ 2,713	$ 224	$ 2,937
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 486**	**$ —**	**$ 486**	$ 506	$ —	$ 506
Amortization of intangible assets acquired with Lifemark	**11**	**—**	**11**	—	—	—
Charge related to PC Bank commodity tax matter	**—**	**111**	**111**	—	—	—
Lifemark transaction costs	**16**	**—**	**16**	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(5)**	**—**	**(5)**	(13)	—	(13)
Fair value adjustment on non-operating properties	**(6)**	**—**	**(6)**	(2)	—	(2)
Restructuring and other related (recoveries) costs	**(15)**	**—**	**(15)**	13	—	13
Gain on sale of non-operating properties	**(57)**	**—**	**(57)**	(12)	—	(12)
Adjusting items	**$ 430**	**$ 111**	**$ 541**	$ 492	$ —	$ 492
Adjusted operating income	**$3,690**	**$ 193**	**$3,883**	$ 3,205	$ 224	$ 3,429
Depreciation and amortization	**2,746**	**49**	**2,795**	2,623	41	2,664
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(497)**	**—**	**(497)**	(506)	—	(506)
Adjusted EBITDA	**$5,939**	**$ 242**	**$ 6,181**	$ 5,322	$ 265	$ 5,587

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

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

Amortization of intangible assets acquired with Lifemark The acquisition of Lifemark in the second quarter of 2022 included approximately $299 million of definite life intangible assets, which are being amortized over their estimated useful lives.

Charge related to PC Bank commodity tax matter In the second quarter of 2022, the Company recorded a charge of $111 million, inclusive of interest. On July 19, 2022, the Tax Court released its decision and ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29, 2022, PC Bank filed a Notice of Appeal with the Federal Court of the Appeal.

Lifemark transaction costs In connection with the acquisition of Lifemark, the Company recorded acquisition costs of $16 million in operating income during 2022.

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

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

Restructuring and other related (recoveries) costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Only restructuring activities that are publicly announced related to these initiatives are considered adjusting items.

In the fourth quarter of 2022, the Company did not record any restructuring and other related recoveries or charges (2021 – recovery of $8 million). Year-to-date, the Company recorded approximately $15 million (2021 – charges of $13 million) of restructuring and other related recoveries mainly in connection to the previously announced closure of two distribution centres in Laval and Ottawa. In the first quarter of 2022, the Company disposed of one of the distribution centres for proceeds of $26 million and recognized a gain of $19 million, which was partially offset by $4 million of restructuring and other related charges. The Company invested to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec and volumes have been transferred.

Gain on sale of non-operating properties In the fourth quarter of 2022, the Company recorded a gain related to the sale of non-operating properties of $50 million (2021 – nil). Year-to-date, the Company disposed of non-operating properties and recorded a gain of $57 million (2021 – $12 million).

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

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**2022 (12 weeks)**	2021 (12 weeks)	**2022 (52 weeks)**	2021 (52 weeks)
Net interest expense (recovery) other financing charges	**$ 172**	$ (29)	**$ 683**	$ 495
Add: Recovery related to Glenhuron	**—**	189	**11**	189
Adjusted net interest expense and other financing charges	**$ 172**	$ 160	**$ 694**	$ 684

Recovery related to Glenhuron Between 2015 and 2019, the Company was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of the Company on the Glenhuron matter and the Company reversed $301 million of previously recorded charges, of which $173 million was recorded as interest income and $128 million was recorded as income tax recovery, and an additional $16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, the Company reversed another $35 million of previously recorded charges, of which $2 million was recorded as interest income and $33 million was recorded as an income tax recovery, and an additional $9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

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

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

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	**2022 (52 weeks)**	2021 (52 weeks)
Adjusted operating income(i)	**$ 941**	$ 818	**$ 3,883**	$ 3,429
Adjusted net interest expense and other financing charges(i)	**172**	160	**694**	684
Adjusted earnings before taxes	**$ 769**	$ 658	**$ 3,189**	$ 2,745
Income taxes	**$ 181**	$ 15	**$ 665**	$ 466
Add impact of the following:				
Tax impact of items included in adjusted earnings before taxes(ii)	**24**	25	**143**	127
Recovery related to Glenhuron	**—**	128	**33**	128
Adjusted income taxes	**$ 205**	$ 168	**$ 841**	$ 721
Effective tax rate	**25.9 %**	2.0 %	**25.0 %**	19.1 %
Adjusted effective tax rate	**26.7 %**	25.5 %	**26.4 %**	26.3 %

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

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

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

For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	**2022 (12 weeks)**	2021 (12 weeks)	**2022 (52 weeks)**	2021 (52 weeks)
Net earnings attributable to shareholders of the Company	**$ 532**	$ 747	**$ 1,921**	$ 1,875
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(12)
Net earnings available to common shareholders of the Company	**$ 529**	$ 744	**$ 1,909**	$ 1,863
Net earnings attributable to shareholders of the Company	**$ 532**	$ 747	**$ 1,921**	$ 1,875
Adjusting items (refer to the following table)	**46**	(229)	**354**	48
Adjusted net earnings attributable to shareholders of the Company	**$ 578**	$ 518	**$ 2,275**	$ 1,923
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(12)**	(12)
Adjusted net earnings available to common shareholders of the Company	**$ 575**	$ 515	**$ 2,263**	$ 1,911
Diluted weighted average common shares outstanding (millions)	**327.4**	338.1	**331.7**	341.8

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

	2022 (12 weeks)		2021 (12 weeks)		**2022 (52 weeks)**		2021 (52 weeks)	
For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars/Canadian dollars)	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
As reported	**$ 529**	**$ 1.62**	$ 744	$ 2.20	**$ 1,909**	**$ 5.75**	$ 1,863	$ 5.45
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 80**	**$ 0.24**	$ 87	$ 0.25	**$ 357**	**$ 1.08**	$ 372	$ 1.09
Amortization of intangible assets acquired with Lifemark	**3**	**0.01**	—	—	**8**	**0.03**	—	—
Fair value adjustment on fuel and foreign currency contracts	**8**	**0.03**	4	0.01	**(4)**	**(0.01)**	(10)	(0.03)
Charge related to PC Bank commodity tax matter	**—**	**—**	—	—	**86**	**0.25**	—	—
Lifemark transaction costs	**—**	**—**	—	—	**12**	**0.04**	—	—
Restructuring and other related (recoveries) costs	**—**	**—**	(6)	(0.02)	**(14)**	**(0.04)**	10	0.03
Recovery related to Glenhuron	**—**	**—**	(313)	(0.92)	**(42)**	**(0.13)**	(313)	(0.92)
Fair value adjustment on non-operating properties	**(4)**	**(0.01)**	(1)	—	**(4)**	**(0.01)**	(1)	—
Gain on sale of non-operating properties	**(41)**	**(0.13)**	—	—	**(45)**	**(0.14)**	(10)	(0.03)
Adjusting items	**$ 46**	**$ 0.14**	$ (229)	$ (0.68)	**$ 354**	**$ 1.07**	$ 48	$ 0.14
Adjusted	**$ 575**	**$ 1.76**	$ 515	$ 1.52	**$ 2,263**	**$ 6.82**	$ 1,911	$ 5.59

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

				2022 (12 weeks)				2021 (12 weeks)
For the periods ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Cash flows from (used in) operating activities	**$ 1,347**	**$ (218)**	**$ 19**	**$ 1,148**	$ 1,193	$ (186)	$ 17	$ 1,024
Less:								
Capital investments	**640**	**11**	**—**	**651**	381	11	—	392
Interest paid	**66**	**—**	**19**	**85**	58	—	17	75
Lease payments, net	**233**	**—**	**—**	**233**	294	—	—	294
Free cash flow[2]	**$ 408**	**$ (229)**	**$ —**	**$ 179**	$ 460	$ (197)	$ —	$ 263

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

				2022 (52 weeks)				2021 (52 weeks)
For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Cash flows from (used in) operating activities	**$ 5,133**	**$ (444)**	**$ 66**	**$ 4,755**	$ 4,775	$ (16)	$ 68	$ 4,827
Less:								
Capital investments	**1,538**	**33**	**—**	**1,571**	1,154	29	—	1,183
Interest paid	**278**	**—**	**66**	**344**	271	—	68	339
Lease payments, net	**1,312**	**—**	**—**	**1,312**	1,346	—	—	1,346
Free cash flow[2]	**$ 2,005**	**$ (477)**	**$ —**	**$ 1,528**	$ 2,004	$ (45)	$ —	$ 1,959

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

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

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

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

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

(unaudited) ($ millions)	**2022** First Quarter (12 weeks)	**2022** Second Quarter (12 weeks)	**2022** Third Quarter (16 weeks)	**2022** Fourth Quarter (12 weeks)	**2022 Total (52 weeks)**	2021 First Quarter (12 weeks)	2021 Second Quarter (12 weeks)	2021 Third Quarter (16 weeks)	2021 Fourth Quarter (12 weeks)	2021 Total 52 weeks	2020 Total 53 weeks
Net earnings attributable to shareholders of the Company	**$ 440**	**$ 390**	**$ 559**	**$ 532**	**$ 1,921**	$ 316	$ 378	$ 434	$ 747	$ 1,875	$ 1,108
Add (deduct) impact of the following:											
Non-controlling interests	**33**	**38**	**16**	**(14)**	**73**	19	56	54	(28)	101	84
Net interest (recovery)/ expense and other financing charges	**142**	**152**	**217**	**172**	**683**	160	161	203	(29)	495	742
Income taxes	**123**	**162**	**199**	**181**	**665**	122	157	172	15	466	431
Operating income	**$ 738**	**$ 742**	**$ 991**	**$ 871**	**$3,342**	$ 617	$ 752	$ 863	$ 705	$2,937	$2,365
Add (deduct) impact of the following:											
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 117**	**$ 111**	**$ 147**	**$ 111**	**$ 486**	$ 117	$ 117	$ 155	$ 117	$ 506	$ 509
Amortization of intangible assets acquired with Lifemark	**—**	**3**	**4**	**4**	**11**	—	—	—	—	—	—
Charge related to PC bank commodity tax matter	**—**	**111**	**—**	**—**	**111**	—	—	—	—	—	—
Lifemark transaction costs	**3**	**13**	**—**	**—**	**16**	—	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(14)**	**4**	**(6)**	**11**	**(5)**	(8)	(3)	(8)	6	(13)	5
Fair value adjustment on non-operating properties	**—**	**—**	**—**	**(6)**	**(6)**	—	—	—	(2)	(2)	9
Restructuring and other related (recoveries) costs	**(15)**	**—**	**—**	**—**	**(15)**	4	8	9	(8)	13	38
Gain on sale of non-operating properties	**—**	**(4)**	**(3)**	**(50)**	**(57)**	(5)	—	(7)	—	(12)	(9)
Adjusting items	**$ 91**	**$ 238**	**$ 142**	**$ 70**	**$ 541**	$ 108	$ 122	$ 149	$ 113	$ 492	$ 552
Adjusted operating income	**$ 829**	**$ 980**	**$ 1,133**	**$ 941**	**$3,883**	$ 725	$ 874	$ 1,012	$ 818	$3,429	$ 2,917
Depreciation and amortization	**631**	**633**	**864**	**667**	**2,795**	610	614	817	623	2,664	2,596
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(117)**	**(114)**	**(151)**	**(115)**	**(497)**	(117)	(117)	(155)	(117)	(506)	(509)
Adjusted EBITDA	**$1,343**	**$1,499**	**$1,846**	**$1,493**	**$ 6,181**	$ 1,218	$ 1,371	$ 1,674	$ 1,324	$5,587	$5,004

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

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

(unaudited) (millions of Canadian dollars)	**2022** **(52 weeks)**	2021 (52 weeks)	2020 (53 weeks)
Net interest expense and other financing charges	**$ 683**	$ 495	$ 742
Add: Recovery related to Glenhuron	**11**	189	—
Adjusted net interest expense and other financing charges	**$ 694**	$ 684	$ 742

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

(unaudited) (millions of Canadian dollars)	**2022** **(52 weeks)**	2021 (52 weeks)	2020 (53 weeks)
Adjusted operating income(i)	**$ 3,883**	$ 3,429	$ 2,917
Adjusted net interest expense and other financing charges(i)	**694**	684	742
Adjusted earnings before taxes	**$ 3,189**	$ 2,745	$ 2,175
Income taxes	**$ 665**	$ 466	$ 431
Add impact of the following:			
Tax impact of items included in adjusted earnings before taxes(ii)	**143**	127	149
Recovery related to Glenhuron	**33**	128	—
Adjusted income taxes	**$ 841**	$ 721	$ 580
Effective tax rate	**25.0 %**	19.1 %	26.6%
Adjusted effective tax rate	**26.4 %**	26.3 %	26.7%

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

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

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

(unaudited) ($ millions)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**2022 Total (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	2021 Total (52 weeks)	2020 Total (53 weeks)
As reported	**$ 437**	**$ 387**	**$ 556**	**$ 529**	**$1,909**	$ 313	$ 375	$ 431	$ 744	$1,863	$1,096
Add (deduct) impact of the following(i):											
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 87**	**$ 81**	**$ 109**	**$ 80**	**$ 357**	$ 86	$ 86	$ 113	$ 87	$ 372	$ 373
Amortization of intangible assets acquired with Lifemark	**—**	**2**	**3**	**3**	**8**	—	—	—	—	—	—
Charge related to PC bank commodity tax matter	**—**	**86**	**—**	**—**	**86**	—	—	—	—	—	—
Lifemark transaction costs	**2**	**10**	**—**	**—**	**12**	—	—	—	—	—	—
Restructuring and other related (recoveries) costs	**(14)**	**—**	**—**	**—**	**(14)**	3	5	8	(6)	10	27
Fair value adjustment on fuel and foreign currency contracts	**(11)**	**3**	**(4)**	**8**	**(4)**	(6)	(2)	(6)	4	(10)	4
Fair value adjustment on non-operating properties	**—**	**—**	**—**	**(4)**	**(4)**	—	—	—	(1)	(1)	7
Gain on sale of non-operating properties	**—**	**(3)**	**(1)**	**(41)**	**(45)**	(4)	—	(6)	—	(10)	(8)
Recovery related to Glenhuron	**(42)**	**—**	**—**	**—**	**(42)**	—	—	—	(313)	(313)	—
Adjusting items	**$ 22**	**$ 179**	**$ 107**	**$ 46**	**$ 354**	$ 79	$ 89	$ 109	$ (229)	$ 48	$ 403
Adjusted(i)	**$ 459**	**$ 566**	**$ 663**	**$ 575**	**$2,263**	$ 392	$ 464	$ 540	$ 515	$ 1,911	$1,499

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

(unaudited) ($)	2022 First Quarter (12 weeks)	2022 Second Quarter (12 weeks)	2022 Third Quarter (16 weeks)	2022 Fourth Quarter (12 weeks)	2022 Total (52 weeks)	2021 First Quarter (12 weeks)	2021 Second Quarter (12 weeks)	2021 Third Quarter (16 weeks)	2021 Fourth Quarter (12 weeks)	2021 Total (52 weeks)	2020 Total (53 weeks)
As reported	**$ 1.30**	**$ 1.16**	**$ 1.69**	**$ 1.62**	**$ 5.75**	$ 0.90	$ 1.09	$ 1.27	$ 2.20	$ 5.45	$ 3.06
Add (deduct) impact of the following[(i)]:											
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 0.25**	**$ 0.24**	**$ 0.33**	**$ 0.24**	**$ 1.08**	$ 0.25	$ 0.25	$ 0.33	$ 0.25	$ 1.09	$ 1.03
Amortization of intangible assets acquired with Lifemark	**—**	**0.01**	**0.01**	**0.01**	**0.03**	—	—	—	—	—	—
Charge related to PC bank commodity tax matter	**—**	**0.25**	**—**	**—**	**0.25**	—	—	—	—	—	—
Lifemark transaction costs	**0.01**	**0.03**	**—**	**—**	**0.04**	—	—	—	—	—	—
Restructuring and other related (recoveries) costs	**(0.04)**	**—**	**—**	**—**	**(0.04)**	0.01	0.01	0.03	(0.02)	0.03	0.08
Fair value adjustment on fuel and foreign currency contracts	**(0.03)**	**0.01**	**(0.02)**	**0.03**	**(0.01)**	(0.02)	—	(0.02)	0.01	(0.03)	0.01
Fair value adjustment on non-operating properties	**—**	**—**	**—**	**(0.01)**	**(0.01)**	—	—	—	—	—	0.02
Gain on sale of non-operating properties	**—**	**(0.01)**	**—**	**(0.13)**	**(0.14)**	(0.01)	—	(0.02)	—	(0.03)	(0.02)
Recovery related to Glenhuron	**(0.13)**	**—**	**—**	**—**	**(0.13)**	—	—	—	(0.92)	(0.92)	—
Adjusting items	**$ 0.06**	**$ 0.53**	**$ 0.32**	**$ 0.14**	**$ 1.07**	$ 0.23	$ 0.26	$ 0.32	$ (0.68)	$ 0.14	$ 1.12
Adjusted[(i)]	**$ 1.36**	**$ 1.69**	**$ 2.01**	**$ 1.76**	**$ 6.82**	$ 1.13	$ 1.35	$ 1.59	$ 1.52	$ 5.59	$ 4.18
Diluted weighted average common shares outstanding (millions)	**336.7**	**334.4**	**329.6**	**327.4**	**331.7**	348.2	342.9	340.1	338.1	341.8	358.2

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

18. Additional Information

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

February 22, 2023
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 143 of the Company's 2022 Annual Report.
(2) See Section 17 "Non-GAAP Financial Measures", which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
(3) To be read in conjunction with Section 1 "Forward-Looking Statements".
(4) Comparative figures have been restated to conform with current year presentation.

