

2018 Annual Report

George Weston Limited

Weston

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Footnote Legend

- (1) See Section 18, “Non-GAAP Financial Measures”, of the Company’s 2018 Management’s Discussion and Analysis.
 - (2) For financial definitions and ratios refer to the Glossary beginning on page 174.
 - (3) To be read in conjunction with “Forward-Looking Statements” beginning on page 4.
 - (4) Certain current and comparative figures have been restated to present Continuing Operations at Loblaw as a result of Loblaw’s spin-out of Choice Properties. See note 5 in the Company’s 2018 annual consolidated financial statements.
 - (5) Certain figures have been restated as a result of IFRS 15, “Revenue from Contracts with Customers” and a change in accounting policy. See note 2 in the Company’s 2018 annual consolidated financial statements.
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Financial Highlights⁽²⁾

As at or for the years ended December 31
(\$ millions except where otherwise indicated)

	2018	2017 ⁽⁵⁾
Consolidated Operating Results		
Sales	\$ 48,568	\$ 48,289
Operating income	2,585	2,561
Adjusted EBITDA ⁽ⁱ⁾	4,528	4,337
Depreciation and amortization ⁽ⁱⁱ⁾	1,746	1,685
Net interest expense and other financing charges	948	523
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	762	555
Income taxes	639	449
Adjusted income taxes ⁽ⁱ⁾	680	712
Net earnings	998	1,589
Net earnings attributable to shareholders of the Company ⁽ⁱⁱⁱ⁾	574	766
Net earnings available to common shareholders of the Company	530	722
Adjusted net earnings available to common shareholders of the Company ⁽ⁱ⁾	908	903
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents, short term investments and security deposits	\$ 1,889	\$ 3,233
Cash flows from operating activities	2,719	3,425
Capital investments	1,593	1,474
Free cash flow ⁽ⁱ⁾	134	1,395
Total debt	16,445	13,066
Total equity attributable to shareholders of the Company	8,040	7,934
Total equity	14,204	14,795
Consolidated Per Common Share (\$)		
Diluted net earnings per common share	\$ 3.99	\$ 5.58
Adjusted diluted net earnings per common share ⁽ⁱ⁾	6.85	6.99
Consolidated Financial Measures and Ratios		
Adjusted EBITDA margin ⁽ⁱ⁾ (%)	9.3%	9.0%
Rolling year adjusted return on average equity attributable to common shareholders of the Company ⁽ⁱ⁾ (%)	12.7%	12.9%
Rolling year adjusted return on capital ⁽ⁱ⁾ (%)	12.0%	13.0%
Reportable Operating Segments		
Weston Foods		
Sales	\$ 2,122	\$ 2,243
Operating income	73	91
Adjusted EBITDA ⁽ⁱ⁾	219	256
Adjusted EBITDA margin ⁽ⁱ⁾ (%)	10.3%	11.4%
Depreciation and amortization ⁽ⁱⁱ⁾	130	117
Loblaw⁽⁴⁾		
Sales	\$ 46,693	\$ 46,587
Operating income	1,915	2,041
Adjusted EBITDA ⁽ⁱ⁾	3,520	3,513
Adjusted EBITDA margin ⁽ⁱ⁾ (%)	7.5%	7.5%
Depreciation and amortization ⁽ⁱⁱ⁾	1,497	1,454
Choice Properties		
Revenue	\$ 1,148	\$ 830
Net income	650	405
Funds from operations ⁽ⁱ⁾	604	443

(i) See “Non-GAAP Financial Measures” section of the Company’s 2018 Annual Management’s Discussion and Analysis beginning on page 68.

(ii) Depreciation and amortization includes \$521 million (2017 – \$524 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$9 million (2017 – \$10 million) of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

(iii) Includes net earnings available to common shareholders of the Company and preferred dividends.

Report to Shareholders⁽³⁾

Fellow shareholders,

In 2018, we saw the pace of change continue across our businesses. It brought opportunities to pursue new growth, headwinds to be overcome, and defining moments for our organization. Throughout it all, we took several steps to bring stability and focus to our group, positioning George Weston Limited for the future.

Weston Foods completed the first year of its ambitious transformation plan, leaning into the new organizational structure that was put in place at the end of 2017 and benefiting from many of the cost efficiencies that were surfaced as a result. We stabilized the Frozen business and continued to see momentum in key growth areas such as Artisan and Donuts. This was offset by sales flowing back more slowly than expected following a widespread optimization of our assortment. In response, management took action, pausing additional SKU reductions and postponing the implementation of a new ERP system. By making this difficult decision, we brought focus to restoring our sales growth trajectory and further embedding operational consistency. Early signs suggest we are on the right path and we remain committed to seeing Weston Foods secure its place as North America's premier bakery.

At Loblaw, our strategic framework took hold as our operating divisions delivered stable trading performance despite significant regulatory headwinds. This came as a result of more effective data-driven promotions, greater process and efficiencies, and a passion for the customer across all levels of the organization. At the same time, the business continued to benefit from focused investments in the future. We brought together our loyalty programs, allowing 18 million PC Optimum members to join a loyalty loop that rewards customers personally while encouraging them to return to our stores and services more frequently. PC Financial launched a reimagined digital payments experience that is seeing cardholder engagement outpace our expectations. We continued to cement the technology foundation for our connected healthcare platform following the acquisition of QHR. And, with 670 PC Express locations, as well as 16 urban areas that offer delivery by Instacart, our everyday digital retail offering is now within 10 minutes of 75% of Canadians and 85% of those living in the Greater Toronto Area. Although grocery leads that omnichannel offering, apparel, beauty, and pharmacy have also become meaningful businesses and in 2018 our e-commerce sales surpassed half a billion dollars. The pace at which we're able to bring these new platforms to our customers is the result of more than a decade's investment in our underlying systems and infrastructure. With that firm footing in place, Loblaw is set to lead the market by serving changing consumer needs and continuing to build upon the same bricks and mortar network that Canadians have come to trust and rely upon.

Finally, Choice Properties saw two defining transactions take place in 2018. First, the combination with Canadian Real Estate Investment Trust (CREIT) reinforced its position as Canada's preeminent REIT. With the addition of CREIT's strong portfolio of retail, office, and industrial properties, as well as the depth of their management team's expertise, Choice Properties is now unmatched in the Canadian landscape. The spin out of Loblaw's interest in Choice Properties to George Weston that followed cements real estate as a key pillar of our strategy. George Weston will benefit from Choice Properties' stable cash flow and NOI growth while preserving the strategic relationship with Loblaw and providing a committed long-term owner. Looking ahead, Choice Properties is set to pursue a thoughtful development agenda that will tap into some of the country's most prized real estate, delivering value to our shareholders.

As we turn from 2018 to 2019, we find George Weston in a position of strength. Weston Foods is steadily improving sales and operational execution. Loblaw is well placed to meet the evolving everyday needs of Canadians. And, Choice Properties is now a core part of our organization, comprising a solid third pillar of our strategy that is set to grow over the long term. From here, we see an exciting future for our company as we make further headway in our transformation. As we do so, we wish to thank our employees and shareholders for their support.

[signed]

Galen G. Weston

Chairman and Chief Executive Officer

Toronto, Canada

February 25, 2019

[signed]

Richard Dufresne

President and Chief Financial Officer

Management's Discussion and Analysis

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL" or the "Company") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes on pages 79 to 171 of this Annual Report. The Company's audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"). The audited annual consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except where otherwise noted.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See Section 18, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

On November 1, 2018, the Company and Loblaw Companies Limited ("Loblaw") completed a reorganization under which Loblaw spun out its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties") to the Company (the "reorganization"), as described in Section 5.3 "Consolidated Other Business Matters" and Note 5 "Loblaw's Spin-out of Choice Properties Real Estate Investment Trust" of this Annual Report. In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw shareholders other than the Company and its subsidiaries ("Loblaw minority shareholders"). Following the reorganization, the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by GWL prior to the reorganization) and Choice Properties became a reportable operating segment of the Company.

A glossary of terms and ratios used throughout this Annual Report can be found beginning on page 174.

The information in this MD&A is current to February 25, 2019, unless otherwise noted.

1. FORWARD-LOOKING STATEMENTS

This Annual Report, including this MD&A, for the Company contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and status and impact of information technology ("IT") systems implementation. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in Section 3, "Strategic Framework", Section 7, "Liquidity and Capital Resources", Section 17, "Outlook", and Section 18, "Non-GAAP Financial Measures" of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "maintain", "achieve", "grow", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2019 is based on certain assumptions including assumptions about sales and volume growth, anticipated cost savings, operating efficiencies, anticipated benefits from strategic initiatives and restructuring, healthcare reform impacts, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12, "Enterprise Risks and Risk Management", of this MD&A and the Company's Annual Information Form ("AIF") for the year ended December 31, 2018. Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings, operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to maintain an effective supply chain could adversely affect the assortment and product availability at store level, which may negatively impact customer experience;
- failure to execute Loblaw's e-commerce initiative or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultations;
- adverse outcomes of legal and regulatory proceedings and related matters;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- the inability of the Company to effectively develop and execute its strategy; and
- the inability of the Company to anticipate, identify and react to consumer and retail trends.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including without limitation, the section entitled "Operating and Financial Risks and Risk Management" in the Company's AIF for the year ended December 31, 2018. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Annual Report. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management's Discussion and Analysis

2. OVERVIEW

GWL is a Canadian public company, founded in 1882. The Company operates through its three reportable operating segments, Weston Foods, Loblaw and Choice Properties. The Company also holds cash and short term investments. The Weston Foods operating segment includes a leading North American bakery that offers packaged bread and rolls in Canada as well as frozen and artisan bread and rolls, cakes, donuts, pies, biscuits and alternatives throughout Canada and the U.S.

Loblaw has two reportable operating segments, Retail and Financial Services. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services and wireless mobile products and services. Loblaw is one reportable operating segment of the Company.

Choice Properties owns, manages and develops a high quality portfolio of commercial retail, industrial, office and residential properties across Canada.

3. STRATEGIC FRAMEWORK

The Company employs various operating and financial strategies, driven by each of its reportable operating segments.

Weston Foods is committed to offering superior products and services to its consumers and customers in an increasingly competitive environment.

In 2017, Weston Foods introduced its new strategic framework with a corresponding multi-year transformation program, centered on its ambition of becoming a premier North American bakery, all while delivering solid financial results. Weston Foods aims to redefine bakery for its consumers and customers with superior taste and experiences, enhance its level of service to customers, build on its leading brands and engage in strategic innovation.

Critical to achieving these goals are engaging talent in its workforce, investing in a competitive integrated supply chain, executing with excellence, and implementing new systems to support agile ways of working. A transformation program is in place to support these critical elements, with the aim of realizing \$100 million of adjusted EBITDA⁽¹⁾ improvement.

This strategic framework and the transformation program will be pursued while respecting our core values and working towards our greater purpose of elevating everyday moments.

Loblaw's strategic framework is anchored by a powerful purpose: Live Life Well. Loblaw is committed to delivering industry leading financial results through data-driven insights and process and efficiency excellence - a model that fuels truly customer-centric investments in Everyday Digital Retail, Payments and Rewards, and a future Connected Healthcare Network.