Financial Results

Management's Statement of Responsibility for Financial Reporting		**70**
Independent Auditor's Report		**71**
Consolidated Financial Statements		
Consolidated Statements of Earnings		**75**
Consolidated Statements of Comprehensive Income		**76**
Consolidated Statements of Changes in Equity		**77**
Consolidated Balance Sheets		**78**
Consolidated Statements of Cash Flows		**79**
Notes to the Consolidated Financial Statements		**80**
Note 1.	Nature and Description of the Reporting Entity	80
Note 2.	Significant Accounting Policies	80
Note 3.	Critical Accounting Estimates and Judgments	93
Note 4.	Future Accounting Standards	96
Note 5.	Business Acquisitions	96
Note 6.	Net Interest Expense and Other Financing Charges	97
Note 7.	Income Taxes	98
Note 8.	Basic and Diluted Net Earnings per Common Share	99
Note 9.	Cash and Cash Equivalents and Short Term Investments	100
Note 10.	Accounts Receivable	100
Note 11.	Credit Card Receivables	101
Note 12.	Inventories	103
Note 13.	Assets Held for Sale	103
Note 14.	Fixed Assets	104
Note 15.	Investment Properties	105
Note 16.	Intangible Assets	106
Note 17.	Goodwill	107
Note 18.	Other Assets	108
Note 19.	Provisions	109
Note 20.	Long Term Debt	110
Note 21.	Other Liabilities	113
Note 22.	Share Capital	113
Note 23.	Capital Management	115
Note 24.	Post-Employment and Other Long Term Employee Benefits	117
Note 25.	Equity-Based Compensation	122
Note 26.	Employee Costs	124
Note 27.	Leases	125
Note 28.	Financial Instruments	128
Note 29.	Financial Risk Management	130
Note 30.	Contingent Liabilities	132
Note 31.	Financial Guarantees	134
Note 32.	Related Party Transactions	135
Note 33.	Segment Information	139

Management's Statement of Responsibility for Financial Reporting

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

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

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

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

Toronto, Canada
February 22, 2023

[signed]
Galen G. Weston
Chairman and President

[signed]
Richard Dufresne
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Loblaw Companies Limited

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Loblaw Companies Limited and its subsidiaries (together, the Company) as at December 31, 2022 and its financial performance and its cash flows for the 52-week year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of earnings for the 52-week year ended December 31, 2022;
- the consolidated statement of comprehensive income for the 52-week year ended December 31, 2022;
- the consolidated statement of changes in equity for the 52-week year ended December 31, 2022;
- the consolidated balance sheet as at December 31, 2022;
- the consolidated statement of cash flows for the 52-week year ended December 31, 2022; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the 52-week year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of fixed assets and right-of-use assets for retail locations

Refer to note 2 – Significant accounting policies, note 3 – Critical accounting estimates and judgments, note 14 – Fixed assets and note 27 – Leases to the consolidated financial statements.

As at December 31, 2022, the Company had fixed assets of $5,696 million and right-of-use assets of $7,409 million. At each balance sheet date, management reviews the carrying amounts of its fixed assets and right-of-use assets at the Cash Generating Unit (CGU) level to determine whether there is any indication of impairment. Judgment is used to determine whether an indication of impairment exists; if any such indication exists, the CGU is then tested for impairment. In applying this judgment, management considers profitability of the CGU and other qualitative factors. Management determined that each retail location is a separate CGU for purposes of fixed asset and right-of-use asset impairment testing. The fixed assets and right-of-use assets related to the retail location CGUs represent a significant portion of the Company's fixed assets and right-of-use assets.

Management identified indications of impairment for certain retail location CGUs and therefore an impairment test was performed for these CGUs. An impairment loss is recognized for the amount by which the CGU's carrying value exceeds its recoverable amount.

The recoverable amount of each CGU is the higher of its value in use and its fair value less costs to sell (FVLCTS). Value in use is based on the estimated future cash flows from the CGU discounted to their present value using a pre-tax discount rate (discounted cash flow model). The FVLCTS reflects the amount that could be obtained from the disposal of the CGU in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

Assumptions utilized by management to determine the recoverable amount based on value in use include discount rates, projected future sales and earnings. Assumptions utilized by management to determine the recoverable amount based on FVLCTS include market rental rates, discount rates and capitalization rates.

For the year ended December 31, 2022, the Company recorded $22 million of impairment losses on fixed assets and $14 million of impairment losses on right-of-use assets in respect of 18 retail location CGUs.

We considered this a key audit matter due to the judgments made by management in assessing the indications of impairment and developing the assumptions to determine the recoverable amounts of the retail location CGUs. This resulted in significant audit effort and subjectivity in performing procedures to assess the indications of impairment and to test the recoverable amounts of the retail location CGUs. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

Our approach to addressing the matter included the following procedures, among others:

- Evaluated management's assessment of indications of impairment, which included the following:
    - Assessed the reasonableness of the profitability of the CGUs on a sample basis by considering the actual historical performance of the CGUs.
    - Assessed other qualitative factors by considering evidence obtained in other areas of the audit.
    - Tested the underlying data used in the indications of impairment assessment on a sample basis by tracing to supporting documentation and testing the mathematical accuracy.
    - Performed a sensitivity analysis over indications of impairment.
- Tested how management determined the recoverable amounts for a sample of retail location CGUs that had indications of impairment, which included the following:
    - Evaluated the appropriateness of the methods used by management.
    - Tested underlying data used in the recoverable amount calculations and tested the mathematical accuracy.
    - Evaluated the reasonableness of the projected future sales and earnings used in the discounted cash flow models by (i) comparing to actual historical sales and earnings generated by the retail location CGUs and (ii) considering management's budget and strategic plans.
    - Professionals with specialized skill and knowledge in the field of valuation assisted in assessing the reasonableness of the discount rates, the market rental rates and capitalization rates.
- Tested the disclosures made in the consolidated financial statements with regards to the impairment assessments of the retail location CGUs.

Valuation of customer relationships and brands acquired in the Lifemark Health Group business combination

Refer to note 2 – Significant accounting policies, note 3 – Critical accounting estimates and judgments and note 5 – Business acquisitions to the consolidated financial statements.

The Company acquired Lifemark Health Group (Lifemark) for a total consideration of $829 million during 2022. The fair value of the identifiable assets acquired included $564 million of intangible assets, which included customer relationships and brands. Management applied significant judgment in estimating the fair value of the customer relationships and brands. Management used the multi-period excess earnings method to fair value customer relationships and the royalty relief method to fair value brands using discounted cash flow models. Management developed assumptions which included revenue and gross margin forecasts, royalty rate and discount rates.

We considered this a key audit matter due to the significant judgment by management in estimating the fair value of the customer relationships and brands, including the development of assumptions. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to the assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

Our approach to addressing the matter included the following procedures, among others:

- Tested how management estimated the fair value of the acquired customer relationships and brands, which included the following:
  - Read the purchase agreement.
  - Tested the underlying data used by management in the multi-period excess earnings and royalty relief discounted cash flow models.
  - Evaluated the reasonableness of the revenue and gross margin forecasts by considering the past performance of Lifemark, as well as economic and industry data.
  - Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the appropriateness of the multi-period excess earnings and royalty relief methods, as well as the reasonableness of certain assumptions such as the royalty rate and discount rates.
  - Tested the mathematical accuracy of the discounted cash flow models.

Comparative information

The consolidated financial statements of the Company for the 52-week year ended January 1, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on February 23, 2022.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the 2022 Annual Report – Financial Review, which we obtained prior to the date of this auditor's report, and the information, other than the consolidated financial statements and our auditor's report thereon, included in the 2022 Annual Report which is expected to be made available to us after that date.
Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the 2022 Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

The engagement partner on the audit resulting in this independent auditor’s report is Anita McOuat.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 22, 2023

Consolidated Statements of Earnings

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars except where otherwise indicated)	2022	2021
Revenue	**$ 56,504**	$ 53,170
Cost of sales	**38,528**	36,436
Selling, general and administrative expenses	**14,634**	13,797
Operating income	**$ 3,342**	$ 2,937
Net interest expense and other financing charges (note 6)	**683**	495
Earnings before income taxes	**$ 2,659**	$ 2,442
Income taxes (note 7)	**665**	466
Net earnings	**$ 1,994**	$ 1,976
Attributable to:		
Shareholders of the Company (note 8)	**$ 1,921**	$ 1,875
Non-controlling interests	**73**	101
Net earnings	**$ 1,994**	$ 1,976
Net earnings per common share ($) (note 8)		
Basic	**$ 5.82**	$ 5.49
Diluted	**$ 5.75**	$ 5.45
Weighted average common shares outstanding (millions) (note 8)		
Basic	**328.1**	339.1
Diluted	**331.7**	341.8

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)		**2022**		2021
Net earnings	**$**	**1,994**	$	1,976
Other comprehensive income, net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gains	**$**	**2**	$	—
Gains on cash flow hedges (note 28)		**14**		5
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial (losses) gains (note 24)		**(227)**		282
Other comprehensive (loss) income, net of taxes	**$**	**(211)**	$	287
Total comprehensive income	**$**	**1,783**	$	2,263
Attributable to:				
Shareholders of the Company	**$**	**1,710**	$	2,162
Non-controlling interests		**73**		101
Total comprehensive income	**$**	**1,783**	$	2,263

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to Fair Value on Transfer of Investment Properties	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance as at January 1, 2022	$ 6,631	$ 221	**$ 6,852**	**$ 4,591**	**$ 116**	$ 39	$ (29)	$ 4	**$ 14**	**$ 164**	**$ 11,737**
Net earnings	$ —	$ —	**$ —**	**$ 1,921**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 73**	**$ 1,994**
Other comprehensive (loss) income	—	—	**—**	**(227)**	**—**	2	14	—	**16**	**—**	**(211)**
Total comprehensive income	$ —	$ —	**$ —**	**$ 1,694**	**$ —**	$ 2	$ 14	$ —	**$ 16**	**$ 73**	**$ 1,783**
Common shares purchased and cancelled (note 22)	(254)	—	**(254)**	**(1,204)**	**—**	—	—	—	**—**	**—**	**(1,458)**
Effect of equity-based compensation (notes 22 and 25)	100	—	**100**	**—**	**6**	—	—	—	**—**	**—**	**106**
Shares purchased and held in trust (note 22)	(23)	—	**(23)**	**(115)**	**—**	—	—	—	**—**	**—**	**(138)**
Shares released from trust (notes 22 and 25)	11	—	**11**	**24**	**—**	—	—	—	**—**	**—**	**35**
Dividends declared per common share – $1.580 (note 22)	—	—	**—**	**(517)**	**—**	—	—	—	**—**	**—**	**(517)**
Dividends declared per preferred share – $1.325 (note 22)	—	—	**—**	**(12)**	**—**	—	—	—	**—**	**—**	**(12)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(80)**	**(80)**
	$ (166)	$ —	**$ (166)**	**$ (130)**	**$ 6**	$ 2	$ 14	$ —	**$ 16**	**$ (7)**	**$ (281)**
Balance as at December 31, 2022	$ 6,465	$ 221	**$ 6,686**	**$ 4,461**	**$ 122**	$ 41	$ (15)	$ 4	**$ 30**	**$ 157**	**$ 11,456**

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to Fair Value on Transfer of Investment Properties	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance as at January 2, 2021	$ 6,824	$ 221	**$ 7,045**	**$ 3,813**	**$ 109**	$ 39	$ (34)	$ 16	**$ 21**	**$ 131**	**$ 11,119**
Net earnings	$ —	$ —	**$ —**	**$ 1,875**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 101**	**$ 1,976**
Other comprehensive income	—	—	**—**	**282**	**—**	—	5	—	**5**	**—**	**287**
Total comprehensive income	$ —	$ —	**$ —**	**$ 2,157**	**$ —**	$ —	$ 5	$ —	**$ 5**	**$ 101**	**$ 2,263**
Common shares purchased and cancelled (note 22)	(310)	—	**(310)**	**(890)**	**—**	—	—	—	**—**	**—**	**(1,200)**
Effect of equity-based compensation (notes 22 and 25)	116	—	**116**	**—**	**7**	—	—	—	**—**	**—**	**123**
Shares purchased and held in trust (note 22)	(10)	—	**(10)**	**(40)**	**—**	—	—	—	**—**	**—**	**(50)**
Shares released from trust (notes 22 and 25)	11	—	**11**	**23**	**—**	—	—	—	**—**	**—**	**34**
Dividends declared per common share – $1.400 (note 22)	—	—	**—**	**(472)**	**—**	—	—	—	**—**	**—**	**(472)**
Dividends declared per preferred share – $1.325 (note 22)	—	—	**—**	**(12)**	**—**	—	—	—	**—**	**—**	**(12)**
Transfer of remeasurement gain on sale of investment properties	—	—	**—**	**12**	**—**	—	—	(12)	**(12)**	**—**	**—**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(68)**	**(68)**
	$ (193)	$ —	**$ (193)**	**$ 778**	**$ 7**	$ —	$ 5	$ (12)	**$ (7)**	**$ 33**	**$ 618**
Balance as at January 1, 2022	$ 6,631	$ 221	**$ 6,852**	**$ 4,591**	**$ 116**	$ 39	$ (29)	$ 4	**$ 14**	**$ 164**	**$ 11,737**

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Assets		
Current assets		
Cash and cash equivalents (note 9)	**$ 1,608**	$ 1,976
Short term investments (note 9)	**326**	464
Accounts receivable (note 10)	**1,199**	947
Credit card receivables (note 11)	**3,954**	3,443
Inventories (note 12)	**5,855**	5,166
Income tax recoverable (note 7)	**—**	301
Prepaid expenses and other assets	**353**	249
Assets held for sale (note 13)	**81**	91
Total current assets	**$ 13,376**	$ 12,637
Fixed assets (note 14)	**5,696**	5,447
Right-of-use assets (note 27)	**7,409**	7,175
Investment properties (note 15)	**60**	111
Intangible assets (note 16)	**6,505**	6,402
Goodwill (note 17)	**4,323**	3,949
Deferred income tax assets (note 7)	**86**	91
Other assets (note 18)	**692**	802
Total assets	**$ 38,147**	$ 36,614
Liabilities		
Current liabilities		
Bank indebtedness (note 31)	**$ 8**	$ 52
Trade payables and other liabilities	**6,218**	5,433
Loyalty liability	**180**	190
Provisions (note 19)	**110**	111
Income taxes payable	**195**	153
Demand deposits from customers	**125**	75
Short term debt (note 11)	**700**	450
Long term debt due within one year (note 20)	**727**	1,002
Lease liabilities due within one year (note 27)	**1,401**	1,297
Associate interest	**434**	433
Total current liabilities	**$ 10,098**	$ 9,196
Provisions (note 19)	**109**	114
Long term debt (note 20)	**7,056**	6,211
Lease liabilities (note 27)	**7,714**	7,542
Deferred income tax liabilities (note 7)	**1,279**	1,346
Other liabilities (note 21)	**435**	468
Total liabilities	**$ 26,691**	$ 24,877
Equity		
Share capital (note 22)	**$ 6,686**	$ 6,852
Retained earnings	**4,461**	4,591
Contributed surplus (note 25)	**122**	116
Accumulated other comprehensive income	**30**	14
Total equity attributable to shareholders of the Company	**$ 11,299**	$ 11,573
Non-controlling interests	**157**	164
Total equity	**$ 11,456**	$ 11,737
Total liabilities and equity	**$ 38,147**	$ 36,614

Contingent Liabilities (note 30).
See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and January 1, 2022 (millions of Canadian dollars)		2022		2021
Operating activities				
Net earnings	**$**	**1,994**	$	1,976
Add (deduct):				
Income taxes (note 7)		**665**		466
Net interest expense and other financing charges (note 6)		**683**		495
Adjustments to investment properties (notes 13 and 15)		**(6)**		(2)
Depreciation and amortization		**2,795**		2,664
Asset impairments, net of recoveries		**34**		54
Change in allowance for credit card receivables (note 11)		**1**		(32)
Change in provisions (note 19)		**(6)**		12
Change in non-cash working capital		**(490)**		90
Change in gross credit card receivables (note 11)		**(512)**		(302)
Income taxes paid		**(439)**		(643)
Interest received		**35**		4
Interest received from finance leases (note 27)		**3**		4
Other		**(2)**		41
Cash flows from operating activities	**$**	**4,755**	$	4,827
Investing activities				
Fixed asset purchases (note 14)	**$**	**(1,152)**	$	(803)
Intangible asset additions (note 16)		**(419)**		(379)
Proceeds from sale (purchase) of short term investments (note 9)		**138**		(164)
Acquisition of Lifemark, net of cash acquired (note 5)		**(813)**		—
Proceeds from disposal of assets		**164**		80
Lease payments received from finance leases		**15**		14
Purchase of long term securities (note 18)		**(180)**		—
Other		**(121)**		(19)
Cash flows used in investing activities	**$**	**(2,368)**	$	(1,271)
Financing activities				
Decrease in bank indebtedness (note 31)	**$**	**(44)**	$	(34)
Increase (decrease) in short term debt (note 11)		**250**		(125)
Change in demand deposits from customers		**50**		51
Long term debt (note 20)				
Issued		**1,818**		772
Repayments		**(1,243)**		(603)
Interest paid		**(344)**		(339)
Cash rent paid on lease liabilities - Interest (note 6 and 27)		**(333)**		(340)
Cash rent paid on lease liabilities - Principal (note 27)		**(994)**		(1,020)
Dividends paid on common and preferred shares		**(529)**		(484)
Common share capital				
Issued (note 25)		**88**		102
Purchased and held in trust (note 22)		**(138)**		(50)
Purchased and cancelled (note 22)		**(1,258)**		(1,200)
Proceeds from other financing (note 32)		**15**		12
Other		**(89)**		9
Cash flows used in financing activities	**$**	**(2,751)**	$	(3,249)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$**	**(4)**	$	1
(Decrease) increase in cash and cash equivalents	**$**	**(368)**	$	308
Cash and cash equivalents, beginning of year		**1,976**		1,668
Cash and cash equivalents, end of year	**$**	**1,608**	$	1,976

See accompanying notes to the consolidated financial statements.