Loblaw strives to be the "best in food, health and beauty." The approach to offering "best in food" is driven by fresh food selection, a desire to offer sustainable and competitive pricing, customized assortments across banners, and several of the country's top control brands. Achieving "best in health and beauty" requires putting pharmacy customers first, providing high quality health and wellness products and services, and delivering a diverse and differentiated beauty offering.

All of these objectives require Loblaw's customers to have the convenience to shop, when, where and how they want - which is the fundamental strength of Loblaw's omni-channel strategy.

Choice Properties' strategy is to grow and manage its portfolio and cash flow by leveraging its sizable base of assets, its relationship with Loblaw and its solid capital structure. Choice Properties is focused on driving growth through the acquisition of assets that meet or exceed its investment criteria, the development and redevelopment of properties to their highest and best use, and the active management of properties to maximize their occupancy and operating income.

Weston Foods, Loblaw and Choice Properties each have their own risk profiles and operating risk management strategies. The success of these and other plans and strategies discussed in this MD&A may be affected by risks and uncertainties, including those described in Section 12, “Enterprise Risks and Risk Management” of this MD&A and in the Company’s AIF for the year ended December 31, 2018.

4. KEY FINANCIAL PERFORMANCE INDICATORS

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

(\$ millions except where otherwise indicated)

As at or for the years ended December 31

	2018	2017 ⁽⁵⁾
Sales	\$ 48,568	\$ 48,289
Operating income	\$ 2,585	\$ 2,561
Adjusted EBITDA ⁽¹⁾	\$ 4,528	\$ 4,337
Adjusted EBITDA margin ⁽¹⁾	9.3%	9.0%
Net earnings attributable to shareholders of the Company	\$ 574	\$ 766
Net earnings available to common shareholders of the Company	\$ 530	\$ 722
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 908	\$ 903
Diluted net earnings per common share (\$)	\$ 3.99	\$ 5.58
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 6.85	\$ 6.99
Cash and cash equivalents, short term investments and security deposits	\$ 1,889	\$ 3,233
Cash flows from operating activities	\$ 2,719	\$ 3,425
Free cash flow ⁽¹⁾	\$ 134	\$ 1,395
Total debt	\$ 16,445	\$ 13,066
Rolling year adjusted return on average equity attributable to common shareholders of the Company ⁽¹⁾	12.7%	12.9%
Rolling year adjusted return on capital ⁽¹⁾	12.0%	13.0%

Management's Discussion and Analysis

5. OVERALL FINANCIAL PERFORMANCE

5.1 CONSOLIDATED RESULTS OF OPERATIONS

(\$ millions except where otherwise indicated)

For the years ended December 31	2018	2017 ⁽⁵⁾	\$ Change	% Change
Sales	\$ 48,568	\$ 48,289	\$ 279	0.6 %
Operating income	\$ 2,585	\$ 2,561	\$ 24	0.9 %
Adjusted EBITDA ⁽¹⁾	\$ 4,528	\$ 4,337	\$ 191	4.4 %
Adjusted EBITDA margin ⁽¹⁾	9.3%	9.0%		
Depreciation and amortization⁽ⁱ⁾	\$ 1,746	\$ 1,685	\$ 61	3.6 %
Net interest expense and other financing charges	\$ 948	\$ 523	\$ 425	81.3 %
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 762	\$ 555	\$ 207	37.3 %
Income taxes	\$ 639	\$ 449	\$ 190	42.3 %
Adjusted income taxes ⁽¹⁾	\$ 680	\$ 712	\$ (32)	(4.5)%
Adjusted income tax rate ⁽¹⁾	26.7%	27.1%		
Net earnings attributable to shareholders of the Company	\$ 574	\$ 766	\$ (192)	(25.1)%
Net earnings available to common shareholders of the Company	\$ 530	\$ 722	\$ (192)	(26.6)%
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 908	\$ 903	\$ 5	0.6 %
Diluted net earnings per common share (\$)	\$ 3.99	\$ 5.58	\$ (1.59)	(28.5)%
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 6.85	\$ 6.99	\$ (0.14)	(2.0)%

(i) Depreciation and amortization includes \$521 million (2017 – \$524 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$9 million (2017 – \$10 million) of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

On November 1, 2018, the Company and Loblaw completed a reorganization under which Loblaw spun out its approximate 61.6% effective interest in Choice Properties to the Company. In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw minority shareholders. The issuance of the common shares had a dilutive impact on both diluted net earnings per common share and adjusted diluted earnings per common share⁽¹⁾ in 2018.

Following the reorganization, the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by GWL prior to the reorganization) and Choice Properties became a reportable operating segment of the Company. See Section 5.3 “Consolidated Other Business Matters” of this MD&A for further details of the reorganization.

In the second quarter of 2018, Choice Properties completed the acquisition of Canadian Real Estate Investment Trust (“CREIT”) as set out in Section 6.3 “Choice Properties Operating Results”. In 2018, the acquisition resulted in increases in revenue of \$274 million, adjusted EBITDA⁽¹⁾ of approximately \$192 million, adjusted net interest expense and other financing charges⁽¹⁾ of \$187 million and adjusted net earnings available to common shareholders of the Company⁽¹⁾ of \$4 million.

Net Earnings Available to Common Shareholders of the Company

Net earnings available to common shareholders of the Company in 2018 were \$530 million, a decrease of \$192 million compared to the same period in 2017. The decrease in 2018 was due to the unfavourable year-over-year net impact of adjusting items totaling \$197 million partially offset by an improvement in the underlying operating performance of \$5 million, as described below.

- The unfavourable year-over-year net impact of adjusting items totaling \$197 million was primarily due to:
 - the prior year gain on disposition of Loblaw's gas bar operations of \$207 million; and
 - the charge related to Glenhuron Bank Limited ("Glenhuron") at Loblaw of \$184 million;partially offset by,
 - the prior year impact of Loblaw's charges related to the *PC Optimum* Program of \$67 million;
 - the year-over-year favourable impact of restructuring and other charges of \$67 million; and
 - the fair value adjustment to the Trust Unit Liability of \$55 million.
- The improvement in underlying operating performance of \$5 million was mainly due to the following:
 - the favourable underlying operating performance of Choice Properties, including the impact of the acquisition of CREIT; and
 - the positive contribution from the increase in the Company's ownership interest in Loblaw, as a result of Loblaw's share repurchases;partially offset by,
 - an increase in adjusted net interest expenses and other financing charges⁽¹⁾, including the impact of the acquisition of CREIT, as described below;
 - an increase in depreciation and amortization, as described below;
 - the unfavourable underlying operating performance of Weston Foods; and
 - the unfavourable underlying operating performance of Loblaw's Retail segment, which as previously announced, included the negative year-over-year impact of minimum wage increases, incremental healthcare reform, and the 2017 disposition of Loblaw's gas bar operations.

Adjusted net earnings available to common shareholders of the Company⁽¹⁾ in 2018 were \$908 million, an increase of \$5 million, or 0.6%, compared to the same period in 2017 mainly due to the improvement in underlying operating performance, as described above. Normalized for the disposition of Loblaw's gas bar operations, adjusted net earnings available to common shareholders of the Company⁽¹⁾ increased by approximately \$18 million or 2.0%.

Diluted net earnings per common share in 2018 were \$3.99 per common share, a decrease of \$1.59 per common share compared to the same period in 2017. The decrease was mainly due to:

- the unfavourable year-over-year impact of adjusting items totaling \$1.45 per common share, primarily due to the following:
 - the prior year gain on disposition of Loblaw's gas bar operations of \$1.61 per common share; and
 - the charge related to Glenhuron at Loblaw of \$1.39 per common share;partially offset by,
 - the year-over-year favourable impact of restructuring and other charges of \$0.54 per common share;
 - the prior year impact of Loblaw's charges related to the *PC Optimum* Program of \$0.52 per common share; and
 - the fair value adjustment to the Trust Unit Liability of \$0.41 per common share; and
- a decline of \$0.14 per common share, including the net earnings improvement in the underlying operating performance described above, which was more than offset by the dilutive impact of the Company's issuance of approximately 26.6 million common shares in connection with the reorganization.

Management's Discussion and Analysis

Adjusted diluted net earnings per common share⁽¹⁾ in 2018 were \$6.85 per common share, a decline of \$0.14 per common share, or 2.0%, compared to the same period in 2017. Normalized for the dilutive impact of the Company's issuance of approximately 26.6 million common shares, adjusted diluted net earnings per common share⁽¹⁾ increased by approximately \$0.09 per common share, or 1.3%, which included the positive contribution from the increase in the Company's ownership interest in Loblaw of approximately \$0.28 per common share.

Sales

(\$ millions except where otherwise indicated)

For the years ended December 31

	2018	2017 ⁽⁴⁾⁽⁵⁾	\$ Change	% Change
Weston Foods	\$ 2,122	\$ 2,243	\$ (121)	(5.4)%
Loblaw	\$ 46,693	\$ 46,587	\$ 106	0.2 %
Choice Properties	\$ 1,148	\$ 830	\$ 318	38.3 %
Other and Intersegment	\$ (1,395)	\$ (1,371)		
Consolidated	\$ 48,568	\$ 48,289	\$ 279	0.6 %

The Company's 2018 consolidated sales were \$48,568 million, an increase of \$279 million compared to the same period in 2017. The increase in sales in 2018 was impacted by each of its reportable operating segments as follows:

- Negatively by 0.3% due to sales decline of 5.4% at Weston Foods. Foreign currency translation negatively impacted sales by approximately 0.2%. Excluding the impact of foreign currency translation, sales decreased by 5.2%, primarily due to a decrease in volume, including the impact of product rationalization and the loss of sales to key customers, and the negative impact of changes in sales mix.
- Positively by 0.2% due to sales growth of 0.2% at Loblaw. The improvement was primarily due to an increase in Loblaw's Financial Services segment, driven by higher year-over-year sales attributable to *The Mobile Shop* as well as higher interest and interchange income, partially offset by a decrease in Loblaw's Retail segment sales. Excluding the consolidation of franchises, Loblaw's Retail segment sales decreased by \$369 million, or 0.8%. The decrease was primarily due to the impact of the 2017 disposition of Loblaw's gas bar operations of \$843 million, partially offset by positive same-store sales growth. Food retail same-store sales growth was 1.1%, after excluding gas bar operations. Loblaw's food retail average annual internal food price index was modestly lower than the average annual national food price inflation of 0.8% as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores. Drug retail same-store sales growth of 2.4%.
- Positively by 0.7% due to revenue growth of 38.3% at Choice Properties. The improvement was mainly due to the acquisition of CREIT of \$280 million, an increase in base rent and operating cost recoveries from existing properties, and additional revenue generated from other properties acquired in 2017 and 2018 and from tenant openings in newly developed leasable space.

Operating Income

(\$ millions except where otherwise indicated)

For the years ended December 31	2018	2017 ⁽⁴⁾⁽⁵⁾	\$ Change	% Change
Weston Foods	\$ 73	\$ 91	\$ (18)	(19.8)%
Loblaw	\$ 1,915	\$ 2,041	\$ (126)	(6.2)%
Choice Properties	\$ 593	\$ 756	\$ (163)	(21.6)%
Other and Intersegment	\$ 4	\$ (327)		
Consolidated	\$ 2,585	\$ 2,561	\$ 24	0.9 %

The Company's 2018 operating income was \$2,585 million, an increase of \$24 million compared to the same period in 2017. The increase in operating income in 2018 included the improvement in underlying operating performance of \$126 million, partially offset by the unfavourable year-over-year net impact of adjusting items totaling \$102 million, as described below:

- the improvement in underlying operating performance of \$126 million was primarily due to:
 - the underlying operating performance of Choice Properties, driven by the acquisition of CREIT; partially offset by,
 - the unfavourable underlying operating performance of Weston Foods, including an increase in depreciation and amortization; and
 - the unfavourable underlying operating performance of Loblaw's Retail segment, including an increase in depreciation and amortization at Loblaw, partially offset by the improvement in underlying operating performance of Loblaw's Financial Services segment. As previously announced, Loblaw's results included the negative year-over-year impact of minimum wage increases, incremental healthcare reform, and the 2017 disposition of Loblaw's gas bar operations.
- the unfavourable year-over-year net impact of adjusting items totaling \$102 million was primarily due to:
 - the prior year gain on disposition of Loblaw's gas bar operations of \$501 million; and
 - the unfavourable impact of acquisition and other costs related to Choice Properties' acquisition of CREIT of \$141 million;
 partially offset by,
 - the impact of prior year charges at Loblaw related to the *PC Optimum* Program of \$187 million;
 - the year-over-year favourable impact of restructuring and other charges of \$180 million;
 - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$103 million; and
 - the year-over-year favourable impact of fixed asset and other related impairments, net of recoveries of \$50 million.

Adjusted EBITDA⁽¹⁾

(\$ millions except where otherwise indicated)

For the years ended December 31	2018	2017 ⁽⁴⁾⁽⁵⁾	\$ Change	% Change
Weston Foods	\$ 219	\$ 256	\$ (37)	(14.5)%
Loblaw	\$ 3,520	\$ 3,513	\$ 7	0.2 %
Choice Properties	\$ 824	\$ 597	\$ 227	38.0 %
Other and Intersegment	\$ (35)	\$ (29)		
Consolidated	\$ 4,528	\$ 4,337	\$ 191	4.4 %

Management's Discussion and Analysis

The Company's 2018 adjusted EBITDA⁽¹⁾ was \$4,528 million, an increase of \$191 million compared to the same period in 2017. The increase in adjusted EBITDA⁽¹⁾ in 2018 was impacted by each of its reportable operating segments as follows:

- Negatively by 0.9% due to a decrease of 14.5% in adjusted EBITDA⁽¹⁾ at Weston Foods driven by higher input and distribution costs and the decline in sales, partially offset by productivity improvements and net benefits realized from the transformation program.
- Positively by 0.2% due to an increase of 0.2% in adjusted EBITDA⁽¹⁾ at Loblaw, primarily due to improvements in Loblaw's Financial Services segment and Loblaw's Retail segment. The Retail segment included the favourable contribution from the consolidation of franchises and an increase in Retail gross profit, partially offset by an increase in Retail selling, general & administrative expenses ("SG&A") and the unfavourable impact of the disposition of gas bar operations.
- Positively by 5.2% due to an increase of 38.0% in adjusted EBITDA⁽¹⁾ at Choice Properties primarily driven by the acquisition of CREIT. The increase also included an increase in net operating income from existing properties and additional net operating income generated from other property acquisitions, and tenant openings in newly developed leasable space.

Depreciation and Amortization

(\$ millions except where otherwise indicated)

For the years ended December 31

	2018	2017 ⁽⁴⁾	\$ Change	% Change
Weston Foods	\$ 130	\$ 117	\$ 13	11.1%
Loblaw	\$ 1,497	\$ 1,454	\$ 43	3.0%
Choice Properties	\$ 1	\$ 1	—	—%
Other and Intersegment	\$ 118	\$ 113		
Consolidated	\$ 1,746	\$ 1,685	\$ 61	3.6%

Depreciation and amortization in 2018 was \$1,746 million, an increase of \$61 million compared to the same period in 2017, and included \$521 million (2017 – \$524 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") recorded by Loblaw and \$9 million (2017 – \$10 million) of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges. Excluding these amounts, depreciation and amortization increased by \$65 million primarily due to:

- an increase in depreciation from the consolidation of Loblaw franchises;
- higher depreciation due to an increase in Loblaw's IT assets;
- higher depreciation due to investments in capital at Weston Foods; and
- an increase in depreciation on Choice Properties' investment properties classified as fixed assets by the Company and measured at cost.

Net Interest Expense and Other Financing Charges

(\$ millions)

For the years ended December 31	2018	2017 ⁽⁴⁾	\$ Change	% Change
Net interest expense and other financing charges	\$ 948	\$ 523	\$ 425	81.3%
Add: Loblaw's charge related to Glenhuron Bank Limited	(176)	—	(176)	
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(50)	25	(75)	
Fair value adjustment of the Trust Unit liability	41	7	34	
Loblaw's Spin-out of Choice Properties	(1)	—	(1)	
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 762	\$ 555	\$ 207	37.3%

Net interest expense and other financing charges in 2018 were \$948 million, an increase of \$425 million compared to the same period in 2017. The increase in net interest expense and other financing charges in 2018 was primarily due to the year-over-year impact of an increase in adjusting items totaling \$218 million, itemized in the table above, and an increase in adjusted net interest expense and other financing charges⁽¹⁾ of \$207 million driven by:

- higher interest expense in Choice Properties segment as a result of the issuance of new senior unsecured debentures, debt assumed on the acquisition of CREIT, higher distributions from newly issued Trust Units to former CREIT unitholders as part of the acquisition consideration, partially offset by the repayment of Series A senior unsecured debentures and interest income on the joint ventures assumed on the acquisition of CREIT; and
- higher interest expense in Loblaw's Financial Services segment, primarily due to an increase in interest rates on borrowings related to credit card receivables and a net increase in Guaranteed Investment Certificates ("GICs").

Management's Discussion and Analysis

Income Taxes

(\$ millions except where otherwise indicated)

For the years ended December 31	2018	2017 ⁽⁴⁾⁽⁵⁾	\$ Change	% Change
Income taxes	\$ 639	\$ 449	\$ 190	42.3 %
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽¹⁾⁽ⁱ⁾	170	225	(55)	
Loblaw's charge related to Glenhuron Bank Limited	(191)	—	(191)	
Remeasurement of deferred tax balances	62	19	43	
Statutory corporate income tax rate change	—	19	(19)	
Adjusted income taxes ⁽¹⁾	\$ 680	\$ 712	\$ (32)	(4.5)%
Effective income tax rate applicable to earnings before taxes	39.0%	22.0%		
Adjusted income tax rate applicable to adjusted earnings before taxes ⁽¹⁾	26.7%	27.1%		

(i) See the adjusted EBITDA table and the adjusted net interest expense and other financing charges table included in Section 18, "Non-GAAP Financial Measures", of this MD&A for a complete list of items excluded from adjusted earnings before taxes⁽¹⁾.

The effective tax rate in 2018 was 39.0%, compared to 22.0% in the same period in 2017. The increase was primarily attributable to a charge of \$191 million and the impact of the non-deductible interest related to Glenhuron, as described in "Section 5.3 Consolidated Other Business Matters", and the impact of the non-taxable portion of the gain on the disposition of Loblaw's gas bar operations in 2017; partially offset by a deferred tax recovery resulting from the remeasurement of certain deferred tax balances.

The adjusted income tax rate⁽¹⁾ in 2018 was 26.7%, compared to 27.1% in the same period in 2017. The decrease was primarily attributable to income attributed to the non-controlling interest in Choice Properties which increased as a result of the acquisition of CREIT.

In the fourth quarter of 2018, the Company recorded a deferred tax recovery of \$62 million resulting primarily from the change in the manner by which the Company expects to recover certain assets.

In the fourth quarter of 2017, the Company recorded a deferred tax recovery of \$19 million resulting from a change in the applicable provincial income tax rate used to measure certain deferred tax balances caused by a change in the location of certain business activities.

In the fourth quarter of 2017, the U.S. government enacted a 14.0% decrease in the U.S. federal statutory corporate income tax rate from 35.0% to 21.0%. As a result, Weston Foods recorded a recovery of \$19 million in 2017 related to the remeasurement of its deferred tax liabilities.

5.2 SELECTED ANNUAL 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, 2018 and 2017. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the results of operations and financial condition of the Company over the latest three year period.

For the years ended December 31 (\$ millions except where otherwise indicated)	2018 (52 weeks)	2017 ⁽⁵⁾ (52 weeks)	2016 (52 weeks)
Sales	\$ 48,568	\$ 48,289	\$ 47,999
Operating income	\$ 2,585	\$ 2,561	\$ 2,255
Adjusted EBITDA ⁽¹⁾	\$ 4,528	\$ 4,337	\$ 4,140
Adjusted EBITDA margin ⁽¹⁾	9.3%	9.0%	8.6%
Depreciation and amortization ⁽ⁱ⁾	\$ 1,746	\$ 1,685	\$ 1,654
Net interest expense and other financing charges	\$ 948	\$ 523	\$ 700
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 762	\$ 555	\$ 568
Income taxes	\$ 639	\$ 449	\$ 465
Adjusted income taxes ⁽¹⁾	\$ 680	\$ 712	\$ 678
Adjusted income tax rate ⁽¹⁾	26.7%	27.1%	27.5%
Net earnings	\$ 998	\$ 1,589	\$ 1,090
Net earnings attributable to shareholders of the Company	\$ 574	\$ 766	\$ 550
Net earnings available to common shareholders of the Company	\$ 530	\$ 722	\$ 506
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 908	\$ 903	\$ 838
Net earnings per common share (\$) - diluted	\$ 3.99	\$ 5.58	\$ 3.90
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 6.85	\$ 6.99	\$ 6.49
Dividends declared per share type (\$):			
Common shares	\$ 1.950	\$ 1.805	\$ 1.745
Preferred shares – Series I	\$ 1.45	\$ 1.45	\$ 1.45
Preferred shares – Series III	\$ 1.30	\$ 1.30	\$ 1.30
Preferred shares – Series IV	\$ 1.30	\$ 1.30	\$ 1.30
Preferred shares – Series V	\$ 1.1875	\$ 1.1875	\$ 1.1875

(i) Depreciation and amortization includes \$521 million (2017 – \$524 million; 2016 – \$535 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$9 million (2017 – \$10 million; 2016 – \$14 million) of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

Sales The Company's reportable operating segments had the following sales trends over the last three years:

- Weston Foods sales were negatively impacted by volume declines in 2018 but positively impacted by volume growth in 2017 and 2016. Foreign currency translation had an unfavourable impact on sales in 2018 and 2017 but a positive impact on sales in 2016.
- Loblaw's Retail segment has driven the growth in Loblaw sales over the last three years. Loblaw's Retail segment sales have continued to grow despite the pressure of an intensely competitive retail market and an uncertain economic and regulatory environment over the last three years. In 2016, the food price inflation trend reversed, with inflation declining each quarter and becoming deflationary in the fourth quarter. This trend continued until the third quarter of 2017, when deflation in food prices returned to inflation. Through 2018, Loblaw experienced food prices inflation while drug retail was negatively impacted by incremental healthcare reform. Loblaw's Retail segment sales over the past three years were also impacted by the consolidation of franchisees and the disposition of gas bar operations in the third quarter of 2017.