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, and the nation's largest retailer. Loblaw Companies Limited provides Canadians with grocery, pharmacy and healthcare services, health and beauty products, apparel, general merchandise, financial services, and wireless mobile products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S5. Loblaw Companies Limited and its subsidiaries are together referred to, in these consolidated financial statements, as the “Company” or “Loblaw”.

The Company’s controlling shareholder is George Weston Limited (“Weston”), which owns approximately 52.6% of the Company’s outstanding common shares. The Company’s ultimate parent is Wittington Investments, Limited (“Wittington”). The remaining common shares are widely held.

The Company has two reportable operating segments: Retail and Financial Services (see note 33).

Note 2. Significant Accounting Policies

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

These consolidated financial statements were approved for issuance by the Company’s Board of Directors (“Board”) on February 22, 2023.

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

- investment properties as described in note 15;
- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 24;
- liabilities for cash-settled equity-based compensation arrangements as described in note 25; and
- certain financial instruments as described in note 28.

The significant accounting policies set out below have been applied consistently in the preparation of the consolidated financial statements for all years presented. Certain comparative amounts have been reclassified to conform to the current year presentation.

The consolidated financial statements are presented in Canadian dollars.

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended December 31, 2022 and January 1, 2022 both contained 52 weeks.

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

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

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

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

Loblaw consolidates the Associates as well as the franchisees of its food retail stores that are subject to a simplified franchise agreement implemented in 2015 ("Franchise Agreement"). An "Associate" is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using the Company's trademarks. The consolidation of Associates and franchisees is based on the concept of control, for accounting purposes, which was determined to exist through the agreements that govern the relationships between the Company and the Associates and franchisees. Loblaw does not have any direct or indirect shareholdings in the corporations that operate the Associates. Associate interest reflects the investment the Associates have in the net assets of their businesses. Under the terms of the Associate Agreements, Shoppers Drug Mart Inc. (or an affiliate thereof) agrees to purchase the assets that the Associates use in store operations, primarily at the carrying value to the Associate, when Associate Agreements are terminated by either party. The Associates' corporations and the franchisees remain separate legal entities.

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

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

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

Retail Retail segment revenue includes the sale of goods and services to customers through corporate, franchise-owned retail food and Associate-owned drug stores, which includes in-store pharmacies, health care services and other health and beauty products, apparel and other general merchandise. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, net of estimated returns and sales incentives. The Company recognizes revenue made through corporate, franchise and Associate stores at the time the point of sale is made or when service is delivered to the customers. The Company recognizes revenue made through independent wholesale customers at the time of delivery of inventory and when administrative and management services are rendered.

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

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

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

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

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

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

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

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

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

Short Term Investments Short term investments are investments in highly liquid and rated certificates of deposit, commercial paper or other securities, primarily Canadian and United States government securities and notes of other creditworthy parties, with an original term to maturity of more than 90 days and remaining term to maturity of less than one year from the date of acquisition.

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

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

The Company applies the expected credit loss ("ECL") model to assess impairment on its credit card receivables at each balance sheet date. Credit card receivables are assessed collectively for impairment by applying the three-stage approach. Refer to the Impairment of Financial Assets policy for details of each stage. The application of the ECL model requires PC Bank to apply significant judgments, assumptions and estimations (see note 3 "Impairment of Credit Card Receivables").

Impairment losses and reversals are recorded in selling, general and administrative expenses ("SG&A") in the consolidated statements of earnings with the carrying amount of the credit card receivables adjusted through the use of allowance accounts.

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

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

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

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

Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. The cost of inventories are measured at weighted average cost.

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

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

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

Assets Held for Sale Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To qualify as assets held for sale, the sale must be highly probable, assets must be available for immediate sale in their present condition and management must be committed to a plan to sell assets that should be expected to close within one year from the date of classification. Assets classified as held for sale are measured at the lower of the carrying amount or fair value less cost to sell and are not depreciated. The fair value measurement of assets held for sale is categorized within Level 2 of fair value hierarchy. Assets that were previously classified as investment properties are measured using the fair value model consistent with properties classified as investment properties.

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

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

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

Gains and losses on disposal of fixed assets are determined by comparing the fair value of proceeds from disposal with the net book value of the assets and are recognized net, in operating income. For transactions in which the sale of a fixed asset satisfies the requirements of IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), and the asset is leased back by the Company, the Company recognizes, in operating income, only the amount of gains or losses that relate to the rights transferred to the purchaser.

Fixed assets are depreciated on a straight-line basis over their estimated useful lives to their estimated residual value when the assets are available for use. When significant parts of a fixed asset have different useful lives, they are accounted for as separate components and depreciated separately. Depreciation methods, useful lives and residual values are reviewed annually and are adjusted for prospectively, if appropriate. Estimated useful lives are as follows:

Buildings	10 to 40 years
Equipment and fixtures	2 to 10 years
Building improvements	up to 10 years
Leasehold improvements	Lesser of term of the lease and useful life up to 25 years[i]

(i) If it is reasonably certain that the Company will obtain ownership of the leased asset by the end of the lease term, the associated leasehold improvements are depreciated over the useful life of the asset on the same basis as owned assets.

Fixed assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy.

Leases

As a Lessee At inception of a contract, the Company determines whether a contract is or contains a lease. A contract is or contains a lease if the contract gives the Company the right to control the use of an identified asset for the duration of the lease term in exchange for consideration. When a contract contains both lease and non-lease components, the Company will allocate the consideration in the contract to each of the components on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components. Relative stand-alone prices are determined by maximizing the most observable supplier prices for a similar asset and/or service.

The Company recognizes a right-of-use asset and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. Lease payments for assets that are exempt through the short-term exemption and variable payments not based on an index or rate are recognized in cost of sales and SG&A expenses on the most systematic basis.

The measurement of lease liabilities includes the fixed and in-substance fixed payments and variable lease payments that depend on an index or a rate, less any lease incentives receivable. If applicable, lease liabilities will also include a purchase option exercise price if the Company is reasonably certain to exercise that option, termination penalties if the lease term also reflects the termination option and amounts expected to be payable under a residual value guarantee. Subsequent to initial measurement, the Company measures lease liabilities at amortized cost using the effective interest method. Lease liabilities are remeasured when there is a change in management's assessment of whether it will exercise a renewal or termination option or a change in future lease payments due to a change in index or rate. Right-of-use assets are adjusted by the same remeasurement amount.

Right-of-use assets are measured at the initial amount of the lease liabilities plus any initial direct costs, lease payments made at or before the commencement date net of lease incentives received, and decommissioning costs. Subsequent to initial measurement, the Company applies the cost model with the exception of the fair value model application to right-of-use assets that meet the definition of investment properties. Right-of-use assets are measured at cost less accumulated depreciation, net accumulated impairment losses, and any remeasurements of lease liabilities. The assets are depreciated on a straight-line basis over the earlier of the assets' useful lives or the end of the lease terms. Right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. Refer to the Impairment of Non-Financial Assets policy.

Discount rates used in the present value calculation are the interest rates implicit in the leases, or if the rates cannot be readily determined, the Company's incremental borrowing rates. Lease terms applied are the contractual non-cancellable periods of the leases plus periods covered by an option to renew the leases if the Company is reasonably certain to exercise that option and the periods covered by an option to terminate the leases if the Company is reasonably certain not to exercise that option.

For sale and leaseback transactions, the Company applies the requirements of IFRS 15 to determine whether the transfer of the asset should be accounted for as a sale. If the transfer of the asset is a sale in accordance with IFRS 15, the Company will measure the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company. If the transfer of the asset is not a sale in accordance with IFRS 15, the Company will continue to account for the asset under IAS 16, "Property, Plant and Equipment" and recognize the proceeds received as financial liabilities.

As a Lessor At the date the Company makes the underlying leased asset available for use to the lessee, the Company classifies each lease as either an operating lease or a finance lease. A lease is a finance lease if it transfers substantially all the risks and rewards of the underlying asset to the lessee; otherwise, the lease is an operating lease. Rental income from operating leases is recognized on a straight-line basis over the lease term. Rental income from finance leases is recognized on a systematic basis that reflects the Company's rate of return on the net investment in the leased asset.

When the Company is an intermediate lessor, it will assess the sublease classification by reference to the right-of-use asset. The Company considers factors such as whether the sublease term covers a major portion of the head lease term.

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

Investment property assets are measured using the fair value model. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Gains and losses arising from changes in the fair value are recognized in operating income in the period in which they arise. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

When a property changes from own use to investment property, the property is remeasured to fair value. Any gain arising from the remeasurement is recognized in operating income to the extent that it reverses a previous impairment loss on that property, with any remaining gain recognized in other comprehensive income. Any loss on remeasurement is recognized in operating income. All subsequent changes in fair value of the property are recognized in operating income. Upon sale of an investment property that was previously classified as fixed assets, amounts included in the revaluation reserve are transferred to retained earnings.

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

Goodwill Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment on an annual basis or more frequently if there are indicators that goodwill may be impaired as described in the Impairment of Non-Financial Assets policy.

Intangible Assets Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from three to 20 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 and are adjusted for prospectively, if appropriate. Amortization expense for intangible assets is recognized in selling, general and administrative expenses. Estimated useful lives are as follows:

Software	3 to 10 years
Prescription files	7 to 8 years
Loyalty program	18 years
Customer relationships	5 to 20 years

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 at the cash generating unit level ("CGU"), other than inventories, deferred tax assets and investment properties, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

For the purpose of impairment testing, assets, including right-of-use assets, are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a CGU. The Company has determined that each retail location is a separate CGU for purposes of impairment testing.

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 business combination from which the goodwill arose.

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 in a discounted cash flow model that reflects current market assessments of the time value of money and the risks specific to the CGU or CGU grouping. If the CGU or CGU grouping includes right-of-use assets in its carrying amount, the pre-tax discount rate reflects the risks associated with the exclusion of lease payments from the estimated future cash flows. The fair value less costs to sell reflects the amount that could be obtained from the disposal of the CGU or CGU grouping in an arm's length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

An impairment loss is recognized if the carrying amount of a CGU or CGU grouping exceeds its recoverable amount. For asset impairments other than goodwill, the impairment loss reduces the carrying amounts of the non-financial assets in the CGU on a pro-rata basis, up to an asset's individual recoverable amount. Any loss identified from goodwill impairment testing is first applied to reduce the carrying amount of goodwill allocated to the CGU grouping, and then to reduce the carrying amounts of the other non-financial assets in the CGU or CGU grouping on a pro-rata basis.

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

Impairment losses and reversals are recognized in SG&A.

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

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

Customer Loyalty Awards Programs The Company defers revenue at the time the award is earned by members based on the relative fair value of the award. The relative fair value is determined by allocating consideration between the fair value of the loyalty awards earned by loyalty program members, net of breakage, and the goods and services on which the awards were earned, based on their relative stand-alone selling price. The estimated fair value per point for the PC Optimum™ Program is determined based on the program reward schedule and is $1 for every 1,000 points earned. The breakage rate of the program is an estimate of the amount of points that will never be redeemed. The rate is reviewed on an ongoing basis and is estimated utilizing historical redemption activity and anticipated earn and redeem behaviour of members. The majority of the Company's loyalty liability, which is contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

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

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

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

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

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

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

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

- The financial asset is held within a business model in which assets are managed to achieve a particular objective by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset shall be measured at FVTPL unless it is measured at amortized cost or at FVOCI.

Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets.

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

Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible. The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal payments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

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

Asset / Liability	Classification / Measurement
Cash and cash equivalents	Amortized cost
Short term investments	Amortized cost / fair value through other comprehensive income
Accounts receivable	Amortized cost
Credit card receivables	Amortized cost
Certain other assets	Amortized cost / fair value through profit and loss
Long term securities	Fair value through other comprehensive income
Bank indebtedness	Amortized cost
Trade payables and other liabilities	Amortized cost
Demand deposits from customers	Amortized cost
Short term debt	Amortized cost
Long term debt	Amortized cost
Certain other liabilities	Amortized cost
Derivatives	Fair value through profit and loss / fair value through other comprehensive income

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

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and interest rates. The effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. If the change in fair value of the hedging item is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. The Company ensures that the hedge accounting relationships are aligned with the Company's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in note 28 "Financial Instruments" and note 29 "Financial Risk Management".

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

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

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

Gains and losses on FVTPL financial assets and financial liabilities are recognized in net earnings in the period in which they are incurred. Settlement date accounting is used to account for the purchase and sale of financial assets. Gains or losses between the trade date and settlement date on FVTPL financial assets are recorded in net earnings.

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

Type	Valuation Approach
Cash and cash equivalents, short term investments, accounts receivable, credit card receivables, bank indebtedness, trade payables and other liabilities, demand deposits from customers and short term debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: • Quoted market prices or dealer quotes for similar instruments; and • The fair values of other derivative instruments are determined based on observable market information as well as valuations determined by external valuators with experience in financial markets.
Long term debt and certain other financial instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

Derecognition Financial assets are derecognized when the contractual rights to receive cash flows and benefits from the financial asset expire, or if the Company transfers the control or substantially all the risks and rewards of ownership of the financial asset to another party. The difference between the carrying amount of the financial asset and the sum of the consideration received and receivable is recognized in earnings before income taxes.

Financial liabilities are derecognized when obligations under the contract expire, are discharged or cancelled. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in earnings before income taxes.

Impairment of Financial Assets The Company applies a forward-looking ECL model at each balance sheet date to financial assets measured at amortized cost or those measured at FVOCI, except for investments in equity instruments.

The ECL model outlines a three-stage approach to reflect the increase in credit risks of a financial instrument:

- Stage 1 is comprised of all financial instruments that have not had a significant increase in credit risks since initial recognition or that have low credit risk at the reporting date. The Company is required to recognize impairment for Stage 1 financial instruments based on the expected losses over the expected life of the instrument arising from loss events that could occur during the 12 months following the reporting date.
- Stage 2 is comprised of all financial instruments that have had a significant increase in credit risks since initial recognition but that do not have objective evidence of a credit loss event. For Stage 2 financial instruments the impairment is recognized based on the expected losses over the expected life of the instrument arising from loss events that could occur over the expected life. The Company is required to recognize a lifetime ECL for Stage 2 financial instruments.
- Stage 3 is comprised of all financial instruments that have objective evidence of impairment at the reporting date. The Company is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

The ECL model applied to financial assets requires judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. Consideration of how changes in economic factors affect ECLs are determined on a probability-weighted basis.

Impairment losses and reversals are recorded in SG&A with the carrying amount of the financial asset or group of financial assets adjusted through the use of allowance accounts.

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

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

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

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

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

The fair values of plan assets are deducted from the defined benefit plan obligations to arrive at the net defined benefit plan obligations (assets). For plans that result in a net defined benefit asset, the recognized asset is limited to the present value of economic benefits available in the form of future refunds from the plan or reductions in future contributions to the plan ("asset ceiling"). If it is anticipated that the Company will not be able to recover the value of the net defined benefit asset, after considering minimum funding requirements, the net defined benefit asset is reduced to the amount of the asset ceiling. When the payment in the future of minimum funding requirements related to past service would result in a net defined benefit surplus or an increase in a surplus, the minimum funding requirements are recognized as a liability to the extent that the surplus would not be fully available as a refund or a reduction in future contributions.

Remeasurements including actuarial gains and losses, the effect of the asset ceiling (if applicable) and the impact of any minimum funding requirements are recognized through other comprehensive income and subsequently reclassified from accumulated other comprehensive income to retained earnings.

The Company also participates in pension plans with Weston. The Company has established a stated policy to allocate the net defined benefit cost to the Company and Weston based on the obligation attributable to plan participants, provided by a third-party actuary. Both the service cost and contribution to be paid are determined based on the actuarial valuation.

Other Long Term Employee Benefit Plans The Company offers other long term employee benefits including contributory long term disability benefits and non-contributory continuation of health care and dental benefits to employees who are on long term disability leave. As the amount of the long term disability benefit does not depend on length of service, the obligation is recognized when an event occurs that gives rise to an obligation to make payments. The accounting for other long term employee benefit plans is similar to the method used for defined benefit plans except that all actuarial gains and losses are recognized in operating income.

Defined Contribution Plans The Company maintains a number of defined contribution pension plans for employees in which the Company pays fixed contributions for eligible employees into a registered plan and has no further significant obligation to pay any further amounts. The costs of benefits for defined contribution plans are expensed as employees have rendered service.

Multi-Employer Pension Plans The Company participates in multi-employer pension plans ("MEPPs") which are accounted for as defined contribution plans. The Company's responsibility to make contributions to these plans is limited to amounts established pursuant to its collective agreements. Defined benefit MEPPs are accounted for as defined contribution plans as adequate information to account for the Company's participation in the plans is not available due to the size and number of contributing employers in the plans. The contributions made by the Company to MEPPs are expensed as contributions are due.

Termination Benefits Termination benefits are recognized as an expense at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. Benefits payable are discounted to their present value when the effect of the time value of money is material.

Equity-Settled Equity-Based Compensation Plans Stock options, Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), Director Deferred Share Units ("DSUs") and Executive Deferred Share Units ("EDSUs") issued by the Company are substantially all settled in common shares and are accounted for as equity-settled awards.

Stock options outstanding have a seven year term to expiry, vest 20% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is based on the greater of the volume weighted average trading price of the Company's common share for either the five trading days prior to the date of grant or the trading day immediately preceding the grant date. The fair value of each tranche of options granted is measured separately at the grant date using a Black-Scholes option pricing model, and includes the following assumptions:

- The expected dividend yield is estimated based on the expected annual dividend prior to the option grant date and the closing share price as at the option grant date;
- The expected share price volatility is estimated based on the Company's historical volatility over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the grant date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on historical experience and general option holder behaviour.