Management's Discussion and Analysis

- Choice Properties has continued to grow mainly through the addition of new properties as a result of the CREIT acquisition, an increase in base rents and recovery of property operating costs from existing properties.

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 three years were impacted by certain adjusting items as described in Section 18, "Non-GAAP Financial Measures", of this MD&A and by the underlying operating performance of each of the Company's reportable operating segments.

Over the last three years, the Company's underlying operating performance was impacted by the following:

- changes in underlying operating performance of the Loblaw's Retail segment, including positive same-store sales growth in both Food retail and Drug retail in 2018, 2017 and 2016; cost savings and operating efficiencies from process and efficiency initiatives and benefits from strategic initiatives; and improvements in the performance of Loblaw's Financial Services segment including the continued investments in strategic initiatives. Impacts also included, the negative year-over-year impact from the 2017 disposition of Loblaw gas bar operations; and the negative impact from minimum wage increases and incremental healthcare reform. The changes in underlying operating performance included increases in depreciation and amortization in 2018 and 2017, and a decrease in depreciation and amortization in 2016;
- a decline in underlying operating performance at Weston Foods in 2018, driven by higher input and distribution costs, and the decline in sales, partially offset by productivity improvements and net benefits realized from the transformation program. A decline in underlying operating performance at Weston Foods in 2017, including the impact of investments in the business, higher input and distribution costs and operational issues. A decline in underlying operating performance at Weston Foods in 2016, including the impact of incremental investments in the business, higher input costs, and new plant costs. The changes in underlying operating performance included increases in depreciation and amortization in 2018, 2017 and 2016;
- higher adjusted net interest expense and other financing charges⁽¹⁾ in 2018 at Loblaw as a result of an increase in interest rates on borrowings related to credit card receivables and a net increase in GICs, and at Choice Properties due to the issuance of new debt and the debt acquired related to the acquisition of CREIT. A decrease in adjusted net interest expense and other financing costs⁽¹⁾ in 2017 and 2016 was due to repayment of MTNs at Loblaw and GWL; and
- an increase in GWL's ownership interest in Loblaw in 2018, 2017 and 2016 as a result of share repurchases. GWL's ownership of Loblaw was approximately 50.4% as at the end of 2018 (2017 – approximately 48.6% and 2016 - approximately 47.0%).

Over the last three years, the adjusting items included:

- amortization of intangible assets acquired with Shoppers Drug Mart;
- the charge related to Glenhuron Bank Limited;
- CREIT acquisition and other related costs;
- costs related to the spin-out of Choice Properties;
- impact of healthcare reform on inventory balances;
- the gain on the sale of air rights;
- the change in the fair value adjustment of the Trust Unit liability;
- the remeasurement of deferred tax balances;
- the change in the fair value adjustment of the forward sale agreement for 9.6 million Loblaw shares;
- year-over-year change in restructuring and other charges;
- the change in the fair value adjustment of investment properties;
- year-over-year foreign currency translation;
- the change in the fair value adjustment of derivatives;
- the gain on disposition of Loblaw's gas bar operations;
- the wind-down of *PC Financial* banking services;
- asset impairments, net of recoveries;
- the Loblaw Card Program;
- the *PC Optimum* Program, including the revaluation of existing points liability and the impairment of certain IT assets;
- year-over-year change in pension annuities and buy-outs; and
- year-over-year change in inventory loss, net of recoveries.

Total Assets and Long Term Financial Liabilities

(\$ millions)	Dec. 31, 2018	As at	
		Dec. 31, 2017 ⁽⁴⁾	Dec. 31, 2016
Total assets	\$ 43,814	\$ 38,540	\$ 37,946
Total long term debt	\$ 15,318	\$ 12,092	\$ 11,785
Trust Unit liability	2,658	634	635
Total long term financial liabilities	\$ 17,976	\$ 12,726	\$ 12,420

In 2018, total assets of \$43,814 million increased by 13.7% as compared to 2017. The increase in total assets was primarily driven by an increase in investment properties as a result of the CREIT acquisition. Total long term financial liabilities increased by 41.3% compared to 2017 driven by long term debt assumed on the CREIT acquisition and net drawings on Choice Properties' credit facilities and the increase in the value of the Trust Unit liability.

In 2017, total assets of \$38,540 million increased by 1.6% as compared to 2016. The increase in total assets was primarily driven by an increase in cash and cash equivalents and short term investments as a result of the sale of Loblaw's gas bar operation. Total long term financial liabilities increased by 2.5% compared to 2016 driven by the drawings on Choice Properties credit facilities and the *Eagle* debt issuance, partially offset by the repayment of Choice Properties Series 6 senior unsecured debentures.

The Trust Unit liability is recognized at fair value on the consolidated balance sheets and fluctuates due to issuances and changes in the fair value of Choice Properties' Trust Units. As at December 31, 2018, 231,346,144 Units were held by unitholders other than the Company (2017 – 47,444,450, 2016 – 47,071,606) and the Company held an approximate 65.4% (2017 – 88.5%, 2016 – 88.5%) effective ownership interest in Choice Properties.

Management's Discussion and Analysis

5.3 CONSOLIDATED OTHER BUSINESS MATTERS

Loblaw's Spin-out of Choice Properties Real Estate Investment Trust On November 1, 2018, the Company and Loblaw completed a reorganization under which Loblaw distributed its approximate 61.6% effective interest in Choice Properties to the Company on a tax-free basis to Loblaw and its Canadian shareholders. In connection with the reorganization, Loblaw minority shareholders received 0.135 of a common share of the Company for each common share of Loblaw held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the reorganization, and the Company received Loblaw's approximate 61.6% effective interest in Choice Properties. Following the reorganization, Loblaw no longer had an interest in Choice Properties and the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by the Company prior to the completion of the reorganization).

As a result of the reorganization, Loblaw ceased to consolidate its equity interest in Choice Properties and Choice Properties became a separate reportable operating segment of the Company. The Loblaw segment results include transactions between Loblaw and Choice Properties in the current and comparative period, including, but not limited to, rent payments made by Loblaw to Choice Properties. Following the reorganization, the Loblaw segment results also include impairment and depreciation of certain assets associated with the retail locations that are leased from Choice Properties. These transactions are eliminated and the impairment and depreciation is reversed, as applicable, in Other and Intersegment Eliminations as they are consolidated by the Company.

In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw minority shareholders. The Company continues to be controlled by Mr. W. Galen Weston who, directly and indirectly through entities which he controls, owns approximately 53.1% of the outstanding common shares of the Company.

The Company consolidated Loblaw and Choice Properties into its financial statements before and after the reorganization, and as a result adjusted net earnings⁽¹⁾ remain relatively unchanged. The issuance of approximately 26.6 million common shares in connection with the reorganization has a dilutive impact on both the Company's diluted net earnings per common share and adjusted diluted net earnings per common share⁽¹⁾.

The Company recorded \$10 million and \$20 million in transaction costs and other related costs in the fourth quarter and year-to-date 2018, respectively.

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

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

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

6. RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2018 results of operations of each of the Company's reportable operating segments.

6.1 WESTON FOODS OPERATING RESULTS

(\$ millions except where otherwise indicated)

For the years ended December 31	2018	2017	\$ Change	% Change
Sales	\$ 2,122	\$ 2,243	\$ (121)	(5.4)%
Operating income	\$ 73	\$ 91	\$ (18)	(19.8)%
Adjusted EBITDA ⁽¹⁾	\$ 219	\$ 256	\$ (37)	(14.5)%
Adjusted EBITDA margin ⁽¹⁾	10.3%	11.4%		
Depreciation and amortization ⁽ⁱ⁾	\$ 130	\$ 117	\$ 13	11.1 %

(i) Depreciation and amortization includes \$9 million (2017 – \$10 million) of accelerated depreciation and amortization related to restructuring and other charges.

Sales Weston Foods sales in 2018 were \$2,122 million, a decrease of \$121 million, or 5.4%, compared to the same period in 2017. Sales included the unfavourable impact of foreign currency translation of approximately 0.2%. Excluding the impact of foreign currency translation, sales decreased by 5.2%, primarily due to a decrease in volume, including the impact of product rationalization and the loss of sales to key customers, and the negative impact of changes in sales mix.

Operating income Weston Foods operating income in 2018 was \$73 million, a decrease of \$18 million compared to the same period in 2017. The decrease was primarily due to the decline in underlying operating performance of \$51 million, partially offset by the favourable year-over-year net impact of adjusting items totaling \$33 million as described below:

- the favourable year-over-year impact of the fair value adjustment of derivatives of \$26 million; and
 - the favourable year-over-year impact of restructuring and other charges of \$10 million;
- partially offset by,
- the unfavourable year-over-year impact of inventory losses, net of recoveries, of \$5 million.

Adjusted EBITDA⁽¹⁾ Weston Foods adjusted EBITDA⁽¹⁾ in 2018 was \$219 million, a decrease of \$37 million compared to the same period in 2017. Excluding the impact of a net gain related to the sale leaseback of properties for \$24 million, the decrease was driven by higher input and distribution costs and the decline in sales, partially offset by productivity improvements and net benefits realized from the transformation program.

Weston Foods adjusted EBITDA margin⁽¹⁾ was 10.3% compared to 11.4% in the same period in 2017. The decline in adjusted EBITDA margin⁽¹⁾ was mainly due to factors impacting adjusted EBITDA⁽¹⁾, as described above.

Depreciation and Amortization Weston Foods depreciation and amortization in 2018 was \$130 million, an increase of \$13 million compared to the same period in 2017. Depreciation and amortization included \$9 million (2017 – \$10 million) of accelerated depreciation and amortization. These charges primarily related to the reorganization costs from the transformation program which included an announced closure of unprofitable facilities in Canada and the U.S. Excluding these amounts, depreciation and amortization increased \$14 million in 2018 due to investments in capital.

Weston Foods Other Business Matters

Restructuring and other charges Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. In the fourth quarter of 2018 and year-to-date, Weston Foods recorded restructuring and other charges of \$9 million (2017 – \$33 million) and \$38 million (2017 – \$48 million), respectively, which were primarily related to the reorganization costs from the transformation program, which year-to-date included the previously announced closures of an unprofitable facility in Canada in the third quarter of 2018, and in the U.S. that was completed in the first quarter of 2018. Restructuring and other related costs recorded in the fourth quarter of 2018 and year-to-date included \$8 million and \$27 million, respectively, of severance and exit costs, and a nominal amount in the fourth quarter of 2018 and \$9 million year-to-date, of accelerated depreciation and amortization.

Management's Discussion and Analysis

6.2 LOBLAW OPERATING RESULTS⁽⁴⁾

(\$ millions except where otherwise indicated)

For the years ended December 31	2018	2017 ⁽⁵⁾	\$ Change	% Change
Sales	\$ 46,693	\$ 46,587	\$ 106	0.2 %
Operating income	\$ 1,915	\$ 2,041	\$ (126)	(6.2)%
Adjusted EBITDA ⁽¹⁾	\$ 3,520	\$ 3,513	\$ 7	0.2 %
Adjusted EBITDA margin ⁽¹⁾	7.5%	7.5%		
Depreciation and amortization ⁽ⁱ⁾	\$ 1,497	\$ 1,454	\$ 43	3.0 %

(i) Depreciation and amortization includes \$521 million (2017 – \$524 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

Immediately following Loblaw's spin-out of Choice Properties, Loblaw no longer retained its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements. As a result, Loblaw's current and comparative financial results are restated to present Continuing Operations of Loblaw. For further details, see Section 5.3 "Consolidated Other Business Matters" of this MD&A.

As previously announced, Loblaw's year-over-year financial performance was negatively impacted by minimum wage increases and incremental healthcare reform. In addition, the disposition of Loblaw's gas bar operations, in the third quarter of 2017, had a negative year-over-year impact on financial performance.

Sales Loblaw sales in 2018 were \$46,693 million, an increase of \$106 million compared to the same period in 2017, primarily driven by Financial Services partially offset by a decrease in Retail sales. Financial Services increased by \$129 million or 13.5% driven by higher year-over-year sales attributable to *The Mobile Shop* as well as higher interest and interchange income. Retail sales in 2018 decreased by \$31 million, or 0.1%, compared to the same period in 2017 and included food retail sales of \$32,969 million (2017 – \$33,288 million) and drug retail sales of \$12,867 million (2017 – \$12,579 million).

Excluding the consolidation of franchises, Retail sales in 2018 decreased by \$369 million, or 0.8%, primarily driven by the following factors:

- the impact of the disposition of gas bar operations of \$843 million; partially offset by,
- food retail same-store sales growth of 1.1%, after excluding gas bar operations. Including gas bar operations, food retail same-store sales growth was 1.1%. Loblaw's food retail average annual internal food price index was modestly lower than the average annual national food price inflation of 0.8% as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- drug retail same-store sales growth of 2.4%, including pharmacy same-store sales growth of 1.2% and front store same-store sales growth of 3.5%. Pharmacy same-store sales growth included the impact of incremental healthcare reform.

In 2018, 17 food and drug stores were opened and 22 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.1 million square feet, or 0.1%.

The redemption of Loblaw Cards resulted in the delivery of approximately \$74 million of free products to customers in 2018, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or Loblaw's financial performance and Loblaw's management does not believe it had a significant impact on food retail same-store sales.

Operating income Loblaw operating income in 2018 was \$1,915 million, a decrease of \$126 million compared to the same period in 2017. The decrease was primarily driven by the decline in underlying operating performance of \$39 million and the unfavourable year-over-year net impact of adjusting items totaling \$87 million, as described below:

- the decline in underlying operating performance of \$39 million was primarily driven by Retail, partially offset by Financial Services. Retail included the favourable contribution from the consolidation of franchises, and the unfavourable impact of the disposition of gas bar operations; and
- the unfavourable year-over-year net impact of adjusting items totaling \$87 million was primarily due to:
 - the prior year gain on the disposition of gas bar operations of \$501 million; and
 - the unfavourable year-over-year impact of asset impairments, net of recoveries, of \$30 million; partially offset by,
 - the prior year charges related to the *PC Optimum* Program of \$187 million;
 - the favourable year-over-year impact of restructuring and other charges of \$167 million; and
 - the favourable year-over-year impact of prior year charges related to the Loblaw Card Program of \$103 million.

Adjusted EBITDA⁽¹⁾ Loblaw adjusted EBITDA⁽¹⁾ in 2018 was \$3,520 million, an increase of \$7 million compared to the same period in 2017. The increase was driven by improvements in both Financial Services and Retail. The improvement in Financial Services was mainly driven by growth in the credit card portfolio. Retail adjusted EBITDA⁽¹⁾ increased \$3 million and included the favourable contribution from the consolidation of franchises of \$26 million as well as the unfavourable impact of the disposition of gas bar operations of approximately \$45 million. The increase in Retail adjusted EBITDA⁽¹⁾ was driven by an increase in Retail gross profit, partially offset by an increase in Retail SG&A.

- Retail gross profit percentage was 29.4%, an increase of 90 basis points compared to the same period in 2017. Excluding the consolidation of franchises, Retail gross profit percentage was 27.7%, an increase of 40 basis points compared to 2017, primarily driven by the favourable impact of the disposition of gas bar operations of approximately 40 basis points. Margins were negatively impacted by healthcare reform and positively impacted by food retail.
- Retail SG&A as a percentage of sales was 22.1%, an increase of 90 basis points compared to the same period in 2017. Excluding the consolidation of franchises, Retail SG&A increased \$91 million. Retail SG&A as a percentage of sales, excluding the consolidation of franchises, was 20.4%, an increase of 30 basis points compared to the same period in 2017, driven by the following factors:
 - the unfavourable impact from the 2017 disposition of gas bar operations of approximately 30 basis points;
 - higher store costs driven by minimum wage increase; and
 - the unfavourable year-over-year impact of foreign exchange; partially offset by,
 - lower store support costs driven by cost savings initiatives.

Loblaw adjusted EBITDA⁽¹⁾ in 2018 also included a net gain of \$6 million (2017 – \$7 million) related to the sale leaseback of properties.

Depreciation and Amortization Loblaw depreciation and amortization in 2018 was \$1,497 million, an increase of \$43 million compared to the same period in 2017. The increase in depreciation and amortization was primarily driven by the consolidation of franchises, an increase in IT assets and the change in the estimated useful life of certain building components as a result of the spin-out of Choice Properties. Included in depreciation and amortization is the amortization of intangible assets acquired with Shoppers Drug Mart of \$521 million (2017 – \$524 million).

Management's Discussion and Analysis

Loblaw Other Business Matters

Process and Efficiency Loblaw continues to execute on a multi-year plan, initiated in 2018, focused on improving processes and generating efficiencies across its administrative, store, and distribution network infrastructures. Many initiatives are underway to reduce the complexity and cost of business operations, ensuring a low cost operating structure that allows for continued investments in Loblaw's strategic growth areas. Loblaw's management anticipates investing capital as well as recording restructuring and other charges related to these initiatives in 2019 and beyond.

Consolidation of Franchises Loblaw has more than 500 franchise food retail stores in its network. As at year end 2018, 400 of these stores were consolidated for accounting purposes under a new, simplified franchise agreement ("Franchise Agreement") implemented in 2015.

Loblaw will convert the remaining franchises to the Franchise Agreement as existing agreements expire, at the end of which all franchises will be consolidated for accounting purposes. The following table presents the number of franchises consolidated in the fourth quarter of 2018 and year-to-date, and the total impact of the consolidation of franchises included in the consolidated results of the Company.

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Number of Consolidated Franchise stores, beginning of period	379	273	310	200
Add: Net Number of Consolidated Franchise stores in the period	21	37	90	110
Number of Consolidated Franchise stores, end of period	400	310	400	310
Sales	\$ 264	\$ 186	\$ 1,048	\$ 710
Operating income	20	16	33	23
Adjusted EBITDA ⁽¹⁾	35	27	92	66
Depreciation and amortization	15	11	59	43
Net earnings attributable to non-controlling interests	19	14	34	24

Operating income included in the table above does not significantly impact net earnings available to common shareholders of the Company as the related income is largely attributable to non-controlling interests.

Loblaw expects⁽³⁾ that the estimated annual impact in 2019 of new and current consolidated franchises will be revenue of approximately \$1,300 million, adjusted EBITDA⁽¹⁾ of approximately \$130 million, depreciation and amortization of approximately \$80 million and net earnings attributable to non-controlling interests of approximately \$40 million.

Wind-down of PC Financial banking services In the third quarter of 2017, President's Choice Bank ("PC Bank") entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

PC Bank continues to operate the *PC MasterCard*[®] Program and customers will earn *PC Optimum* points. PC Bank remains committed to providing payment products to its customers and continues to strengthen its credit card services and loyalty programs.

6.3 CHOICE PROPERTIES OPERATING RESULTS

(\$ millions except where otherwise indicated)

For the years ended December 31	2018	2017	\$ Change	% Change
Revenue	\$ 1,148	\$ 830	\$ 318	38.3%
Net interest (income) expense and other financing charges ⁽ⁱ⁾	\$ (57)	\$ 351	\$ 408	116.2%
Net income	\$ 650	\$ 405	\$ 245	60.5%
Funds from operations ⁽¹⁾⁽ⁱⁱ⁾	\$ 604	\$ 443	\$ 161	36.3%

(i) Net interest expense and other financing charges includes a fair value adjustment on Class B Limited Partnership units.

(ii) Funds from operations is calculated for management purposes and includes the accelerated amortization of debt premium of \$37 million.

Choice Properties' current and comparative financial results are presented as a reportable operating segment of the Company on a full year basis.

Revenue Revenue was \$1,148 million in 2018, an increase of \$318 million compared to 2017 and included \$742 million (2017 – \$718 million) generated from tenants within Loblaw's Retail segment. The increase in revenue was primarily driven by:

- additional revenue generated from the investment properties included in the acquisition of CREIT of \$280 million;
- an increase in base rent and operating cost recoveries from existing properties;
- additional revenue generated from other properties acquired in 2017 and 2018; and
- additional revenue generated from tenant openings in newly developed leasable space.

Net Interest (Income) Expense and Other Financing Charges Net interest expense and other financing charges in 2018 resulted in income of \$57 million, compared to net interest expense of \$351 million in 2017. The change of \$408 million was primarily driven by:

- a favourable change in the fair value adjustment on Class B LP units of \$555 million; partially offset by,
- higher interest expense resulting from the issuance of new debt related to the acquisition of CREIT; including senior unsecured debentures, term loans and draws on the syndicated credit facility and interest expense on the debt assumed on the acquisition of CREIT;
- an accelerated amortization of the debt premium on the Class C LP units, related to the conversion to Class B Exchangeable units exercised by the Company concurrent with the acquisition of CREIT; and
- higher distributions on Class B Exchangeable Units.

Net income Net income was \$650 million in 2018, an increase of \$245 million compared to 2017, primarily driven by:

- an increase in net operating income from investment properties acquired as part of the acquisition of CREIT;
- an increase in net operating income from existing properties;
- additional net operating income generated from other property acquisitions and tenant openings in newly developed leasable space; and
- the favourable change in net interest expense and other financing charges, described above; partially offset by,
- an unfavourable change in the fair value adjustment to investment properties; and
- acquisition and other costs related to the acquisition of CREIT of \$141 million.