RSUs and PSUs vest after the end of a three year performance period. The number of PSUs that vest is based on the achievement of specified performance measures. The fair value of each RSU and PSU granted is measured separately at the grant date based on the market value of a Loblaw common share. Dividends paid may be reinvested in RSUs and PSUs and are treated as capital transactions.

The Company established a trust for each of the RSU and PSU plans to facilitate the purchase of shares for future settlement upon vesting. The Company is the sponsor of the respective trusts and has assigned Computershare Trust Company of Canada as the trustee. The trusts are considered structured entities and are consolidated in the Company's financial statements with the cost of the acquired shares recorded at book value as a reduction to share capital. Any premium on the acquisition of the shares above book value is applied to retained earnings until the shares are issued to settle RSU and PSU plan obligations.

Members of the Board, who are not management of the Company, may elect to receive a portion of their annual retainers and fees in the form of DSUs. Eligible executives of the Company may elect to defer up to 100% of the Short Term Incentive Plan earned in any year into the EDSU plan. Dividends paid earn fractional DSUs and EDSUs, respectively and are treated as capital transactions. DSUs and EDSUs vest upon grant.

The compensation expense for equity-settled plans is prorated over the vesting or performance period, with a corresponding increase to contributed surplus. Forfeitures are estimated at the grant date and are revised to reflect changes in expected or actual forfeitures.

Upon exercise of options, the amount accumulated 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 accumulated in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

Cash-Settled Equity-Based Compensation Plans Certain DSUs are accounted for as cash-settled awards.

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

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

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 estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements. The Company's significant accounting policies are disclosed in note 2.

Consolidation

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

Business Combinations - Valuation of Intangible Assets

Key Estimations The Company applies significant judgment in estimating the fair value of intangible assets. In determining the fair value of customer relationships and brands, various valuation techniques are used. Specifically, the Company used the multi-period excess earnings method to fair value customer relationships and the royalty relief method to fair value brands using a discounted cash flow model. Under these valuation approaches, the Company developed assumptions related to revenue and gross margin forecasts, attrition rate, royalty rate and discount rates.

Inventories

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

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

Judgments Made in Relation to Accounting Policies Applied The Company uses judgment in determining CGUs for the purpose of testing fixed assets, right-of-use assets and intangible assets for impairment. Judgment is also used to determine the goodwill CGUs for the purpose of testing goodwill for impairment. The Company has determined that each retail location is a separate CGU. Intangible assets are allocated to the CGUs (or groups of CGUs) to which they relate. Goodwill is allocated to CGUs (or groups of CGUs) based on the level at which management monitors goodwill, which cannot be higher than an operating segment. The allocation of goodwill is made to CGUs (or groups of CGUs) that are expected to benefit from the synergies and future growth of the business combination from which they arose. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. In applying this judgment management considers profitability of the CGU and other qualitative factors. If the the Company cannot estimate the recoverable amount of an individual tangible or intangible asset because it does not generate independent cash inflows, the Company is required to test the entire CGU to which it belongs for impairment.

Key Estimations 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, discount rates and capitalization rates. The Company determines value in use by using estimates including projected future sales and earnings, and discount rates consistent with external industry information reflecting the risk associated with the specific cash flows.

Impairment of Credit Card Receivables

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

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

Income and Other Taxes

Judgments Made in Relation to Accounting Policies Applied The calculation of current and deferred income taxes requires management to make certain judgments including expectations about future operating results, the timing and reversal of temporary differences, and the interpretation of tax rules in jurisdictions where the Company performs activities. Where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on the most likely amount of the liability or recovery.

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 healthcare services and other health and beauty products, apparel and other general merchandise. The Company has aggregated its retail operating segments on the basis of their similar economic characteristics, customers and nature of products. This similarity in economic characteristics reflects the fact that the Company's retail operating segments operate primarily in Canada and are therefore subject to the same economic market pressures and regulatory environment. The Company's retail operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The similar economic characteristics also include the provision of centralized, common functions such as marketing and information technology ("IT") across all retail operating segments.

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

Provisions

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

Leases

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

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

Note 4. Future Accounting Standard

IFRS 17 In 2017, the IASB issued IFRS 17, "Insurance Contracts" ("IFRS 17") replacing IFRS 4. IFRS 17 introduces consistent accounting for all insurance contracts. The standard requires a company to measure insurance contracts using updated estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to these contracts. Additionally, IFRS 17 requires an entity to recognize profits as it delivers insurance services, rather than when it receives premiums. The standard is effective for annual reporting periods beginning on or after January 1, 2023 and is to be applied retrospectively. The Company has assessed the impact of the standard on its consolidated financial statements and determined that the impact will not be material.

Note 5. Business Acquisitions

Acquisition of Lifemark Health Group On May 10, 2022, the Company acquired all of the outstanding common shares of Lifemark Health Group ("Lifemark") for total cash purchase consideration of $829 million. Lifemark is the Canadian leading provider of outpatient physiotherapy, massage therapy, occupational therapy, chiropractic, mental health, and other ancillary rehabilitation services through its more than 300 clinics across Canada. The acquisition of Lifemark adds to the Company's growing role as a healthcare service provider, with a network of health and wellness solutions, accessible in-person and digitally.

The Lifemark acquisition was accounted for using the acquisition method in accordance with IFRS 3, "Business Combinations", with the results of operations consolidated with those of the Company effective May 10, 2022.

In the third quarter of 2022, the Company finalized the purchase price allocation which is summarized as follows:

(millions of Canadian dollars)		
Net Assets Acquired:		
Cash and cash equivalents	**$**	**15**
Accounts receivable[i]		**54**
Prepaid expenses and other assets		**2**
Fixed assets		**16**
Right-of-use assets		**75**
Intangible assets		**564**
Goodwill		**365**
Trade payables and other liabilities		**(38)**
Lease liabilities		**(75)**
Deferred income tax liabilities		**(145)**
Other liabilities		**(4)**
Total Net Assets Acquired	**$**	**829**

(i) Trade and other receivables is net of a loss allowance of $2 million.

Goodwill is attributable to expected growth in customers and expansion of the Lifemark footprint. The goodwill arising from this acquisition is not deductible for tax purposes.

Intangible assets are comprised of the following:

(millions of Canadian dollars)			Estimated Useful Life
Intangible Assets:			
Brand	**$**	**265**	**Indefinite**
Customer relationships		**295**	**10-20 years**
Computer software		**4**	**3 years**
Total Intangible Assets	**$**	**564**	

Year-to-date selling, general and administrative expense includes $16 million of transaction costs related to the acquisition.

Included in the consolidated statement of earnings for the year ended December 31, 2022 is $279 million of revenue and nominal net earnings contributed by Lifemark since the date of acquisition. Net earnings includes amortization related to the acquired intangible assets of $8 million. On a combined pro forma basis, the Company's revenue and net earnings available to common shareholders would have amounted to $56,657 million and $1,909 million, respectively. This pro forma information incorporates the effect of the final purchase price equation as if Lifemark had been acquired on January 2, 2022. Included in the pro forma net earnings is the amortization related to the acquired intangible assets of $16 million.

Note 6. Net Interest Expense and Other Financing Charges

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

(millions of Canadian dollars)		**2022**		2021
Interest expense and other financing charges				
Lease liabilities (note 27)	**$**	**333**	$	340
Long term debt[(i)]		**303**		286
Borrowings related to credit card receivables		**52**		37
Post-employment and other long term employee benefits (note 24)		**—**		8
Independent funding trusts		**22**		13
Financial liabilities (note 32)		**5**		3
Bank indebtedness		**1**		4
	$	**716**	$	691
Interest income				
Accretion income	**$**	**(4)**	$	(4)
Short term interest income		**(14)**		(3)
Post-employment and other long term employee benefits (note 24)		**(4)**		—
	$	**(22)**	$	(7)
Recovery related to Glenhuron Bank Limited (note 7)		**(11)**		(189)
Net interest expense and other financing charges	**$**	**683**	$	495

(i) Includes an early repayment premium charge of $7 million recorded in the year related to the early redemption of $800 million debenture bearing interest at 4.86% with an original maturity date of September 12, 2023.

Note 7. Income Taxes

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

(millions of Canadian dollars)		**2022**		2021
Current income taxes				
Current period	**$**	**818**	$	692
Recovery related to Glenhuron Bank Limited		**(33)**		(128)
Adjustment in respect of prior periods		**8**		8
	$	**793**	$	572
Deferred income taxes				
Origination and reversal of temporary differences	**$**	**(113)**	$	(100)
Adjustment in respect of prior periods		**(15)**		(6)
	$	**(128)**	$	(106)
Income taxes	**$**	**665**	$	466

Between 2015 and 2019, the Company was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court of Canada ("Supreme Court") ruled in favour of the Company on the Glenhuron matter and the Company reversed $301 million of previously recorded charges, of which $173 million was recorded as interest income and $128 million was recorded as income tax recovery, and an additional $16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, the Company reversed another $35 million of previously recorded charges, of which $2 million was recorded as interest income and $33 million was recorded as an income tax recovery, and an additional $9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds (see note 30).

Income tax (recovery) expense recognized in other comprehensive income was as follows:

(millions of Canadian dollars)		**2022**		2021
Net defined benefit plan actuarial (losses) gains (note 24)	**$**	**(83)**	$	101
Gains on cash flow hedges (note 28)		**5**		1
Net income tax (recovery) expense recognized in other comprehensive income	**$**	**(78)**	$	102

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:

	2022	2021
Weighted average basic Canadian federal and provincial statutory income tax rate	**26.5 %**	26.5 %
Net increase (decrease) resulting from:		
Effect of tax rate differentials	**— %**	(0.1)%
Recovery related to Glenhuron	**(1.2)%**	(5.2)%
Non-deductible and non-taxable items	**0.3 %**	(1.7)%
Adjustments in respect of prior periods	**(0.3)%**	0.1 %
Other	**(0.3)%**	(0.5)%
Effective income tax rate applicable to earnings before income taxes	**25.0 %**	19.1 %

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

(millions of Canadian dollars)		**2022**		2021
Deductible temporary differences	**$**	**15**	$	12
Non-capital loss carryforwards		**176**		156
Unrecognized deferred tax assets	**$**	**191**	$	168

The non-capital loss carryforwards expire in the years 2029 to 2042. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

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

(millions of Canadian dollars)		**As at December 31, 2022**		As at January 1, 2022
Trade payables and accrued liabilities	**$**	**74**	$	78
Other liabilities		**217**		131
Lease liabilities		**2,405**		2,307
Fixed assets		**(641)**		(626)
Right-of-use assets		**(1,969)**		(1,888)
Goodwill and intangible assets		**(1,347)**		(1,338)
Non-capital loss carryforwards (expiring 2029 to 2042)		**43**		48
Other		**25**		33
Net deferred income tax liabilities	**$**	**(1,193)**	$	(1,255)
Recorded on the consolidated balance sheets as follows:				
Deferred income tax assets	**$**	**86**	$	91
Deferred income tax liabilities		**(1,279)**		(1,346)
Net deferred income tax liabilities	**$**	**(1,193)**	$	(1,255)

Note 8. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)		**2022**		2021
Net earnings attributable to shareholders of the Company	**$**	**1,921**	$	1,875
Dividends on preferred shares in equity (note 22)		**(12)**		(12)
Net earnings available to common shareholders	**$**	**1,909**	$	1,863
Weighted average common shares outstanding (note 22)		**328.1**		339.1
Dilutive effect of equity-based compensation		**3.0**		2.0
Dilutive effect of certain other liabilities		**0.6**		0.7
Diluted weighted average common shares outstanding		**331.7**		341.8
Basic net earnings per common share ($)	**$**	**5.82**	$	5.49
Diluted net earnings per common share ($)	**$**	**5.75**	$	5.45

In 2022, 1,106,204 (2021 – 210,157) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 9. Cash and Cash Equivalents and Short Term Investments

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

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Cash	**$ 1,024**	$ 849
Cash equivalents		
Government treasury bills	**356**	560
Bankers' acceptances	**222**	543
Guaranteed investment certificates	**—**	21
Other	**6**	3
Total cash and cash equivalents	**$ 1,608**	$ 1,976

Short Term Investments

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Government treasury bills	**$ 299**	$ 361
Bankers' acceptances	**3**	97
Guaranteed investment certificates	**21**	5
Other	**3**	1
Total short term investments	**$ 326**	$ 464

Note 10. Accounts Receivable

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

(millions of Canadian dollars)				**As at December 31, 2022**				As at January 1, 2022
	0-90 days	**91-180 days**	**> 180 days**	**Total**	0-90 days	91-180 days	> 180 days	Total
Accounts receivable, net	**$1,098**	**$ 20**	**$ 81**	**$ 1,199**	$ 846	$ 60	$ 41	$ 947

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

(millions of Canadian dollars)	**2022**	2021
Allowances, beginning of year	**$ (23)**	$ (20)
Net addition	**(8)**	(3)
Allowances, end of year	**$ (31)**	$ (23)

Credit risk associated with accounts receivable is discussed in note 29.

Note 11. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)		**As at December 31, 2022**		As at January 1, 2022
Gross credit card receivables	**$**	**4,160**	$	3,648
Allowance for credit card receivables		**(206)**		(205)
Credit card receivables	**$**	**3,954**	$	3,443
Securitized to independent securitization trusts:				
Securitized to *Eagle Credit Card Trust*® (note 20)	**$**	**1,350**	$	1,350
Securitized to Other Independent Securitization Trusts		**700**		450
Total securitized to independent securitization trusts	**$**	**2,050**	$	1,800

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

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

The securitization agreements between PC Bank and the Other Independent Securitization Trusts are renewed and extended on an annual basis. The existing agreements were renewed in 2021, with their respective maturity dates extended to 2025 and with all other terms and conditions remaining substantially the same.

As at December 31, 2022, PC Bank recorded a $250 million net increase of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts as a result of growth in the credit card portfolio.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at December 31, 2022 were $250 million (January 1, 2022 – $250 million).

The Company has arranged letters of credit on behalf of PC Bank for the benefit of the independent securitization trusts (see note 31).

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at December 31, 2022 and throughout 2022.

The following table provides gross carrying amounts of credit card receivables by internal risk ratings for credit risk management purposes:

				As as December 31, 2022
	12-month ECL (Stage 1)	Lifetime ECL-not credit impaired (Stage 2)	Lifetime ECL-credit impaired (Stage 3)	Total
Low risk	**$ 2,113**	**$ 13**	**$ —**	**$ 2,126**
Moderate risk	**1,163**	**35**	**—**	**1,198**
High risk	**424**	**370**	**42**	**836**
Total gross carrying amount	**$ 3,700**	**$ 418**	**$ 42**	**$ 4,160**
ECL allowance	**(79)**	**(92)**	**(35)**	**(206)**
Net carrying amount	**$ 3,621**	**$ 326**	**$ 7**	**$ 3,954**

				As as January 1, 2022
	12-month ECL (Stage 1)	Lifetime ECL-not credit impaired (Stage 2)	Lifetime ECL-credit impaired (Stage 3)	Total
Low risk	$ 1,877	$ 11	$ —	$ 1,888
Moderate risk	985	35	—	1,020
High risk	332	371	37	740
Total gross carrying amount	$ 3,194	$ 417	$ 37	$ 3,648
ECL allowance	(75)	(98)	(32)	(205)
Net carrying amount	$ 3,119	$ 319	$ 5	$ 3,443

The following are continuities of the Company's allowance for credit card receivables for the years ended December 31, 2022 and January 1, 2022:

(millions of Canadian dollars)				As at December 31, 2022
	Stage 1	Stage 2	Stage 3	Total
Balance, beginning of year	**$ 75**	**$ 98**	**$ 32**	**$ 205**
Increase / (decrease) during the year:				
Transfers(i)				
To Stage 1	**22**	**(22)**	**—**	**—**
To Stage 2	**(5)**	**7**	**(2)**	**—**
To Stage 3	**(2)**	**(15)**	**17**	**—**
New loans originated(ii)	**13**	**8**	**5**	**26**
Net remeasurements(iii)	**(24)**	**16**	**81**	**73**
Write-offs	**—**	**—**	**(127)**	**(127)**
Recoveries	**—**	**—**	**29**	**29**
Balance, end of year	**$ 79**	**$ 92**	**$ 35**	**$ 206**

(i) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.

(ii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.

(iii) Net remeasurements includes the impact from changes in loan balances, model enhancements and credit quality during the year.

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

(i) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.

(ii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.

(iii) Net remeasurements includes the impact from changes in loan balances, model enhancements and credit quality during the year.

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

Note 12. Inventories

For inventories recorded as at December 31, 2022, the Company has an inventory provision of $43 million (January 1, 2022 – $67 million) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of sales. There were no reversals of previously recorded write-downs of inventories during 2022 and 2021.

Note 13. Assets Held for Sale

The Company classifies certain assets, primarily land and buildings, that it expects to sell in the next 12 months, as assets held for sale. These assets were either originally used in the Company's retail business segment or held in investment properties. In 2022, the Company recognized a net gain of $76 million (2021 – net gain of $12 million) from the sale of these assets. Nominal fair value gain (2021 – net fair value gain of $1 million) was recognized on assets held for sale in 2022.

Note 14. Fixed Assets

The following are continuities of the cost and the accumulated depreciation of fixed assets for the years ended December 31, 2022 and January 1, 2022:

	2022					
(millions of Canadian dollars)	Land	Buildings and building improvements	Equipment and fixtures	Leasehold improvements	Assets under construction	Total
Cost						
Balance, beginning of year	**$ 219**	**$ 1,834**	**$ 9,343**	**$ 4,204**	**$ 361**	**$ 15,961**
Additions	**—**	**—**	**147**	**55**	**950**	**1,152**
Business acquisitions[(i)]	**—**	**—**	**6**	**10**	**—**	**16**
Disposals	**(1)**	**(27)**	**(104)**	**(38)**	**—**	**(170)**
Net transfer to assets held for sale	**(6)**	**—**	**—**	**—**	**—**	**(6)**
Transfer from assets under construction	**—**	**65**	**563**	**204**	**(832)**	**—**
Balance, end of year	**$ 212**	**$ 1,872**	**$ 9,955**	**$ 4,435**	**$ 479**	**$ 16,953**
Accumulated depreciation						
Balance, beginning of year	**$ 1**	**$ 926**	**$ 7,070**	**$ 2,515**	**$ 2**	**$ 10,514**
Depreciation	**—**	**54**	**522**	**308**	**—**	**884**
Impairment losses	**3**	**—**	**11**	**15**	**—**	**29**
Reversal of impairment losses	**—**	**(1)**	**(5)**	**(2)**	**—**	**(8)**
Disposals	**—**	**(22)**	**(103)**	**(37)**	**—**	**(162)**
Balance, end of year	**$ 4**	**$ 957**	**$ 7,495**	**$ 2,799**	**$ 2**	**$ 11,257**
Carrying amount as at: December 31, 2022	**$ 208**	**$ 915**	**$ 2,460**	**$ 1,636**	**$ 477**	**$ 5,696**

(i) Includes $16 million related to the acquisition of Lifemark (see note 5).

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

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

Fixed Asset Commitments As at December 31, 2022, the Company had entered into commitments of $866 million (January 1, 2022 – $744 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses and Reversals of Fixed Assets and Right-of-Use Assets Management identified indications of impairment for certain retail location CGUs and therefore an impairment test was performed for these CGUs. For the year ended December 31, 2022, the Company recorded $22 million (2021 – $26 million) of impairment losses on fixed assets and $14 million (2021 – $28 million) of impairment losses on right-of-use assets (see note 27) in respect of 18 CGUs (2021 – 16 CGUs) in the retail operating segment. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. No CGUs (2021 – nil) were impaired on the basis of their carrying values exceeding their fair value less costs to sell (2021 – nil). All (2021 – all) of the impaired CGUs had carrying values which were $36 million (2021 – $54 million) greater than their value in use.

For the year ended December 31, 2022, the Company recorded $8 million (2021 – $16 million) of impairment reversals on fixed assets and $6 million (2021 – $12 million) of impairment reversals on right-of-use assets (see note 27) in respect of 7 CGUs (2021 – 14 CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying values. No CGUs (2021 – nil %) with impairment reversals had fair value less costs to sell greater than their carrying values (2021 – nil). All (2021 – all) of the CGUs with impairment reversals had value in use of $14 million (2021 – $28 million) greater than their carrying values.

When determining the value in use of a retail location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant assets within the CGU for owned locations or the remaining lease term of the CGU for leased locations. Projected future sales and earnings for cash flows are based on actual operating results, operating budgets, and long term growth rates that are consistent with industry averages, all of which are consistent with strategic plans presented to the Company's Board. The estimate of the value in use of relevant CGUs was determined using a pre-tax discount rate of 8.4% to 9.1% at December 31, 2022 (January 1, 2022 – 7.9% to 8.4%).

Additional impairment losses on fixed assets of $7 million (2021 – $15 million) were incurred related to store closures, renovations, conversions of retail locations and restructuring activities. No impairment losses (2021 – nil) were recognized on right-of-use assets related to restructuring activities (see note 27).

Note 15. Investment Properties

The following are continuities of investment properties for the years ended December 31, 2022 and January 1, 2022:

(millions of Canadian dollars)		**2022**		2021
Balance, beginning of year	**$**	**111**	$	128
Adjustment to fair value of investment properties		**6**		1
Net transfer to assets held for sale		**(57)**		(18)
Balance, end of year	**$**	**60**	$	111

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and terminal capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. As at December 31, 2022, the pre-tax discount rates used in the valuations for investment properties ranged from 6.5% to 8.75% (January 1, 2022 – 6.5% to 8.5%) and the terminal capitalization rates ranged from 5.0% to 7.0% (January 1, 2022 – 5.0% to 7.0%).

Note 16. Intangible Assets

The following are continuities of the cost and the accumulated amortization of intangible assets for the years ended December 31, 2022 and January 1, 2022:

	2022			
(millions of Canadian dollars)	**Indefinite life intangible assets**	**Software**	**Other definite life intangible assets**[(ii)]	**Total**
Cost				
Balance, beginning of year	**$ 3,491**	**$ 3,821**	**$ 5,892**	**$ 13,204**
Additions	**—**	**418**	**1**	**419**
Business acquisitions[(i)]	**265**	**—**	**311**	**576**
Balance, end of year	**$ 3,756**	**$ 4,239**	**$ 6,204**	**$ 14,199**
Accumulated amortization				
Balance, beginning of year	**$ —**	**$ 2,765**	**$ 4,037**	**$ 6,802**
Amortization	**—**	**381**	**506**	**887**
Impairment losses	**—**	**5**	**—**	**5**
Balance, end of year	**$ —**	**$ 3,151**	**$ 4,543**	**$ 7,694**
Carrying amount as at: December 31, 2022	**$ 3,756**	**$ 1,088**	**$ 1,661**	**$ 6,505**

(i) Includes $564 million related to the acquisition of Lifemark (see note 5).

(ii) Other definite life intangible assets includes prescription files with a net book value of $1,009 million related to the acquisition of Shoppers Drug Mart in 2014 which will be fully amortized by 2025.

	2021			
(millions of Canadian dollars)	Indefinite life intangible assets	Software	Other definite life intangible assets	Total
Cost				
Balance, beginning of year	$ 3,491	$ 3,442	$ 5,891	$ 12,824
Additions	—	379	—	379
Business acquisitions	—	—	1	1
Balance, end of year	$ 3,491	$ 3,821	$ 5,892	$ 13,204
Accumulated amortization				
Balance, beginning of year	$ —	$ 2,414	$ 3,540	$ 5,954
Amortization	—	338	497	835
Impairment losses	—	13	—	13
Balance, end of year	$ —	$ 2,765	$ 4,037	$ 6,802
Carrying amount as at: January 1, 2022	$ 3,491	$ 1,056	$ 1,855	$ 6,402

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

Software Software is comprised of software purchases and development costs. There were no capitalized borrowing costs included in 2022 and 2021.

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

Note 17. Goodwill

The following are continuities of the cost and the accumulated impairment of goodwill for the years ended December 31, 2022 and January 1, 2022:

(millions of Canadian dollars)	**2022**	2021
Cost		
Balance, beginning of year	**$ 4,943**	$ 4,942
Business acquisitions[(i)]	**374**	1
Balance, end of year	**$ 5,317**	$ 4,943
Accumulated impairment losses		
Balance, beginning of year	**$ 994**	$ 994
Impairment losses	**—**	—
Balance, end of year	**$ 994**	$ 994
Carrying amount as at the end of the year	**$ 4,323**	$ 3,949

(i) Includes $365 million related to the acquisition of Lifemark (see note 5).

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

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Shoppers Drug Mart	**$ 2,981**	$ 2,976
Market	**376**	376
Discount	**461**	461
Lifemark	**369**	—
T&T Supermarket Inc.	**129**	129
All other	**7**	7
Carrying amount as at the end of the year	**$ 4,323**	$ 3,949

Impairment Testing of Goodwill and Indefinite Life Intangibles

The Company tests goodwill and indefinite-life intangible assets for impairment annually or more frequently if indicators of impairment are identified.

The key assumptions used to calculate the fair value less costs to sell are revenue and gross margin forecasts, growth/attrition rates, discount rate, and terminal rate. These assumptions are considered to be Level 3 in the fair value hierarchy.

The weighted average cost of capital was determined to be 7.1% to 9.3% (January 1, 2022 – 7.1% to 7.9%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of comparable publicly traded companies.

Cash flow projections have been discounted using a rate derived from an after-tax weighted average cost of capital. At December 31, 2022, the after-tax discount rate used in the recoverable amount calculations was 7.1% to 9.3% (January 1, 2022 – 7.1% to 7.9%). The pre-tax discount rate was 9.7% to 12.7% (January 1, 2022 – 9.7% to 10.8%).

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using an estimated long term growth rate of 2.0% (January 1, 2022 – 2.0%). The budgeted EBITDA growth was based on the Company's three year strategic plan approved by the Board.

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

Note 18. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Sundry investments and other receivables	**$ 66**	$ 54
Accrued benefit plan asset (note 24)	**52**	463
Finance lease receivable (note 27)	**77**	78
Investments accounted for under the equity method[(i)]	**87**	73
Long term securities	**246**	66
Other[(ii)]	**164**	68
Total other assets	**$ 692**	$ 802

(i) During 2022, the Company agreed to invest a total of $42 million in Rapid Retail Canada Inc. ("Rapid") in exchange for a minority interest. Rapid will provide on-demand grocery and convenience items to customers in Canada. As at December 31, 2022, the Company had invested $18 million.

(ii) As at December 31, 2022, includes $70 million related to fixed asset prepayments (January 1, 2022 – $4 million) and $47 million related to Venture Fund I (January 1, 2022 – $29 million) (see note 32).

Note 19. Provisions

The following are continuities of provisions for the years ended December 31, 2022 and January 1, 2022:

(millions of Canadian dollars)		2022		2021
Balance, beginning of year	$	225	$	213
Additions		191		72
Payments		(192)		(53)
Reversals		(5)		(6)
Reclasses		—		(1)
Balance, end of year	$	219	$	225

(millions of Canadian dollars)		As at December 31, 2022		As at January 1, 2022
Recorded on the consolidated balance sheets as follows:				
Current portion of provisions	$	110	$	111
Non-current portion of provisions		109		114
Total provisions	$	219	$	225

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, certain onerous costs on leased properties, legal claims, Loblaw Card Program and a charge related to PC Bank commodity tax matter.

Restructuring and other related costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. As at December 31, 2022, the provision related to restructuring and other related costs was $26 million (January 1, 2022 – $54 million).

Charge related to PC Bank commodity tax matter In July 2022, the Tax Court of Canada ("Tax Court") released a decision relating to PC Bank, a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29th, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, the Company recorded a charge of $111 million, inclusive of interest, in the second quarter of 2022 and, as at December 31, 2022, this charge has substantially been paid. The Company believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

Competition Bureau Investigation In 2017, the Company and Weston announced actions taken to address their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, the Company offered customers a $25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. As at December 31, 2022, the Loblaw Card Program liability was $15 million (January 1, 2022 – $15 million). The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages (see note 30).

Note 20. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	As at December 31, 2022	As at January 1, 2022
Debentures		
Loblaw Companies Limited Notes		
4.86%, due 2023	**$ —**	$ 800
3.92%, due 2024	**400**	400
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
4.49%, due 2028	**400**	400
6.50%, due 2029	**175**	175
2.28%, due 2030	**350**	350
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**30**	32
5.01%, due 2032	**400**	—
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
5.34%, due 2052	**400**	—
Guaranteed Investment Certificates		
0.40% – 5.36%, due 2023 – 2027	**1,567**	996
Independent Securitization Trust		
2.71%, due 2022	**—**	250
3.10%, due 2023	**250**	250
2.28%, due 2024	**250**	250
1.34%, due 2025	**300**	300
1.61%, due 2026	**300**	300
4.78%, due 2027	**232**	—
5.63%, due 2027	**9**	—
6.83%, due 2027	**9**	—
Independent Funding Trusts	**574**	570
Transaction costs and other	**(19)**	(16)
Total long term debt	**$ 7,783**	$ 7,213
Less amount due within one year	**727**	1,002
Long Term Debt	**$ 7,056**	$ 6,211

Significant long term debt transactions are described below.

Debentures The following table summarizes the debentures issued in 2022. There were no debentures issued in 2021.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date		Principal Amount 2022
Loblaw Companies Limited Notes[(i)]	5.01%	September 13, 2032	**$**	**400**
Loblaw Companies Limited Notes[(i)]	5.34%	September 13, 2052		**400**
Total debentures issued			**$**	**800**

(i) During 2022, the Company completed a dual-tranche issuance of $800 million aggregate principal amount of senior unsecured notes. In connection with this issuance, the Company used the net proceeds of the issuance to redeem $800 million outstanding principal amount of its Series 2023 unsecured notes.

The following table summarizes the debentures repaid in 2022. There were no debentures repaid in 2021.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date		Principal Amount 2020
Loblaw Companies Limited Notes[(i)]	4.86%	September 12, 2023	**$**	**800**
Total debentures repaid			**$**	**800**

(i) The Company recorded an early repayment premium charge of $7 million in net interest expense and other financing charges when the Company redeemed the $800 million outstanding principal amount of its Series 2023 senior unsecured notes with original maturity date of September 12, 2023 on September 21, 2022.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2022 and 2021:

(millions of Canadian dollars)		2022		2021
Balance, beginning of year	**$**	**996**	$	1,185
GICs issued		**764**		414
GICs matured		**(193)**		(603)
Balance, end of year	**$**	**1,567**	$	996

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

During 2022, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the issuance of up to $1.25 billion of notes over a 25-month period.

During 2022, *Eagle* issued $250 million (2021 – $300 million) of senior and subordinated term notes with a maturity date of July 17, 2027 (2021 – June 17, 2026). These notes have a weighted average interest rate of 4.89% (2021 – 1.61%). In connection with this issuance, $140 million (2021 – $175 million) of bond forward agreements were settled, resulting in a realized fair value gain of $8 million (2021 – loss of $1 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to the settlement of the agreement. The gain will be reclassified to net earnings over the life of the *Eagle* notes. This settlement resulted in a net effective interest rate of 4.24% (2021 – 1.65%) on the *Eagle* notes issued (see note 28).

During 2022, $250 million of senior and subordinated term notes at weighted average interest rate of 2.71%, previously issued by *Eagle,* matured and were repaid on October 17, 2022. As a result, during 2022, there was no net change in the balances related to *Eagle* notes.

There were no repayments of notes issued by *Eagle* in 2021.

Independent Funding Trusts As at December 31, 2022, the independent funding trusts had drawn $574 million (January 1, 2022 – $570 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

The Company has a $700 million revolving committed credit facility that is the source of funding to the independent funding trusts that has a maturity date of April 14, 2025. The Company extended the maturity date during 2022 with all other terms and conditions remaining substantially the same.

Committed Credit Facility The Company has a $1.0 billion committed credit facility with a maturity date of July 15, 2027, provided by a syndicate of lenders. The Company extended the maturity date during 2022 with all other terms and conditions remaining substantially the same. This committed credit facility contains certain financial covenants (see note 23). As at December 31, 2022 and January 1, 2022, there were no amounts drawn under this facility.

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

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Guaranteed investment certificates	**$ 477**	$ 182
Independent securitization trust	**250**	250
Independent funding trust	**—**	570
Long term debt due within one year	**$ 727**	$ 1,002

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

(millions of Canadian dollars)	**As at December 31, 2022**
2023	**$ 727**
2024	**1,091**
2025	**1,138**
2026	**494**
2027	**541**
Thereafter	**3,811**
Total long term debt (excludes transaction costs)	**$ 7,802**

See note 28 for the fair value of long term debt.

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

(millions of Canadian dollars)	**2022**	2021
Long term debt, beginning of year	**$ 7,213**	$ 7,046
Long term debt issuances(i)	**$ 1,818**	$ 772
Long term debt repayments	**(1,243)**	(603)
Total cash flow from long term debt financing activities	**$ 575**	$ 169
Other non-cash changes	**$ (5)**	$ (2)
Long term debt, end of year	**$ 7,783**	$ 7,213

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

Note 21. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)	As at December 31, 2022	As at January 1, 2022
Net defined benefit plan obligation (note 24)	**$ 237**	$ 289
Other long term employee benefit obligation	**106**	115
Financial liabilities (note 32)	**69**	54
Equity-based compensation liabilities (note 25)	**3**	3
Other	**20**	7
Total other liabilities	**$ 435**	$ 468

Note 22. Share Capital

First Preferred Shares (authorized - 1.0 million shares) There were no First Preferred Shares outstanding as at December 31, 2022 and January 1, 2022.

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

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

	2022		2021	
(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	**333,527,369**	**$ 6,643**	347,361,480	$ 6,837
Issued for settlement of stock options (note 25)	**1,487,377**	**100**	1,829,170	116
Purchased and cancelled	**(10,952,138)**	**(254)**	(15,663,281)	(310)
Issued and outstanding, end of period	**324,062,608**	**$ 6,489**	333,527,369	$ 6,643
Shares held in trust, beginning of period	**(595,495)**	**$ (12)**	(672,784)	$ (13)
Purchased for future settlement of RSUs and PSUs	**(1,172,000)**	**(23)**	(510,000)	(10)
Released for settlement of RSUs and PSUs (note 25)	**545,217**	**11**	587,289	11
Shares held in trust, end of period	**(1,222,278)**	**$ (24)**	(595,495)	$ (12)
Issued and outstanding, net of shares held in trust, end of period	**322,840,330**	**$ 6,465**	332,931,874	$ 6,631
Weighted average outstanding, net of shares held in trust (note 8)	**328,068,749**		339,097,833	

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over the long term, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarter of 2022 and in the third quarter of 2021, the Board raised the quarterly dividend by $0.04 to $0.405 and $0.03 to $0.365 per common share, respectively.

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

	2022[(i)]	2021
Dividends declared per share ($)		
Common Share	**$ 1.580**	$ 1.400
Second Preferred Share, Series B	**$ 1.325**	$ 1.325

(i) The Common Share dividends declared in the fourth quarter of 2022 of $0.405 per share had a payment date of December 30, 2022. The Second Preferred Shares, Series B dividends declared in the fourth quarter of 2022 of $0.33125 per share had a payment date of December 31, 2022.

(millions of Canadian dollars)	2022	2021
Dividends declared		
Common Share	**$ 517**	$ 472
Second Preferred Share, Series B (note 8)	**12**	12
Total dividends declared	**$ 529**	$ 484

Subsequent to December 31, 2022, the Board declared a quarterly dividend of $0.405 per common share, payable on April 1, 2023 to shareholders of record on March 15, 2023 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on March 31, 2023 to shareholders of record on March 15, 2023.