Funds from Operations⁽¹⁾ Funds from Operations⁽¹⁾ were \$604 million in 2018, an increase of \$161 million compared to 2017 primarily driven by additional property operating income attributable to the acquired portfolio, partially offset by higher interest expense due to the acquisition of CREIT.

Management's Discussion and Analysis

Choice Properties' Other Matters

Acquisition of Investment Properties During 2018, Choice Properties acquired eight investment properties for an aggregate purchase price of \$112 million, excluding acquisition costs. Of the eight investment properties acquired during 2018, three investment properties were acquired from third-party vendors, for an aggregate purchase price of \$34 million, excluding acquisition costs, which was settled by an assumption of a \$3 million mortgage, with the remainder in cash. During 2018, Choice Properties acquired five investment properties from Weston Foods and Loblaw, of which one property was acquired from Weston Foods and four properties from Loblaw. This included one property from Weston Foods and three properties from Loblaw during the fourth quarter of 2018, for an aggregate purchase price of \$78 million, excluding acquisition costs, fully settled in cash.

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

In connection with the acquisition, Choice Properties arranged a new \$1,500 million committed revolving credit facility. Concurrent with the closing of the acquisition, Choice Properties repaid and cancelled its existing credit facilities and those acquired from CREIT.

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

The cash portion of the acquisition and other transactions in relation to CREIT was financed as follows:

- \$1,300 million of proceeds from the issuance of senior unsecured debentures Series K and L; and
- \$800 million was obtained through two unsecured term loan facilities, of which \$175 million is due in four years and \$625 million is due in five years.

The purchase equation is based on management's best estimate of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. Choice Properties has one year from the acquisition date to finalize the fair value of the assets acquired and the liabilities assumed and does not expect significant changes from the amounts presented below:

(\$ millions)	As at May 4, 2018
Net Assets Acquired:	
Cash and cash equivalents	\$ 32
Accounts receivable and other assets	50
Mortgages, loans and notes receivable	196
Equity accounted joint ventures	683
Investment properties	4,730
Intangible assets	30
Goodwill	367
Trade payables and other liabilities	(172)
Long term debt	(1,841)
Deferred income tax liabilities	(367)
Total Net Assets Acquired	\$ 3,708

The goodwill is generated on consolidation of Choice Properties and is attributable to deferred income tax recorded on temporary differences arising between the fair value of the investment properties acquired and their respective income tax bases for the Company's effective ownership interest in Choice Properties. The goodwill arising from this acquisition is not deductible for tax purposes. Management has allocated this goodwill to Loblaw segment for impairment testing.

As at December 31, 2018, on a year-to-date basis, Choice Properties incurred costs totaling \$141 million related to the acquisition of CREIT, which were recorded in SG&A.

The following table provides impact of the acquisition of CREIT on the Choice Properties segment in the fourth quarter and year-to-date of 2018:

(unaudited) (\$ millions unless where otherwise indicated) For the periods ended as indicated	Quarter Ended Dec. 31, 2018	Year Ended Dec. 31, 2018
Revenue	\$ 106	\$ 280
Net income	60	165

On a year-to-date pro forma basis, the impact of the CREIT acquisition on Choice Properties revenue and net income in 2018 would have amounted to approximately \$420 million and \$250 million, respectively, excluding the impact of acquisition transaction costs and other related expenses and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the purchase equation as if the acquisition had been effective January 1, 2018.

The following table provides the impacts of the acquisition of CREIT on the consolidated results of the Company in the fourth quarter and year-to-date of 2018:

(unaudited) (\$ millions unless where otherwise indicated) For the periods ended as indicated	Quarter Ended Dec. 31, 2018	Year Ended Dec. 31, 2018 ⁽ⁱ⁾
Revenue	\$ 103	\$ 274
Adjusted EBITDA ⁽¹⁾	71	192
Adjusted net interest expense and other financing charges ⁽¹⁾	68	187
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	2	4
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	0.01	0.03

- (i) Year-to-date adjusted net interest and other financing charges⁽¹⁾ includes \$2 million recorded in the first quarter of 2018. Year-to-date adjusted net earnings available to common shareholders of the Company⁽¹⁾ includes a nominal loss recorded in the first half of 2018.

Management's Discussion and Analysis

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 CASH FLOWS

(\$ millions)

For the years ended December 31	2018	2017	Change
Cash and cash equivalents, beginning of period	\$ 2,034	\$ 1,560	\$ 474
Cash flows from operating activities	\$ 2,719	\$ 3,425	\$ (706)
Cash flows used in investing activities	\$ (2,256)	\$ (1,075)	\$ (1,181)
Cash flows used in financing activities	\$ (987)	\$ (1,865)	\$ 878
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ 11	\$ (11)	\$ 22
Cash and cash equivalents, end of period	\$ 1,521	\$ 2,034	\$ (513)

Cash Flows from Operating Activities The year-over-year decrease in cash inflows in 2018 was \$706 million, primarily driven by an unfavourable change in non-cash working capital, a reduction in provision balances, partially offset by higher cash earnings and lower income taxes paid.

Cash Flows used in Investing Activities The year-over-year increase in cash outflows in 2018 was \$1,181 million, primarily driven by Choice Properties acquisition of CREIT and Loblaw's proceeds from disposition of gas bar operations received in 2017; partially offset by a decrease in short term investments.

The following table summarizes the Company's capital investments by each of its reportable operating segments:

(\$ millions)

For the years ended December 31	2018	2017
Weston Foods	\$ 212	\$ 215
Loblaw	1,070	979
Choice Properties	311	280
Total capital investments	\$ 1,593	\$ 1,474

Cash Flows used in Financing Activities The year-over-year decrease in cash outflows in 2018 was \$878 million, primarily driven by higher net issuances of long term debt related to Choice Properties acquisition of CREIT and an increase in Loblaw's short term debt, partially offset by an increase in interest paid, mainly driven by interest related to Glenhuron.

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

Free Cash Flow⁽¹⁾

(\$ millions)

For the years ended December 31	2018	2017	Change
Cash flows from operating activities	\$ 2,719	\$ 3,425	\$ (706)
Less: Interest paid	992	556	436
Fixed asset and investment properties purchases	1,250	1,177	73
Intangible asset additions	343	297	46
Free cash flow ⁽¹⁾	\$ 134	\$ 1,395	\$ (1,261)

The year-over-year decrease in free cash flow⁽¹⁾ in 2018 was \$1,261 million, primarily due to lower cash flows from operating activities and an increase in interest paid, as described above.

7.2 LIQUIDITY

The Company (excluding Loblaw and Choice Properties) expects that cash and cash equivalents, short term investments and future operating cash flows will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding requirements and financial obligations, over the next 12 months. The Company (excluding Loblaw and Choice Properties) does not foresee any impediments in obtaining financing to satisfy its long term obligations.

Loblaw 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 it 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. Financial Services expects to obtain long term financing for the growth of its credit card portfolio through the issuance of *Eagle* notes and Guaranteed Investment Certificates (“GICs”). Choice Properties expects to obtain long term financing for the acquisition of properties primarily through the issuance of unsecured debentures and equity.

For details on the Company’s cash flows, see Section 7.1 “Cash Flows” of this MD&A.

Total Debt The following table presents total debt, as monitored by management:

(\$ millions)	As at				Dec. 31, 2017			
	Dec. 31, 2018		Dec. 31, 2017		Dec. 31, 2017		Dec. 31, 2017	
	Weston Foods	Loblaw	Choice Properties	Total	Weston Foods	Loblaw	Choice Properties	Total
Bank indebtedness	\$ —	\$ 56	\$ —	\$ 56	\$ —	\$ 110	\$ —	\$ 110
Short term debt	664	915	—	1,579	618	640	—	1,258
Long term debt due within one year	—	847	496	1,343	—	985	650	1,635
Long term debt	915	6,379	6,681	13,975	915	6,781	2,761	10,457
Certain other liabilities	—	48	—	48	—	41	—	41
Fair value of financial derivatives related to the above debt	(556)	—	—	(556)	(435)	—	—	(435)
Total debt	\$ 1,023	\$ 8,245	\$ 7,177	\$ 16,445	\$ 1,098	\$ 8,557	\$ 3,411	\$ 13,066

Management targets credit metrics consistent with those of an investment grade profile. The Company (excluding Loblaw and Choice Properties) holds cash and cash equivalents and short term investments and as a result monitors its leverage on a net debt basis. The Company (excluding Loblaw and Choice Properties) has total debt of \$1,023 million (2017 – \$1,098 million) and cash and cash equivalents and short term investments of \$612 million (2017 – \$803 million), resulting in a \$411 million net debt position (2017 – \$295 million net debt position).

Loblaw’s management is focused on managing its capital structure on a segmented basis to ensure that each of its operating segments is employing a capital structure that is appropriate for the industry in which it operates.

- Loblaw targets maintaining Retail segment credit metrics consistent with those of investment grade retailers. Loblaw monitors the Retail segment’s debt to retail adjusted EBITDA⁽¹⁾ ratio as a measure of the leverage being employed. The Retail segment debt to adjusted EBITDA⁽¹⁾ ratio increased compared to 2017 primarily as a result of an increase in Retail segment debt.
- PC Bank 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”).

Choice Properties targets maintaining credit metrics consistent with those of investment grade Real Estate Investment Trusts (“REIT”). Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio.

Management's Discussion and Analysis

Covenants and Regulatory Requirements The Company, Loblaw and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at year end 2018 and throughout the year, the Company, Loblaw and Choice Properties were in compliance with their respective covenants. As at year end 2018 and throughout the year, PC Bank and Choice Properties met all applicable regulatory requirements.

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

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

In 2018, Choice Properties filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$2 billion of Units and debt securities, or any combination thereof, over a 25-month period. Under this Prospectus, Choice Properties issued \$650 million of senior unsecured debentures.

In 2018, GWL filed a Base Shelf Prospectus allowing for the issuance of up to \$1 billion of senior and subordinated debt securities, and preferred shares, or any combination thereof over a 25-month period.

7.3 COMPONENTS OF TOTAL DEBT

Debentures The following table summarizes the debentures issued or assumed in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2018	2017
			Principal Amount	Principal Amount
Loblaw Term Loans				
– Loblaw Companies Limited Notes ⁽ⁱ⁾	3.92%	June 10, 2024	\$ 400	\$ —
– Loblaw Companies Limited Notes ⁽ⁱ⁾	4.49%	December 11, 2028	400	—
Choice Properties senior unsecured debentures				
– Series I ⁽ⁱⁱ⁾	3.01%	March 21, 2022	300	—
– Series J ⁽ⁱⁱ⁾	3.55%	January 10, 2025	350	—
– Series K ⁽ⁱⁱⁱ⁾	3.56%	September 9, 2024	550	—
– Series L ⁽ⁱⁱⁱ⁾	4.18%	March 8, 2028	750	—
– Series A-C ^(iv)	3.68%	July 24, 2018	125	—
– Series B-C ^(iv)	4.32%	January 15, 2021	100	—
– Series C-C ^(iv)	2.56%	November 30, 2019	100	—
– Series D-C ^(iv)	2.95%	January 18, 2023	125	—
Total debentures issued			\$ 3,200	\$ —

(i) On December 10, 2018, Loblaw issued debentures of \$400 million bearing interest at rates of 3.92% and 4.49%, maturing June 10, 2024 and December 11, 2028, respectively.