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

(millions of Canadian dollars except where otherwise indicated)	2022	2021
Common shares repurchased under the NCIB for cancellation (number of shares)[(i)]	**10,952,138**	15,647,886
Cash consideration paid	**$ 1,258**	$ 1,200
Premium charged to retained earnings[(ii)]	**1,204**	890
Reduction in common share capital[(iii)]	**254**	310
Common shares repurchased under the NCIB and held in trust (number of shares)	**1,172,000**	510,000
Cash consideration paid	**$ 138**	$ 50
Premium charged to retained earnings	**115**	40
Reduction in common share capital	**23**	10

(i) Common shares repurchased and cancelled as at December 31, 2022 do not include the shares that may be repurchased subsequent to the end of the quarter under the automatic share repurchase plan, as described below.

(ii) Includes $166 million related to the automatic share purchase plan, as described below.

(iii) Includes $34 million related to the automatic share purchase plan, as described below.

In the second quarter of 2022, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 16,647,384 of the Company's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As at December 31, 2022, the Company had purchased 9,609,720 common shares for cancellation under its current NCIB.

During 2020, the TSX accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from George Weston Limited ("Weston") under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company. The maximum number of common shares that may be purchased pursuant to the NCIB will be reduced by the number of common shares purchased from Weston.

During 2022, 10,952,138 common shares (2021 – 15,647,886) were purchased under the NCIB program for cancellation, for aggregate consideration of $1,258 million (2021 – $1,200 million), including 4,868,949 common shares (2021 – 7,399,437) purchased from Weston, for aggregate consideration of $558 million (2021 – $563 million).

From time to time, the Company participates in an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its NCIB. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market. As at December 31, 2022, an obligation to repurchase shares of $200 million was recognized under the ASPP in trade payables and other liabilities.

Note 23. Capital Management

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

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

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

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

(millions of Canadian dollars)		As at December 31, 2022		As at January 1, 2022
Bank indebtedness	**$**	**8**	$	52
Demand deposits from customers		**125**		75
Short term debt		**700**		450
Long term debt due within one year		**727**		1,002
Long term debt		**7,056**		6,211
Certain other liabilities(i)		**153**		131
Total debt excluding lease liabilities	**$**	**8,769**	$	7,921
Lease liabilities due within one year		**1,401**		1,297
Lease liabilities		**7,714**		7,542
Total debt including lease liabilities	**$**	**17,884**	$	16,760
Equity attributable to shareholders of the Company		**11,299**		11,573
Total capital under management	**$**	**29,183**	$	28,333

(i) Includes financial liabilities of $73 million (2021 – $57 million) related to the sale of properties to Choice Properties Real Estate Investment Trust (see note 32).

Covenants and Regulatory Requirements The Company is subject to certain key financial and non-financial covenants under its existing committed credit facility, certain debentures and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at December 31, 2022 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework, which includes a target common equity Tier 1 capital ratio of 7.0%, a Tier 1 capital ratio of 8.5% and a total capital ratio of 10.5%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio. PC Bank is also subject to the OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio standard. As at December 31, 2022 and throughout the year, PC Bank has met all applicable regulatory requirements.

Note 24. Post-Employment and Other Long Term Employee Benefits

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

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

The Company's defined benefit pension plans are primarily funded by the Company, predominantly non-contributory and the benefits are, in general, based on career average earnings subject to limits. The funding is based on regulatory going concern and solvency valuations 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 2023 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:

	2022		2021	
(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	**$ (1,249)**	**$ —**	$ (1,668)	$ —
Present value of unfunded obligations	**(110)**	**(116)**	(142)	(145)
Total present value of defined benefit obligation	**$ (1,359)**	**$ (116)**	$ (1,810)	$ (145)
Fair value of plan assets	**1,552**	**—**	2,130	—
Total funded status of surpluses (obligations)	**$ 193**	**$ (116)**	$ 320	$ (145)
Assets not recognized due to asset ceiling	**(262)**	**—**	(1)	—
Total net defined benefit plan (obligations) surpluses	**$ (69)**	**$ (116)**	$ 319	$ (145)
Recorded on the consolidated balance sheets as follows:				
Other assets (note 18)	**$ 52**	**$ —**	$ 463	$ —
Other liabilities (note 21)	**$ (121)**	**$ (116)**	$ (144)	$ (145)

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

	2022			2021		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$2,130**	**$ —**	**$2,130**	$2,060	$ —	$2,060
Employer contributions	**1**	**—**	**1**	26	—	26
Employee contributions	**3**	**—**	**3**	2	—	2
Benefits paid	**(54)**	**—**	**(54)**	(47)	—	(47)
Interest income	**69**	**—**	**69**	52	—	52
Actuarial (losses) gains in other comprehensive income	**(593)**	**—**	**(593)**	41	—	41
Other	**(4)**	**—**	**(4)**	(4)	—	(4)
Fair value, end of year	**$1,552**	**$ —**	**$1,552**	$ 2,130	$ —	$ 2,130
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 1,810**	**$ 145**	**$1,955**	$2,058	$ 163	$ 2,221
Current service cost	**62**	**3**	**65**	70	5	75
Interest cost	**57**	**5**	**62**	53	4	57
Benefits paid	**(60)**	**(5)**	**(65)**	(55)	(5)	(60)
Employee contributions	**3**	**—**	**3**	2	—	2
Actuarial (gains) in other comprehensive income	**(513)**	**(32)**	**(545)**	(318)	(22)	(340)
Balance, end of year	**$1,359**	**$ 116**	**$1,475**	$ 1,810	$ 145	$ 1,955
Total funded status of surpluses (obligations)	**$ 193**	**$ (116)**	**$ 77**	$ 320	$ (145)	$ 175
Assets not recognized due to asset ceiling	**(262)**	**—**	**(262)**	(1)	—	(1)
Total net defined benefit plan (obligations) surpluses	**$ (69)**	**$ (116)**	**$ (185)**	$ 319	$ (145)	$ 174

For 2022, the actual loss on plan assets was $524 million (2021 – return of $93 million).

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

- Active plan participants 58% (2021 – 61%);
- Deferred plan participants 12% (2021 – 12%); and
- Retirees 30% (2021 – 27%).

During 2023, the Company expects to contribute approximately $46 million (2022 – contributed $1 million) to its registered defined benefit pension plans. The actual amount of contributions may vary from the estimate depending on the funded positions of the plans, filing of any actuarial valuations, any new regulatory requirements or other factors.

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

	2022			2021		
(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	**$ 62**	**$ 3**	**$ 65**	$ 70	$ 5	$ 75
Net interest (income) cost on net defined benefit plan (assets) obligations	**(12)**	**5**	**(7)**	1	4	5
Other	**4**	**—**	**4**	4	—	4
Net post-employment defined benefit cost	**$ 54**	**$ 8**	**$ 62**	$ 75	$ 9	$ 84

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

	2022			2021		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Loss (return) on plan assets, excluding amounts included in net interest expense and other financing charges	**$ 593**	**$ —**	**$ 593**	$ (41)	$ —	$ (41)
Experience adjustments	**—**	**(3)**	**(3)**	(38)	(7)	(45)
Actuarial losses from change in demographic assumptions	**—**	**6**	**6**	—	—	—
Actuarial (gains) from change in financial assumptions[i]	**(513)**	**(35)**	**(548)**	(280)	(15)	(295)
Change in liability arising from change in asset ceiling[i]	**262**	**—**	**262**	(2)	—	(2)
Total net actuarial losses (gains) recognized in other comprehensive income (loss) before income taxes	**$ 342**	**$ (32)**	**$ 310**	$ (361)	$ (22)	$ (383)
Income tax (recoveries) expenses on actuarial losses (gains) (note 7)	**(91)**	**8**	**(83)**	95	6	101
Actuarial losses (gains) net of income tax (recoveries) expenses	**$ 251**	**$ (24)**	**$ 227**	$ (266)	$ (16)	$ (282)

(i) The actuarial gains and the change in liability arising from change in asset ceiling were primarily driven by an increase in discount rates.

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

	2022			2021		
(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	**$ (408)**	**$ (100)**	**$ (508)**	$ (47)	$ (78)	$ (125)
Net actuarial losses (gains) recognized in the year before income taxes	**342**	**(32)**	**310**	(361)	(22)	(383)
Cumulative amount, end of year	**$ (66)**	**$ (132)**	**$ (198)**	$ (408)	$ (100)	$ (508)

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

(millions of Canadian dollars, except where otherwise indicated)	2022		2021	
Equity securities				
Canadian - pooled funds	$ 24	2 %	$ 45	2 %
Foreign - pooled funds	832	53 %	1,144	54 %
Total equity securities	$ 856	55 %	$ 1,189	56 %
Debt securities				
Fixed income securities:				
- government	$ 382	25 %	$ 687	32 %
- corporate	78	5 %	58	3 %
Total debt securities	$ 460	30 %	$ 745	35 %
Other investments	202	13 %	156	7 %
Cash and cash equivalents	34	2 %	40	2 %
Total	$ 1,552	100 %	$ 2,130	100 %

As at December 31, 2022 and January 1, 2022, 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):

	2022		2021	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	5.30 %	5.30 %	3.30 %	3.20 %
Rate of compensation increase	4% for 2022 and 2023 and 3% thereafter	n/a	3.00 %	n/a
Mortality table[(i)]	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational
Net Defined Benefit Plan Cost				
Discount rate	3.30 %	3.20 %	2.50 %	2.50 %
Rate of compensation increase	3.00 %	n/a	3.00 %	n/a
Mortality table[(i)]	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational	CPM-RPP2014 Pub/ Priv Generational

n/a – not applicable
(i) Public or private sector mortality table is used depending on the prominent demographics of each plan.

The weighted average duration of the defined benefit obligation as at December 31, 2022 is 14.3 years (January 1, 2022 – 17.3 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 4.60% and is expected to increase to 4.90% as at year end 2023.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2022 (expressed as weighted averages) and the sensitivity of each of these assumptions on the defined benefit plan obligations.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	Defined Benefit Pension Plans	Other Defined Benefit Plans
Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	Benefit Plan Obligations	Benefit Plan Obligations
Discount rate	**5.30 %**	**5.30 %**
Impact of:		
1% increase	**$ (176)**	**$ (12)**
1% decrease	**$ 220**	**$ 15**
Expected growth rate of health care costs		**4.60 %**
Impact of:		
1% increase	**n/a**	**$ 11**
1% decrease	**n/a**	**$ (9)**
Mortality rates		
Impact of:		
One year increase in life expectancy	**$ 23**	**$ 2**
One year decrease in life expectancy	**$ (21)**	**$ (2)**

n/a – not applicable

Multi-Employer Pension Plans During 2022, the Company recognized an expense of $70 million (2021 – $73 million) in operating income, which represents the contributions made in connection with MEPPs. During 2023, 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 57,000 (2021 – 56,000) employees as members. Included in the 2022 expense described above are contributions of $69 million (2021 – $72 million) to CCWIPP.

Post-Employment and Other Long Term Employee Benefit Costs The net cost recognized in earnings before income taxes for the Company's post-employment and other long term employee benefit plans was as follows:

(millions of Canadian dollars)	2022	2021
Net post-employment defined benefit cost	**$ 62**	$ 84
Defined contribution costs[i]	**31**	28
Multi-employer pension plan costs[ii]	**70**	73
Total net post-employment benefit costs	**$ 163**	$ 185
Other long term employee benefit costs[iii]	**24**	31
Net post-employment and other long term employee benefit costs	**$ 187**	$ 216
Recorded on the consolidated statement of earnings as follows:		
Selling, general and administrative expenses (note 26)	**$ 191**	$ 208
Net interest expense and other financing charges (note 6)	**(4)**	8
Net post-employment and other long term employee benefit costs	**$ 187**	$ 216

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

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

(iii) Other long term employee benefit costs include $3 million (2021 – $3 million) of net interest expense and other financing charges.

Note 25. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Stock Option, RSU, PSU, DSU and EDSU plans, was $69 million during 2022 (2021 – $59 million). The expense was recognized in operating income.

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

(millions of Canadian dollars)	**As at December 31, 2022**	As at January 1, 2022
Other liabilities (note 21)	**$ 3**	$ 3
Contributed surplus	**122**	116

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

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

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

	2022		2021	
	Options (number of shares)	**Weighted Average Exercise Price / Share**	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	**6,431,449**	**$ 63.15**	7,259,645	$ 61.19
Granted	**1,162,625**	**$ 100.05**	1,926,951	$ 64.27
Exercised (note 22)	**(1,487,377)**	**$ 59.47**	(1,829,170)	$ 56.02
Forfeited/cancelled	**(324,082)**	**$ 71.04**	(925,977)	$ 64.22
Outstanding options, end of year	**5,782,615**	**$ 71.07**	6,431,449	$ 63.15
Options exercisable, end of year	**2,100,204**	**$ 62.26**	2,285,608	$ 59.79

The following is the weighted average remaining contractual life and exercise price of outstanding and exercisable stock options as at December 31, 2022:

	2022 Outstanding Options			**2022 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**
$55.18-$64.07	**2,412,999**	**3.3**	**$ 59.67**	**1,235,700**	**$ 58.11**
$64.08-$70.13	**2,065,927**	**3.8**	**$ 68.23**	**824,882**	**$ 67.76**
$70.14-$117.67	**1,303,689**	**6.1**	**$ 96.67**	**39,622**	**$ 77.36**
	5,782,615		**$ 71.07**	**2,100,204**	**$ 62.26**

During 2022, the Company issued common shares on the exercise of stock options with a weighted average market share price of $114.22 (2021 – $81.97). The Company received cash consideration of $88 million (2021 – $102 million) related to the exercise of these options.

The fair value of stock options granted during 2022 was $21 million (2021 – $17 million). The assumptions used to measure the fair value of options granted during 2022 and 2021 under the Black-Scholes valuation model at date of grant were as follows:

	2022	2021
Expected dividend yield	**1.4 %**	1.7 %
Expected share price volatility	**18.4% – 22.2%**	18.3% – 20.6%
Risk-free interest rate	**1.6% – 3.5%**	0.6% – 1.6%
Expected life of options	**3.7 – 6.2 years**	3.8 – 6.2 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at December 31, 2022 was 11.0% (January 1, 2022 – 9.0%).

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

(number of awards)	**2022**	2021
Restricted share units, beginning of year	**799,345**	894,272
Granted	**244,686**	372,015
Reinvested	**10,105**	14,835
Settled	**(294,115)**	(371,474)
Forfeited	**(43,194)**	(110,303)
Restricted share units, end of year	**716,827**	799,345

The fair value of RSUs granted during 2022 was $26 million (2021 – $25 million).

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

(number of awards)	**2022**	2021
Performance share units, beginning of year	**616,417**	666,400
Granted	**310,100**	281,099
Reinvested	**8,570**	11,177
Settled	**(258,411)**	(231,952)
Forfeited	**(28,477)**	(110,307)
Performance share units, end of year	**648,199**	616,417

The fair value of PSUs granted during 2022 was $26 million (2021 – $18 million).

Settlement of Awards from Shares Held in Trust During 2022, the Company settled RSUs and PSUs totaling 552,526 (2021 – 603,426), of which 545,218 (2021 – 587,289) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 22). The settlements resulted in a $11 million (2021 – $11 million) increase to share capital and a net increase of $24 million (2021 – $23 million) to retained earnings.

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

(number of awards)	**2022**	2021
Director deferred share units, beginning of year	**361,316**	380,481
Granted	**21,744**	32,829
Reinvested	**4,532**	6,162
Settled	**(62,361)**	(58,156)
Director deferred share units, end of year	**325,231**	361,316

The fair value of DSUs granted during 2022 was $2 million (2021 – $2 million).

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

(number of awards)	**2022**	2021
Executive deferred share units, beginning of year	**62,473**	56,856
Granted	**7,719**	5,399
Reinvested	**914**	1,066
Settled	**(5,608)**	(848)
Executive deferred share units, end of year	**65,498**	62,473

The fair value of EDSUs granted during 2022 was $1 million (2021 – nominal).

Note 26. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	**2022**	2021
Wages, salaries and other short term employment benefits	**$ 7,233**	$ 6,983
Post-employment benefits (note 24)	**170**	180
Other long term employee benefits (note 24)	**21**	28
Equity-based compensation	**65**	55
Capitalized to fixed assets and intangible assets	**(129)**	(112)
Total employee costs	**$ 7,360**	$ 7,134

Note 27. Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, passenger vehicles, trailers and IT equipment. Leases of retail stores are a substantial portion of the Company's lease portfolio. Retail store leases typically have an initial contractual period of 10 to 15 years with additional renewal options available thereafter. The Company also has owned and leased properties that are leased and subleased to third parties, respectively. The subleases are primarily related to medical centers and ancillary tenants within stores.

As a Lessee

Right-of-Use Assets The following are continuities of the cost and accumulated depreciation of right-of-use assets for the years ended December 31, 2022 and January 1, 2022:

	2022		
(millions of Canadian dollars)	**Property**	**Other**	**Total**
Cost			
Balance, beginning of year	**$ 10,041**	**$ 98**	**$ 10,139**
Lease additions, net of lease terminations	**316**	**20**	**336**
Lease extensions and other items	**921**	**9**	**930**
Balance, end of year	**$ 11,278**	**$ 127**	**$ 11,405**
Accumulated depreciation			
Balance, beginning of year	**$ 2,900**	**$ 64**	**$ 2,964**
Depreciation	**1,005**	**19**	**1,024**
Impairment losses, net of reversals (note 14)	**8**	**—**	**8**
Balance, end of year	**$ 3,913**	**$ 83**	**$ 3,996**
Carrying amount as at: December 31, 2022	**$ 7,365**	**$ 44**	**$ 7,409**

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

Lease Liabilities The following are continuities of lease liabilities for the years ended December 31, 2022 and January 1, 2022:

(millions of Canadian dollars)	**2022**	2021
Balance, beginning of year	**$ 8,839**	$ 8,901
Lease additions, net of lease terminations	**320**	125
Lease extensions and other items	**950**	833
Lease payments	**(1,327)**	(1,360)
Interest expense on lease liabilities (note 6)	**333**	340
Balance, end of year	**$ 9,115**	$ 8,839
Lease liabilities due within one year	**$ 1,401**	$ 1,297
Lease liabilities	**7,714**	7,542
Total lease liabilities	**$ 9,115**	$ 8,839

Liquidity The future undiscounted contractual lease payments are as follows:

	Payments due by year						**As at December 31, 2022**	As at January 1, 2022
(millions of Canadian dollars)	2023	2024	2025	2026	2027	Thereafter	**Total**	Total
Lease payments	$1,426	$1,352	$ 1,291	$1,058	$ 910	$ 3,201	**$ 9,238**	$ 8,973

As at December 31, 2022, the Company also had commitments of $579 million (January 1, 2022 – $842 million) related to leases not yet commenced.

Short-Term Leases The Company has short-term leases that are primarily related to trailer rentals and certain properties. During 2022, $27 million (2021 – $26 million) was recognized in cost of sales and SG&A.

Variable Lease Payments The Company makes variable lease payments for property tax and insurance charges on leased properties. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of retail sales. During 2022, $385 million (2021 – $393 million) was recognized in SG&A.

Extension Options Substantially all of the retail store leases have extension options for additional lease terms. As at December 31, 2022, approximately 16% (January 1, 2022 – 13%) of the lease liabilities are related to extension options that were deemed reasonably certain to be exercised.

As at December 31, 2022, approximately $16 billion (January 1, 2022 – $16 billion) of discounted future lease payments are related to extension options that were not deemed to be reasonably certain to be exercised and were not included in lease liabilities. These future lease payments are discounted at the incremental borrowing rates associated with the current lease liability profile.

Sale and Leaseback Transactions During 2022, the Company disposed of and leased back one retail property (2021 – two retail properties), and recognized a loss of $1 million (2021 – gain of $1 million) in SG&A. The Company also disposed of and leased back two additional retail properties in 2022 (2021 – one additional retail property) that did not meet the criteria for sales of assets in accordance with IFRS 15 as the Company did not relinquish control of the properties under the terms of the leases (see note 32).

As a Lessor

Finance Leases Finance lease receivable is included in other assets on the Company's consolidated balance sheet (see note 18). During 2022, the Company recognized finance interest income of $3 million (2021 – $4 million) and nil impairment losses (2021 – nil).

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

	Payments to be received by year						**As at December 31, 2022**	As at January 1, 2022
(millions of Canadian dollars)	2023	2024	2025	2026	2027	Thereafter	**Total**	Total
Finance lease payments to be received	$ 23	$ 12	$ 11	$ 11	$ 8	$ 23	**$ 88**	$ 90
Less: unearned finance interest income	(3)	(2)	(2)	(1)	(1)	(2)	**(11)**	(12)
Total finance lease receivable (note 18)	$ 20	$ 10	$ 9	$ 10	$ 7	$ 21	**$ 77**	$ 78

Operating Leases During 2022, the Company recognized operating lease income of $28 million (2021 – $26 million), of which $19 million (2021 – $20 million) was related to operating lease income from subleases of right-of-use assets.

The future undiscounted operating lease payments to be received by the Company are as follows:

	Payments to be received by year						**As at December 31, 2022**	As at January 1, 2022
(millions of Canadian dollars)	2023	2024	2025	2026	2027	Thereafter	**Total**	Total
Operating lease income	$ 11	$ 9	$ 7	$ 4	$ 3	$ 8	**$ 42**	$ 63

Note 28. Financial Instruments

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

				As at December 31, 2022				As at January 1, 2022
(millions of Canadian dollars)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Fair value through other comprehensive income:								
Long term securities	**$ 246**	**$ —**	**$ —**	**$ 246**	$ 96	$ —	$ —	$ 96
Derivatives included in prepaid expenses and other assets	**—**	**6**	**—**	**6**	—	1	—	1
Fair value through profit and loss:								
Certain other assets[(i)]	**—**	**—**	**60**	**60**	—	—	29	29
Derivatives included in prepaid expenses and other assets	**1**	**13**	**—**	**14**	3	2	—	5
Financial liabilities								
Amortized cost:								
Long term debt	**$ —**	**$7,865**	**$ —**	**$7,865**	$ —	$ 8,106	$ —	$ 8,106
Certain other liabilities[(i)]	**—**	**—**	**78**	**78**	—	—	57	57
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	**—**	**—**	**—**	**—**	—	1	—	1
Fair value through profit and loss:								
Derivatives included in trade payables and other liabilities	**—**	**—**	**3**	**3**	—	—	1	1

(i) Certain other assets relate primarily to Venture Fund I (see note 32).

(ii) Certain other liabilities relate primarily to financial liabilities associated with properties that did not meet the criteria for sale (see note 32).

There were no transfers between levels of the fair value hierarchy during the years presented.

During 2022, the Company recognized a gain of $4 million (2021 – loss of $1 million) in operating income on financial instruments designated as amortized cost. In addition, during 2022, a net gain of $67 million (2021 – net gain of $16 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit and loss.

Embedded Derivatives The Company's level 3 financial instruments classified as fair value through profit or loss consist of embedded derivatives on purchase orders placed in neither Canadian dollars nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any one of the inputs could result in a significantly higher (lower) fair value measurement.

During 2022, a loss of $2 million (2021 – loss of $3 million) was recorded in operating income related to these derivatives. In addition, a corresponding liability of $3 million was included in trade payables and other liabilities as at December 31, 2022 (January 1, 2022 – $1 million liability). As at December 31, 2022, a 1% increase (decrease) in foreign currency exchange rates would result in a gain (loss) in fair value of $1 million.

Securities Investments PC Bank holds investments which are considered part of the liquid securities required to be held to meet its Liquidity Coverage Ratio. As at December 31, 2022, the fair value through other comprehensive income securities of $246 million (January 1, 2022 – $96 million) were included in short term investments and other assets on the consolidated balance sheets. During 2022, PC Bank recorded an unrealized fair value loss of $2 million (2021 – $1 million unrealized fair value loss) in other comprehensive income related to these investments.

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

			December 31, 2022
(millions of Canadian dollars)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges			
Foreign Exchange Forwards[(i)]	**$ 4**	**$ 4**	**$ 2**
Bond Forwards[(ii)]	**1**	**18**	**(5)**
Interest Rate Swaps[(iii)]	**1**	**(1)**	**4**
Total derivatives designated as cash flow hedges	**$ 6**	**$ 21**	**$ 1**
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	**$ 13**	**$ —**	**$ 32**
Other Non-Financial Derivatives	**1**	**—**	**24**
Total derivatives not designated in a formal hedging relationship	**$ 14**	**$ —**	**$ 56**
Total derivatives	**$ 20**	**$ 21**	**$ 57**

(i) PC Bank uses foreign exchange forwards, with a notional value of $37 million USD, to manage its foreign exchange risk related to certain U.S. payables. The fair value of the derivatives is included in trade payables and other liabilities. During the first quarter of 2022, the Company entered into foreign exchange forwards, as described below.

(ii) PC Bank uses bond forwards, with notional value of $25 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities. During 2022, PC Bank settled $140 million of bond forwards (see note 20).

(iii) PC Bank uses interest rate swaps, with notional value of $180 million to mitigate the impact of increases in interest rate. The fair value of the derivatives is included in prepaid expenses and other assets.

In the first quarter of 2022, the Company entered into foreign exchange forwards. The purpose of these forward exchange forwards was to hedge the risk that the future cash flows of an anticipated fixed asset purchase transaction will fluctuate because of changes in foreign exchange rates. The Company concluded that these hedges were effective and accordingly, the gains or losses on these foreign exchange forwards are recognized in other comprehensive income. Upon settlement of these foreign exchange forwards, the accumulated other comprehensive income will be included in the initial cost of the fixed asset.

			January 1, 2022
(millions of Canadian dollars)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges			
Foreign Exchange Forwards[(i)]	$ —	$ —	$ (1)
Bond Forwards[(ii)]	(1)	6	(7)
Interest Rate Swaps[(iii)]	1	1	—
Total derivatives designated as cash flow hedges	$ —	$ 7	$ (8)
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	$ 2	$ —	$ 1
Other Non-Financial Derivatives	3	—	18
Total derivatives not designated in a formal hedging relationship	$ 5	$ —	$ 19
Total derivatives	$ 5	$ 7	$ 11

(i) PC Bank uses foreign exchange forwards, with a notional value of $19 million USD, to manage its foreign exchange risk related to certain U.S. payables. The fair value of the derivatives is included in trade payables and other liabilities.

(ii) PC Bank uses bond forwards, with a notional value of $120 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities. During 2021, PC Bank settled $175 million of bond forward (see note 20).

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

Note 29. Financial Risk Management

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

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

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

The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2022:

	2023	2024	2025	2026	2027	Thereafter	Total(i)
Derivative financial liabilities							
Foreign exchange forward contracts	$ 543	$ 157	$ —	$ —	$ —	$ —	$ 700
Non-derivative financial liabilities							
Bank indebtedness	8	—	—	—	—	—	8
Demand deposits from customers	125	—	—	—	—	—	125
Short term debt(ii)	700	—	—	—	—	—	700
Financial liabilities(iii)	4	4	5	5	5	42	65
Long term debt including interest payments(iv)	1,051	1,393	1,413	761	803	5,428	10,849
Other liabilities	2	—	—	—	—	—	2
Total	$2,433	$1,554	$ 1,418	$ 766	$ 808	$ 5,470	$ 12,449

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

(ii) These are obligations owed to Other Independent Securitization Trusts which are collateralized by the Company's credit card receivables (see note 31).

(iii) These are the contractual payments that the Company is committed to related to the sale of retail properties to Choice Properties Real Estate Investment Trust (see note 32).

(iv) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities. Variable interest payments are based on the forward rates as of December 31, 2022.

Credit The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short term investments, security deposits, PC Bank's credit card receivables, finance lease receivable, pension assets held in the Company's defined benefit plans and accounts receivable, including amounts due from government and third-party drug plans arising from prescription drug sales, independent accounts and amounts owed from vendors. Failure to manage credit risk could adversely affect the financial performance of the Company.

The risk related to derivative instruments, cash and cash equivalents and short term investments is reduced by policies and guidelines that require that the Company enters into transactions only with counterparties or issuers that have a minimum long term "A-" credit rating from a recognized credit rating agency and place minimum and maximum limits for exposures to specific counterparties and instruments.

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

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

Interest Rates The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt, and from the refinancing of existing financial instruments. An increase in interest rates could adversely affect the operations or financial performance of the Company. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 1% increase (decrease) in short term interest rates, with all other variables held constant, would result in an increase (decrease) of $20 million to net interest expense and other financing charges.

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

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities. The Company estimates that based on the outstanding derivative contracts held by the Company as at December 31, 2022, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a loss of $2 million on earnings before income taxes.

Note 30. Contingent Liabilities

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

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

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

Shoppers Drug Mart was previously served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice ("Superior Court") by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who were parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. A summary judgment trial of the matter was held in December 2022 and on February 17, 2023, the Superior Court released its decision in relation to those summary judgment motions (the "Decision"). The Superior Court dismissed the plaintiffs' claims on the majority of the issues including a request for damages at this stage of proceedings. The Court also held that Shoppers Drug Mart breached the 2002 form of Associate Agreement when it did not remit certain amounts that it received from generic drug manufacturers to Associates. The Company is still assessing the Decision and has not yet determined whether it plans to appeal any aspect of it. Accordingly, the Company has not recorded any amounts related to the potential liability associated with this lawsuit. The Company does not believe that the ultimate resolution of this matter will have a material adverse impact on its financial condition or prospects.

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2022 or prior on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks unquantified damages for the expenses incurred by the federal government, provinces, and territories of Canada in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in Canada. During the second quarter of 2021, the claim against Loblaw Companies Limited was discontinued. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. In February 2022, the plaintiff and Sanis Health Inc. agreed to settle the Quebec action for a nominal amount, with no admission of liability and for the express purpose of avoiding the delays, disruption, and expenses associated with the litigation. The settlement has been approved by the court and is now final. In December 2019, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and the Company. The allegations in the Ontario, Quebec, and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and December 2019 claims seek recovery of damages on behalf of opioid users directly. In April 2021, the Company, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with another opioid-related class action that was started in Alberta against multiple defendants. The claim seeks damages on behalf of municipalities and local governments in relation to public safety, social service, and criminal justice costs allegedly incurred due to the opioid crisis. In September 2021, the Company, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with a class action started in Saskatchewan by Peter Ballantyne Cree Nation and Lac La Ronge Indian Band on behalf of all Indigenous, Metis, First Nation and Inuit communities and governments in Canada to recover costs they have incurred as a result of the opioid crisis, including healthcare costs, policing costs and societal costs. The Company believes these proceedings are without merit and is vigorously defending them. The Company does not currently have any significant accruals or provisions for these matters recorded in the consolidated financial statements.

Between 2015 and 2019, the Company was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of the Company on the Glenhuron matter and the Company reversed $301 million of previously recorded charges, of which $173 million was recorded as interest income and $128 million was recorded as income tax recovery, and an additional $16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, the Company reversed another $35 million of previously recorded charges, of which $2 million was recorded as interest income and $33 million was recorded as an income tax recovery, and an additional $9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

In July 2022, the Tax Court released a decision relating to PC Bank, a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29th, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, the Company recorded a charge of $111 million, inclusive of interest, in the second quarter of 2022. The Company believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

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 31. 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 $296 million as at December 31, 2022 (January 1, 2022 – $331 million). In addition, the Company has provided to third parties the following significant guarantees:

Associate Guarantees The Company has arranged for its Associates to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at December 31, 2022, the Company's maximum obligation in respect of such guarantees was $580 million (January 1, 2022 – $580 million) with an aggregate amount of $473 million (January 1, 2022 – $469 million) in available lines of credit allocated to the Associates by the various banks. As at December 31, 2022, Associates had drawn an aggregate amount of $8 million (January 1, 2022 – $52 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse, in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

Independent Funding Trusts The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheets of the Company (see note 20). As at December 31, 2022 the Company has agreed to provide a credit enhancement of $64 million (January 1, 2022 – $64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (January 1, 2022 – not less than 10%) of the principal amount of loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to the Company's franchisees. As well, each franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that a franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The Company has guaranteed lease obligations of a third party distributor in the amount of $4 million (January 1, 2022 – $2 million).

Glenhuron Bank Limited Surety Bond In connection with the Canada Revenue Agency's reassessment of the Company on certain income earned by Glenhuron (see note 30), the Company arranged for a surety bond to the Ministry of Finance in order to appeal the reassessments. The amount of the surety bond was $56 million as at January 1, 2022. During 2022, the surety bond was released as a result of the favourable decision of the Supreme Court. (see Note 30)

Cash Collateralization As at December 31, 2022, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $93 million (January 1, 2022 – $93 million), of which a nominal amount (January 1, 2022 – nominal) was deposited with major financial institutions and classified as security deposits, which is included in other assets.

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard International Incorporated ("MasterCard") for accepting PC Bank as a card member and licensee of MasterCard. As at December 31, 2022, the guarantee on behalf of PC Bank to MasterCard was USD $190 million (January 1, 2022 – USD $190 million).

The Company had in place an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of $11 million (January 1, 2022 – $11 million).

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was $63 million (January 1, 2022 – $41 million), which represented approximately 9% (January 1, 2022 – 9%) of the securitized credit card receivables amount (see note 11).

Note 32. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 170,606,070 of the Company's common shares, representing approximately 52.6% of the Company's outstanding common shares. Galen G. Weston beneficially owns or controls, directly and indirectly, including through Wittington, a total of 78,650,662 of Weston's common shares, representing approximately 55.9% of Weston's outstanding common shares. Galen G. Weston also beneficially owns 473,636 of the Company's common shares, representing approximately 0.1% of the Company's outstanding common shares.

Weston is the controlling shareholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Therefore, Choice Properties is a related party by virtue of common control. As at December 31, 2022, Weston's ownership interest in Choice Properties was approximately 61.7% (January 1, 2022 – 61.7%). The Company is Choice Properties' largest tenant, representing approximately 57.5% (January 1, 2022 – 55.9%) of Choice Properties' rental revenue as at December 31, 2022. The Company also executes various agreements and transactions with Choice Properties.

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

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

Transactions with Related Parties

(millions of Canadian dollars)	Transaction Value 2022	2021
Included in cost of sales		
Inventory purchases from a subsidiary of Weston[(vi)]	**$ —**	$ 541
Inventory sold to a subsidiary of Weston[(vi)]	**—**	1
Inventory purchases from a related party[(i)]	**39**	32
Operating income		
Transactions with Weston and Wittington		
Cost sharing agreements with Weston[(ii)]	**$ 71**	$ 54
Net administrative services provided by Weston[(iii)]	**16**	19
Transactions with Choice Properties		
Lease payments to Choice Properties[(iv)]	**$ 753**	$ 751
Lease surrender payments paid to Choice Properties	**—**	2
Site intensification payments received from Choice Properties[(v)]	**(3)**	(2)

(i) Associated British Foods plc is a related party by virtue of a common director of such entity's parent company and Wittington. Total balance outstanding owing to Associated British Foods plc as at December 31, 2022 was $6 million (January 1, 2022 – $1 million).

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

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

(iv) During 2022, lease payments paid to Choice Properties included base rent of $528 million (2021 – $528 million) and operating expenses of $225 million (2021 – $223 million).