(ii) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus filed in the first quarter of 2018.

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

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

The following table summarizes the debentures, unsecured term loan facilities and term loans repaid in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2018	2017
			Principal Amount	Principal Amount
Shoppers Drug Mart Corporation Notes	2.36%	May 24, 2018	\$ 275	\$ —
Loblaw Companies Limited - Term Loan ⁽ⁱ⁾	Variable	March 28, 2019	48	—
Loblaw Companies Limited - Term Loan ⁽ⁱⁱ⁾	Variable	March 29, 2019	250	—
Loblaw Companies Limited - Term Loan ⁽ⁱⁱⁱ⁾	3.75%	March 12, 2019	800	—
Choice Properties senior unsecured debentures				
– Series A-C	3.68%	July 24, 2018	125	—
– Series A	3.55%	July 5, 2018 ^(iv)	400	—
– Series 6	3.00%	April 20, 2017 ^(v)	—	200
Total MTNs and debentures repaid			\$ 1,898	\$ 200

- (i) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.
- (ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.
- (iii) Redeemed on December 31, 2018.
- (iv) Redeemed on February 12, 2018.
- (v) Redeemed on January 23, 2017.

Unsecured Term Loan Facilities In the second quarter of 2018, Choice Properties obtained \$800 million through two unsecured term loan facilities, one \$175 million 4-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2022 and one \$625 million 5-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2023. The term loans bear interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing of these term loans is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at "BBB".

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

Committed Credit Facilities The components of the committed lines of credit available as at year end 2018 and 2017 were as follows:

(\$ millions)	Maturity Date	As at		Dec. 31, 2017	
		Dec. 31, 2018		Available Credit	Drawn
		Available Credit	Drawn		
Loblaw committed credit facility	June 10, 2021	\$ 1,000	\$ —	\$ 1,000	\$ —
Choice Properties committed bi-lateral credit facility	December 21, 2018	—	—	250	250
Choice Properties committed syndicated credit facility	July 5, 2022	—	—	500	311
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	325	—	—
Total committed credit facilities		\$ 2,500	\$ 325	\$ 1,750	\$ 561

Management's Discussion and Analysis

In the first half of 2018, Choice Properties repaid and cancelled the \$250 million committed bi-lateral credit facility and the \$500 million committed syndicated credit facility.

In the second quarter of 2018, Choice Properties entered into a new syndicated \$1.5 billion senior unsecured committed revolving credit facility maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or bankers' acceptance rate plus 1.45%. The pricing of this credit facility is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at "BBB".

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

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

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i>	\$ 750	\$ 900
Securitized to Other Independent Securitization Trusts	915	640
Total securitized to independent securitization trusts	\$ 1,665	\$ 1,540

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

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. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was \$89 million (2017 – \$62 million), which represented approximately 10% (2017 – 10%) of the securitized credit card receivables amount.

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 year end 2018 and throughout 2018.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at year end 2018 were \$110 million (2017 – \$160 million).

Independent Funding Trusts As at year end 2018, the independent funding trusts had drawn \$536 million (2017 – \$551 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at year end 2018, Loblaw has agreed to provide a credit enhancement of \$64 million (2017 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2017 – 10%) of the principal amount of the loans outstanding.

Guaranteed Investment Certificates The following table summarizes PC Bank's GIC activity, before commissions, for the years ended as follows:

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

As at year end 2018, \$274 million in GICs were recorded as long term debt due within one year (2017 – \$193 million).

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

7.4 FINANCIAL CONDITION

	As at	
	Dec. 31, 2018	Dec. 31, 2017
Adjusted return on average equity attributable to common shareholders of the Company ⁽¹⁾	12.7%	12.9%
Adjusted return on capital ⁽¹⁾	12.0%	13.0%

Adjusted return on average equity attributable to common shareholders of the Company⁽¹⁾ decreased for the year end 2018 compared to year end 2017, due to the decline in Loblaw's underlying operating performance and the increase in equity as a result of issuance of common shares related to Loblaw's spin out of Choice Properties. Adjusted return on capital⁽¹⁾ decreased for the year end 2018 compared to year end 2017 due to the factors described above, including an increase in total debt and a decrease in cash and cash equivalents and short term investments.

7.5 CREDIT RATINGS

In 2018, subsequent to the announcement of the reorganization, Standard & Poor's and Dominion Bond Rating Service reaffirmed credit ratings and outlook for GWL, Loblaw and Choice Properties.

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

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

Management's Discussion and Analysis

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

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

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

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

7.6 SHARE CAPITAL

Outstanding Share Capital and Capital Securities GWL's outstanding share capital is comprised of common shares and preferred shares. The following table details the authorized and outstanding common shares and preferred shares as at December 31, 2018:

(number of common shares)	Authorized	Outstanding
Common shares	Unlimited	153,370,108
Preferred shares – Series I	10,000,000	9,400,000
– Series II	10,600,000	
– Series III	10,000,000	8,000,000
– Series IV	8,000,000	8,000,000
– Series V	8,000,000	8,000,000

Common Share Capital Common shares issued are fully paid and have no par value. The following table summarizes the activity in the Company's common shares issued and outstanding for the years ended December 31, 2018 and December 31, 2017:

(\$ millions except where otherwise indicated)	2018		2017	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	127,905,581	\$ 221	127,898,582	\$ 195
Issued for Loblaw's Spin-out of Choice Properties	26,596,641	2,547	—	—
Issued for settlement of stock options	145,076	12	293,976	26
Purchased and cancelled	(1,277,190)	(14)	(286,977)	—
Issued and outstanding, end of year	153,370,108	\$ 2,766	127,905,581	\$ 221
Shares held in trusts, beginning of year	(228,803)	—	(266,999)	—
Purchased for future settlement of RSUs and PSUs	—	—	(70,198)	—
Released for settlement of RSUs and PSUs	108,498	—	108,394	—
Shares held in trusts, end of year	(120,305)	—	(228,803)	—
Issued and outstanding, net of shares held in trusts, end of year	153,249,803	\$ 2,766	127,676,778	\$ 221
Weighted average outstanding, net of shares held in trusts	131,844,880		127,692,789	

As at year end 2018, a total of 1,548,044 GWL stock options were outstanding. The number of stock options outstanding was within the Company's guidelines as GWL may grant options for up to 6,453,726 of its common shares. Each stock option is exercisable into one common share of GWL at the price specified in the terms of the option agreement.

Preferred Share Capital GWL may, at its option, redeem for cash, in whole or in part, the preferred shares Series I, Series III, Series IV and Series V outstanding on or after the redemption dates specified by the terms of each series of preferred shares. GWL may at any time after issuance give the holders of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Company's Board of Directors ("Board") which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, 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 2017, the Board raised the quarterly common share dividend by \$0.015 to \$0.455 per share. During 2018, the Board raised the quarterly common share dividend by \$0.035 to \$0.49 in the second quarter and by \$0.025 to \$0.515 in the fourth quarter. The Board declared dividends as follows:

(\$)	2018	2017
Dividends declared per share ⁽ⁱ⁾ :		
Common share	\$ 1.950	\$ 1.805
Preferred share:		
Series I	\$ 1.45	\$ 1.45
Series III	\$ 1.30	\$ 1.30
Series IV	\$ 1.30	\$ 1.30
Series V	\$ 1.1875	\$ 1.1875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were payable on January 1, 2019 and subsequently paid on January 2, 2019. Dividend declared on Preferred Shares, Series I were payable on December 15, 2018 and subsequently paid on December 17, 2018.

The following table summarizes the Company's cash dividends declared subsequent to year end 2018:

(\$)	
Dividends declared per share ⁽ⁱ⁾	
– Common share	\$ 0.515
– Preferred share:	
Series I	\$ 0.3625
Series III	\$ 0.3250
Series IV	\$ 0.3250
Series V	\$ 0.296875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V are payable on April 1, 2019. Dividends declared on Preferred Shares, Series I are payable on March 15, 2019.

At the time such dividends are declared, GWL identifies on its website (www.weston.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency.

Management's Discussion and Analysis

Normal Course Issuer Bid ("NCIB") Program The following table summarizes the Company's activity under its NCIB program:

(\$ millions except where otherwise indicated)	2018	2017
Purchased for future settlement of RSUs and PSUs (number of shares)	—	70,198
Purchased and cancelled (number of shares)	1,277,190	286,977
Cash consideration paid		
Purchased and held in trusts	\$ —	\$ (7)
Purchased and cancelled	\$ (123)	\$ (31)
Premium charged to retained earnings	\$ 109	\$ 38
Reduction in share capital	\$ 14	\$ —

In the second quarter of 2018, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 6,398,134 of its common shares, representing approximately 5% of the common shares outstanding. 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.

In the third quarter of 2018, GWL was granted an exemption from TSX in connection with GWL's NCIB, which commenced in the second quarter of 2018, subject to certain conditions. Pursuant to the exemption, GWL was permitted to purchase up to 1.9 million common shares during the five trading days immediately following the announcement of the reorganization, up to a daily maximum limit of 25% of the actual aggregate trading volume of its common shares across all Canadian published markets on each such day.

In the third quarter of 2018, the Company entered into and completed an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its current NCIB, contingent on the closing of the reorganization. Under the Company's ASPP, the Company's broker purchased common shares at times when the Company ordinarily would not be active in the market.

In the fourth quarter of 2018, GWL was granted an exemption from the TSX in connection with its NCIB. During the two week period following the closing of the reorganization, GWL was permitted to purchase up to 1.36 million common shares, up to a daily maximum limit of 25% of the actual aggregate trading volume of its common shares across all Canadian published markets on each such day.

As of December 31, 2018, the Company purchased 1,275,562 common shares under its current NCIB program, of which 713,700 common shares were purchased under the exemption.

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 performance guarantees, securitization of PC Bank's credit card receivables and third-party financing made available to Loblaw's franchisees. As at year end 2018, the aggregate gross potential liability related to the Company's letters of credit was approximately \$649 million (2017 – \$844 million).

Guarantees In addition to the letters of credit mentioned above, the Company has entered into various guarantee arrangements including obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. Additionally, Loblaw 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 year end 2018, the guarantee on behalf of PC Bank to MasterCard® was U.S. dollars \$190 million (2017 – U.S. dollars \$190 million).

CPH Master LP guarantees certain debt assumed by purchasers in connection with past dispositions of properties made by CREIT before the acquisition. These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risks arise in the event that the purchasers default on repayment of their debt. These credit risks are mitigated by the recourse which the Trust has under these guarantees, in which case the Trust would have a claim against the underlying property. The estimated amount of debt as at year end 2018 subject to such guarantees, and therefore the maximum exposure to credit risk, was \$38 million with an estimated weighted average remaining term of 4.5 years.

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

Cash Collateralization As at year end 2018, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$45 million (2017 – \$45 million) and \$103 million (2017 – \$102 million), respectively. As at year end 2018, GWL and Loblaw had \$45 million (2017 – \$45 million) and \$2 million (2017 – \$3 million) deposited with major financial institutions, respectively, and classified as security deposits on the consolidated balance sheets.