(v) During 2022, the Company received site intensification payments from Choice Properties of $3 million (2021 – $2 million). Included in certain investment properties sold to Choice Properties is excess land with development potential. Choice Properties will compensate the Company, over time, with site intensification payments, as Choice Properties pursues development, intensification or redevelopment of such excess lands. The payments the Company receives are calculated in accordance with a payment grid, set out in the Strategic Alliance Agreement, that takes into account the region, market ranking and type of use for the property.

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

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

(millions of Canadian dollars)	As at December 31, 2022	As at January 1, 2022
Weston[(i)]	**$ 116**	$ 10
Choice Properties[(ii)]	**(18)**	3

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

(ii) Balances relate to other receivables, net of other payables to Choice Properties.

Other Transactions and Agreements with Choice Properties

Strategic Alliance Agreement The Strategic Alliance Agreement established on the initial public offering ("IPO") of Choice Properties creates a series of rights and obligations between Choice Properties and the Company, intended to establish a preferential and mutually beneficial business and operating relationship. The initial term of the Strategic Alliance Agreement expires on July 5, 2023, ten years from the IPO. Upon expiry of the initial term, the Strategic Alliance Agreement will be automatically renewed until the earlier of July 5, 2033 or the date on which George Weston Limited and its affiliates own less than 50% effective interest in Choice Properties (on a fully diluted basis).

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

	Payments due by year						**As at December 31, 2022**	As at January 1, 2022
(millions of Canadian dollars)	2023	2024	2025	2026	2027	Thereafter	**Total**	Total
Lease payments	$ 531	$ 534	$ 543	$ 466	$ 418	$ 1,659	**$ 4,151**	$ 4,122

Financial Liabilities During 2022, the Company disposed of two retail properties (2021 – one retail property) to Choice Properties for total proceeds of $15 million (2021 – $12 million). The properties were leased back by the Company. The transactions did not meet the criteria for sale of asset in accordance with IFRS 15 as the Company did not relinquish control of the properties under the terms of the leases. Total proceeds were recognized as financial liabilities and as at December 31, 2022, $4 million (January 1, 2022 – $3 million) was recorded in trade payables and other liabilities and $69 million (January 1, 2022 – $54 million) was recorded in other liabilities (see note 22). During 2022, $5 million (2021 – $3 million) of interest expense was recognized in net interest expense and other financing charges (see note 6) and repayments of $4 million (2021 – $4 million) were made on the financial liabilities.

Disposition of Properties to Choice Properties Real Estate Investment Trust In the first quarter of 2022, the Company disposed of a property to Choice Properties for proceeds of $26 million and recognized a gain of $19 million. This property was not leased back by the Company. There were no dispositions of property to Choice Properties in 2021.

Leases with Choice Properties During 2022, the Company renewed 42 retail leases which would have expired in 2023. Upon renewal, the Company recorded right-of-use assets and lease liabilities of $133 million.

In the second quarter of 2022, the Company announced that it intends to build an industrial facility on part of a property in East Gwillimbury, Ontario owned by a joint venture in which Choice Properties has an ownership interest. The Company expects to bring the industrial facility into its operations in the first quarter of 2024. For the first phase of the development, the Company entered into a 25-year land lease with the joint venture. The Company took possession of the land on October 1, 2022, and as a result recorded a right-of-use asset and lease liability of $120 million. The land lease includes a 15-month construction period with lease payments commencing in 2024.

Other Transactions

Venture Fund During 2020, Loblaw, Weston and a wholly owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("Venture Fund I"). A wholly owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee it. The purpose of the Venture Fund I is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have 33% interest in the Venture Fund I. The Company has a total capital commitment of $33 million over a 10-year period. To date, the Company has invested $23 million in the Venture Fund I, of which $8 million was invested in 2022 (2021 – $9 million) (see note 18).

During the third quarter of 2022, Loblaw became a limited partner in another limited partnership formed by Wittington ("Venture Fund II"). A wholly owned subsidiary of Wittington is also the general partner of Venture Fund II, and the general purpose of Venture Fund II is consistent with Venture Fund I. The Company has a 50% interest in Venture Fund II and has a total capital commitment of $60 million over a 10-year period. To date, the Company has invested nil in Venture Fund II.

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. Effective November 21, 2022, Loblaw became the sponsor of a group plan which was previously sponsored by the parent company, Weston. As a participant of the group plan, the Company will continue to make contributions for its share of defined benefit costs, including interest, service and administrative costs. In 2022 and 2021, the Company did not make any contributions to the group plan.

Income Tax Matters From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

Key Management Personnel The Company's key management personnel are comprised of the Board and certain members of the executive team of the Company, as well as both the Board and certain members of the executive team of Weston and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

Compensation of Key Management Personnel Annual compensation of key management personnel that is directly attributable to the Company was as follows:

(millions of Canadian dollars)	**2022**	2021
Salaries, director fees and other short term employee benefits	**$ 8**	$ 9
Equity-based compensation	**2**	9
Total compensation	**$ 10**	$ 18

Note 33. Segment Information

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, which includes in-store pharmacies, health care services and other health and beauty products, 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; and
- The Financial Services segment provides credit card and everyday banking services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted operating income before depreciation and amortization ("Adjusted EBITDA") and adjusted operating income, as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

					2022					2021
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Total Segment Measure**	**Elimi-nations(i)**	**Total**	Retail	Financial Services	Total Segment Measure	**Elimi-nations(i)**	**Total**
Revenue[(ii)]	**$55,492**	**$1,338**	**$56,830**	**$ (326)**	**$56,504**	$52,269	$ 1,182	$ 53,451	$ (281)	$ 53,170
Operating income	$ 3,260	$ 82	$ 3,342	$ —	$ 3,342	$ 2,713	$ 224	$ 2,937	$ —	$ 2,937
Net interest expense and other financing charges	599	84	683	—	683	431	64	495	—	495
Earnings before income taxes	**$ 2,661**	**$ (2)**	**$ 2,659**	**$ —**	**$ 2,659**	$ 2,282	$ 160	$ 2,442	$ —	$ 2,442
Operating income	**$ 3,260**	**$ 82**	**$ 3,342**	**$ —**	**$ 3,342**	$ 2,713	$ 224	$ 2,937	$ —	$ 2,937
Depreciation and amortization	**2,746**	**49**	**2,795**			2,623	41	2,664		
Adjusting items[(iii)]	**430**	**111**	**541**			492	—	492		
Less: amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(497)**	**—**	**(497)**			(506)	—	(506)		
Adjusted EBITDA[(iii)]	**$ 5,939**	**$ 242**	**$ 6,181**			$ 5,322	$ 265	$ 5,587		
Depreciation and amortization[(iv)]	**2,249**	**49**	**2,298**			2,117	41	2,158		
Adjusted operating income	**$ 3,690**	**$ 193**	**$ 3,883**			$ 3,205	$ 224	$ 3,429		

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

(ii) Included in Financial Services revenue is $513 million (2021 – $427 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA excludes $497 million (2021 – $506 million) of amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark.

The Company's revenue, by type of goods or services, is reconciled to the Company's segment revenue:

(millions of Canadian dollars)	2022	2021
Food retail	**$ 39,398**	$ 37,481
Drug retail		
Pharmacy	**$ 7,944**	$ 7,224
Front store	**8,150**	7,564
	$ 16,094	$ 14,788
Retail total	**$ 55,492**	$ 52,269
Financial Services	**1,338**	1,182
Eliminations[(i)]	**(326)**	(281)
Total	**$ 56,504**	$ 53,170

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

(millions of Canadian dollars)	As at December 31, 2022	As at January 1, 2022
Total assets		
Retail	**$ 32,505**	$ 31,613
Financial Services	**5,642**	5,001
	$ 38,147	$ 36,614

(millions of Canadian dollars)	2022	2021
Additions to fixed assets and intangible assets		
Retail[(i)]	**$ 1,538**	$ 1,154
Financial Services	**33**	29
	$ 1,571	$ 1,183

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

Three Year Summary[1]

As at or for the years ended December 31, 2022 and January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	**2022**	2021	2020
Consolidated Results of Operations			
Revenue	**$56,504**	$ 53,170	$ 52,714
Revenue growth	**6.3 %**	0.9 %	9.7 %
Operating income	**$ 3,342**	$ 2,937	$ 2,365
Adjusted EBITDA[2]	**6,181**	5,587	5,004
Adjusted EBITDA margin[2]	**10.9 %**	10.5 %	9.5 %
Net interest expense and other financing charges	**$ 683**	$ 495	$ 742
Adjusted net interest expense and other financing charges[2]	**694**	684	742
Net earnings	**1,994**	1,976	1,192
Net earnings attributable to shareholders of the Company	**1,921**	1,875	1,108
Net earnings available to common shareholders of the Company	**1,909**	1,863	1,096
Adjusted net earnings available to common shareholders of the Company[2]	**2,263**	1,911	1,499
Consolidated Per Common Share ($)			
Diluted net earnings	**$ 5.75**	$ 5.45	$ 3.06
Adjusted diluted net earnings[2]	**$ 6.82**	$ 5.59	$ 4.18
Consolidated Financial Position and Cash Flows			
Cash and cash equivalents and short term investments	**$ 1,934**	$ 2,440	$ 1,937
Cash flows from operating activities	**4,755**	4,827	5,191
Capital investments	**1,571**	1,183	1,224
Free cash flow[2]	**1,528**	1,959	2,247
Financial Measures			
Retail debt to retail adjusted EBITDA[2]	**2.4 x**	2.6 x	2.9 x
Adjusted return on equity[2]	**20.2 %**	17.3 %	13.8 %
Adjusted return on capital[2]	**10.8 %**	9.8 %	8.1 %

Three Year Summary[1]

As at or for the years ended December 31, 2022 and January 1, 2022 and January 2, 2021 (millions of Canadian dollars except where otherwise indicated)	2022	2021	2020
Retail Results of Operations			
Sales	**$55,492**	$ 52,269	$ 51,859
Operating income	**3,260**	2,713	2,231
Adjusted gross profit[2]	**17,165**	16,041	15,300
Adjusted gross profit %[2]	**30.9 %**	30.7 %	29.5 %
Adjusted EBITDA[2]	**$ 5,939**	$ 5,322	$ 4,845
Adjusted EBITDA margin[2]	**10.7 %**	10.2 %	9.3 %
Depreciation and amortization	**$ 2,746**	$ 2,623	$ 2,571
Retail Operating Statistics			
Food retail same-store sales growth	**4.7 %**	0.3 %	8.6 %
Drug retail same-store sales growth	**6.9 %**	5.0 %	4.9 %
Drug retail same-store pharmacy sales growth	**5.7 %**	8.4 %	5.3 %
Drug retail same-store front store sales growth	**8.2 %**	2.1 %	4.5 %
Total retail square footage (in millions)	**71.2**	71.2	71.0
Number of corporate stores[3]	**547**	548	550
Number of franchise stores	**551**	551	542
Number of Associate-owned drug stores	**1,346**	1,342	1,347
Financial Services Results of Operations			
Revenue	**$ 1,338**	$ 1,182	$ 1,097
(Losses) Earnings before income taxes	**(2)**	160	47
Financial Services Operating Measures and Statistics			
Average quarterly net credit card receivables	**$ 3,607**	$ 3,128	$ 3,165
Credit card receivables	**3,954**	3,443	3,109
Allowance for credit card receivables	**206**	205	237
Annualized yield on average quarterly gross credit card receivables	**13.0 %**	12.7 %	13.3 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.7 %**	2.5 %	3.4 %

Three Year Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 143 of the Company's 2022 Annual Report - Financial Review.
(2) See Section 17 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis for the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
(3) Comparative figures have been restated to conform with current year presentation.

Glossary of Terms

Term	Definition
Adjusted diluted net earnings per common share	Adjusted net earnings available to common shareholders including the effects of all dilutive instruments divided by the diluted weighted average number of common shares outstanding during the period (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted EBITDA	Adjusted operating income before depreciation and amortization (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted EBITDA margin	Adjusted EBITDA divided by revenue (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted income tax	Income taxes adjusted for the tax impact of items included in adjusted operating income less adjusted net interest and other financing charges (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted effective tax rate	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted net earnings attributable to shareholders of the Company	Net earnings attributable to shareholders of the Company adjusted for items that are not necessarily reflective of the Company’s underlying operating performance (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted net earnings available to common shareholders of the Company	Adjusted net earnings attributable to shareholders of the Company less preferred dividends (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted net interest expense and other financing charges	Net interest expense and other financing charges adjusted for items that are not necessarily reflective of the Company’s ongoing net financing costs (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted operating income	Operating income adjusted for items that are not necessarily reflective of the Company’s underlying operating performance (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted return on capital	Tax-effected adjusted operating income divided by average capital (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Adjusted return on equity	Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Annualized credit loss rate on average quarterly gross credit card receivables	Total credit card losses year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Annualized yield on average quarterly gross credit card receivables	Interest earned on credit card receivables year-to-date divided by the number of days year-to-date times 365 divided by average quarterly gross credit card receivables.
Average prescription value	Total prescription sales divided by total script count.
Basic net earnings per common share	Net earnings available to common shareholders divided by the weighted average number of common shares of the Company outstanding during the period.
Capital under management	Total debt plus total equity attributable to shareholders of the Company.
Capital investments	Fixed asset additions and intangible asset additions (see notes 14 and 16 of the Company’s Consolidated Financial Statements).
Control brand	A brand and associated trademark that is owned by the Company for use in connection with its own products and services.
Conversion	A store that changes from one Company banner to another Company banner.
Diluted net earnings per common share	Net earnings available to common shareholders of the Company adjusted for the impact of dilutive items divided by the weighted average number of common shares outstanding during the period adjusted for the impact of dilutive items.
Diluted weighted average common shares outstanding	Weighted average number of common shares outstanding including the effects of all dilutive instruments.
E-commerce sales	Retail segment revenue earned through online sales.
Free cash flow	Cash flows from operating activities less intangible asset additions, fixed asset purchases, interest paid and net lease payments (see Section 17 “Non-GAAP Financial Measures” of the Company’s Management’s Discussion and Analysis).
Food Retail basket size	The dollar value of products sold in a single retail transaction.
Food Retail traffic	The number of customers entering stores across all banners.
Net earnings attributable to shareholders of the Company	Net earnings less non-controlling interests.
Net earnings available to common shareholders of the Company	Net earnings attributable to shareholders of the Company less preferred dividends.
Operating income	Net earnings before net interest expense and other financing charges and income taxes.
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 revenue.
Retail segment gross profit	Retail segment revenue less cost of sales.
Rightsizing	A capital investment in a store resulting in a decrease to the store square footage.
Same-store sales	Retail segment sales from the same location for stores in operation in that location in both comparable periods excluding sales from a store that has undergone a major expansion/contraction in the period.
Total equity attributable to common shareholders of the Company	Total equity less preferred shares outstanding and non-controlling interests.
Total equity attributable to shareholders of the Company	Total equity less non-controlling interests.
Total retail square footage	Total retail square footage includes corporate, franchised stores and associate-owned drug stores.
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the period the common shares were outstanding to the total time in that period.

Corporate Profile

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Fax: (905) 861-2206
Website: loblaw.ca

Stock Exchange Listing and Symbol

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

Common Shares

At year-end 2022, Galen G. Weston, directly and indirectly, including through his controlling interest in Weston, owns approximately 52.6% of the Company's common shares.

At year-end 2022, there were 324,062,608 common shares issued and outstanding.

The average daily trading volume of the Company's common shares for 2022 was 527,596.

Preferred Shares
At year-end 2022, there were 9,000,000 second preferred shares, Series B issued and outstanding.

The average daily trading volume of the Company's second preferred shares, Series B for 2022 was 9,528.

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

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

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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.

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

Annual General Meeting

The 2022 Annual Meeting of Shareholders of Loblaw Companies Limited will be held virtually via a live webcast on Thursday, May 4, 2023 at 11:00 a.m. (EDT).

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

Common Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated record and payments dates for 2023 are:

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

Preferred Shares, Series B Dividend Dates
The declaration and payment of quarterly dividends are made subject to approval by the Board of Directors. The anticipated payment dates for 2023 are:

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

Ce rapport est disponible en français.

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Apps

PC Express™

PC Optimum™

PC Health

Shoppers Drug Mart®

PC Financial®

Joe Fresh®

T&T®

Loblaw Companies Limited

Reducing Waste One Sample at a Time

Textile waste is a big – and growing – problem. According to a 2017 report by Copenhagen-based non-profit Global Fashion Agenda, which focused on sustainability in fashion, the global fashion industry creates 92 million tons of textile waste every year, some of that due to textile samples. Because these types of samples are used for product development, they're often made from whatever material is available at the factory. These are not tested for quality or safety, so they aren't suitable for public uses, which is why we can't donate them. In fact, when the life cycle of these samples was over, the only way to dispose of them was to incinerate them – until now, that is. That's because Joe Fresh® has committed to permanently diverting textile samples from landfills thanks to a new Office Sample Recycling Program, which it's undertaking in partnership with CSR Eco Solutions. They have access to textile recyclers that shred fabric and reprocess it into building and automotive insulation. After multiple pilot exercises to determine if this was the best workstream for the business, the Office Sample Recycling Program is live in partnership with CSR Eco Solutions, taking Loblaw one step closer to meeting its ESG goals.

"In 2022, we completed 19 textile recycling projects which equates to over 411 tonnes of CO_2e avoided as a result of this permanent landfill diversion."

MELISSA HOBB
DIRECTOR OF QUALITY ASSURANCE & SUSTAINABILITY
JOE FRESH

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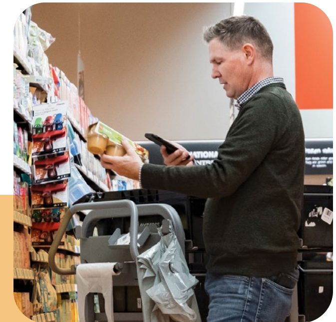

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