7.8 CONTRACTUAL OBLIGATIONS

The following table summarizes certain of the Company's significant contractual obligations and other obligations as at year end 2018:

Summary of Contractual Obligations

(\$ millions)	Payments due by year						Total
	2019	2020	2021	2022	2023	Thereafter	
Total debt ⁽ⁱ⁾	\$ 4,382	\$ 2,372	\$ 1,438	\$ 1,745	\$ 3,200	\$ 9,719	\$ 22,856
Foreign exchange forward contracts	446	—	—	—	—	—	446
Operating leases ⁽ⁱⁱ⁾	708	666	602	523	447	1,880	4,826
Contracts for purchases of real property and capital investment projects ⁽ⁱⁱⁱ⁾	218	84	8	—	—	—	310
Purchase obligations ^(iv)	363	257	260	77	1	12	970
Total contractual obligations	\$ 6,117	\$ 3,379	\$ 2,308	\$ 2,345	\$ 3,648	\$ 11,611	\$ 29,408

- (i) Includes short term debt, bank indebtedness, Loblaw's certain other liabilities, and the fair value of the equity forward included in other assets. Total debt also includes fixed interest payments on long term debt which are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for consolidated structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as at year end 2018.
- (ii) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.
- (iii) Includes agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.
- (iv) Includes contractual obligations of a material amount to purchase goods or services 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. The purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods that are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with insignificant cost or liability to the Company. Also excluded are purchase obligations related to commodities or commodity-like goods for which a market for resale exists.

As at year end 2018, the Company had additional long term liabilities which included post-employment and other long term employee benefit plan liabilities, deferred vendor allowances, deferred income tax liabilities, Trust Unit liability, and provisions, including insurance liabilities. These long term liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

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8. QUARTERLY RESULTS OF OPERATIONS

8.1 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2018 and December 31, 2017 contained 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. When a fiscal year contains 53 weeks, the fourth quarter is 13 weeks in duration.

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

Selected Quarterly Information (Unaudited)

(\$ millions except where otherwise indicated)	2018					2017 ⁽⁵⁾				
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited)
Sales	\$ 10,744	\$ 11,245	\$ 14,862	\$ 11,717	\$ 48,568	\$10,803	\$11,436	\$14,648	\$ 11,402	\$48,289
Operating income	\$ 502	\$ 589	\$ 804	\$ 690	\$ 2,585	\$ 513	\$ 640	\$ 1,244	\$ 164	\$ 2,561
Adjusted EBITDA ⁽¹⁾	\$ 918	\$ 1,073	\$ 1,391	\$ 1,146	\$ 4,528	\$ 927	\$ 1,038	\$ 1,307	\$ 1,065	\$ 4,337
Depreciation and amortization ⁽ⁱ⁾	\$ 400	\$ 400	\$ 530	\$ 416	\$ 1,746	\$ 384	\$ 385	\$ 509	\$ 407	\$ 1,685
Net earnings	\$ 378	\$ 78	\$ 130	\$ 412	\$ 998	\$ 242	\$ 365	\$ 904	\$ 78	\$ 1,589
Net earnings attributable to shareholders of the Company	\$ 190	\$ 38	\$ 65	\$ 281	\$ 574	\$ 118	\$ 170	\$ 434	\$ 44	\$ 766
Net earnings available to common shareholders of the Company	\$ 180	\$ 28	\$ 51	\$ 271	\$ 530	\$ 108	\$ 160	\$ 420	\$ 34	\$ 722
Net earnings per common share (\$) - basic	\$ 1.41	\$ 0.22	\$ 0.40	\$ 1.86	\$ 4.02	\$ 0.85	\$ 1.25	\$ 3.29	\$ 0.27	\$ 5.65
Net earnings per common share (\$) - diluted	\$ 1.40	\$ 0.21	\$ 0.40	\$ 1.86	\$ 3.99	\$ 0.84	\$ 1.23	\$ 3.25	\$ 0.27	\$ 5.58
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 1.38	\$ 1.63	\$ 2.25	\$ 1.59	\$ 6.85	\$ 1.43	\$ 1.67	\$ 2.14	\$ 1.76	\$ 6.99
Weston Foods' sales (decline) growth	(4.1)%	(8.1)%	(5.7)%	(3.8)%	(5.4)%	(4.1)%	2.6 %	(0.7)%	(1.9)%	(1.1)%
Weston Foods' sales (decline) growth excluding impact of foreign currency translation	(1.5)%	(5.7)%	(7.3)%	(5.9)%	(5.2)%	(1.6)%	0.2 %	1.0 %	0.9 %	0.2 %
Average quarterly national food price (deflation) inflation (as measured by CPI)	1.2 %	0.1 %	0.3 %	1.7 %	0.8 %	(3.9)%	(1.4)%	0.3 %	1.0 %	(1.0)%
Loblaws' Food retail same-store sales (decline) growth	1.9 %	0.8 %	0.9 %	0.8 %	1.1 %	(1.2)%	1.2 %	1.4 %	0.5 %	0.6 %
Loblaws' Drug retail same-store sales growth	3.7 %	1.7 %	2.5 %	1.9 %	2.4 %	0.9 %	3.7 %	3.3 %	3.6 %	3.0 %
Choice Properties' Funds From Operations per unit - diluted	\$ 0.255	\$ 0.272	\$ 0.253	\$ 0.256	\$ 1.033	\$ 0.264	\$ 0.262	\$ 0.263	\$ 0.282	\$ 1.072
Choice Properties' Net Operating income for same properties, excluding development activities	\$ 145	\$ 149	\$ 146	\$ 148	\$ 587	\$ 142	\$ 142	\$ 144	\$ 146	\$ 573

- (i) Depreciation and amortization includes amortization of intangible assets acquired with Shoppers Drug Mart recorded by Loblaws and accelerated depreciation recorded by Weston Foods, related to restructuring and other charges.

Impact of Trends and Seasonality on Quarterly Results Consolidated quarterly results for the last eight quarters were impacted by the following significant items: foreign currency exchange rates, seasonality and the timing of holidays. The impact of Weston Foods seasonality is greatest in the third and fourth quarters and least in the first quarter. The impact of Loblaw seasonality is greatest in the fourth quarter and least in the first quarter.

Sales Over the last eight quarters, consolidated sales have been impacted by each of the Company's reportable operating segments as follows:

- Weston Foods sales were impacted by changes in volume, the impact of pricing, and changes in sales mix; starting in the second quarter of 2018, sales were impacted by product rationalization, and starting in the third quarter of 2018 the loss of sales from key customers, when compared to the same periods in 2017.
- At Loblaw, due to macro-economic conditions impacting food and drug retail prices; the changes in the price of fuel sold at Loblaw's gas bars; the disposition of Loblaw's gas bar operations in the third quarter of 2017; and the consolidation of franchises. Over the past eight quarters, Loblaw's net retail square footage increased by 0.2 million square feet to 70.4 million square feet.
- Choice Properties revenue was impacted by the acquisition of CREIT in the second quarter of 2018.

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 underlying operating performance of each of the Company's reportable operating segments and certain adjusting items.

The Company's underlying operating performance for the last eight quarters included the following:

- Weston Foods unfavourable year-over-year quarterly underlying operating performance during 2018 reflected the decline in sales and higher input and distribution costs, partially offset by productivity improvements and net benefits realized from the transformation program;
- Loblaw year-over-year quarterly underlying operating performance during 2018 reflected the changes in underlying operating performance of Loblaw's Retail segment, the negative impact of the disposition of Loblaw's gas bar operations in the third quarter of 2017, minimum wage increases and incremental healthcare reform, cost savings and operating efficiencies from process and efficiency initiatives and benefits from strategic initiatives;
- Choice Properties favourable year-over-year quarterly underlying operating performance during 2018 was impacted by the acquisition of CREIT in the second quarter of 2018;
- year-over-year quarterly adjusted net interest and other financing charges⁽¹⁾ increases during 2018 due to the issuance of new debt and the debt acquired related to the acquisition of CREIT; and
- year-over-year quarterly adjusted income tax rate⁽¹⁾ decreased in the first, second and third quarter of 2018 and increased in the fourth quarter of 2018.

The adjusting items impacting consolidated quarterly net earnings available to common shareholders of the Company and diluted net earnings per common share for the last eight quarters are described in Section 5.2, "Selected Annual Information", and Section 18, "Non-GAAP Financial Measures", of this MD&A.

Management's Discussion and Analysis

8.2 FOURTH QUARTER RESULTS (UNAUDITED)

The following is a summary of selected unaudited consolidated financial information for the fourth quarter. The analysis of the data contained in the table focuses on the results of operations and changes in the financial condition and cash flows in the fourth quarter.

Selected Consolidated Information

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾	\$ Change	% Change
Sales	\$ 11,717	\$ 11,402	\$ 315	2.8 %
Operating income	\$ 690	\$ 164	\$ 526	320.7 %
Adjusted EBITDA ⁽¹⁾	\$ 1,146	\$ 1,065	\$ 81	7.6 %
Adjusted EBITDA margin ⁽¹⁾	9.8%	9.3%		
Depreciation and amortization⁽ⁱ⁾	\$ 416	\$ 407	\$ 9	2.2 %
Net interest expense and other financing charges	\$ 218	\$ 115	\$ 103	89.6 %
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 208	\$ 133	\$ 75	56.4 %
Income taxes	\$ 60	\$ (29)	\$ 89	306.9 %
Adjusted income taxes ⁽¹⁾	\$ 178	\$ 179	\$ (1)	(0.6)%
Adjusted income tax rate ⁽¹⁾	27.7%	27.3%		
Net earnings attributable to shareholders of the Company	\$ 281	\$ 44	\$ 237	538.6 %
Net earnings available to common shareholders of the Company	\$ 271	\$ 34	\$ 237	697.1 %
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 232	\$ 226	\$ 6	2.7 %
Diluted net earnings per common share (\$)	\$ 1.86	\$ 0.27	\$ 1.59	588.9 %
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 1.59	\$ 1.76	\$ (0.17)	(9.7)%
Dividends declared per share (\$):				
Common shares	\$ 0.515	\$ 0.455		
Preferred shares – Series I	\$ 0.3625	\$ 0.3625		
Preferred shares – Series III	\$ 0.3250	\$ 0.3250		
Preferred shares – Series IV	\$ 0.3250	\$ 0.3250		
Preferred shares – Series V	\$ 0.296875	\$ 0.296875		

(i) Depreciation and amortization includes \$120 million (2017 – \$121 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million in 2017 of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

In the second quarter of 2018, Choice Properties completed the acquisition of Canadian Real Estate Investment Trust ("CREIT") as set out in Section 6.3 "Choice Properties Operating Results" section of this MD&A. In the fourth quarter of 2018, the acquisition resulted in increases in revenue of \$103 million, adjusted EBITDA⁽¹⁾ of approximately \$71 million, adjusted net interest expense and other financing charges⁽¹⁾ of \$68 million and adjusted net earnings available to common shareholders of the Company⁽¹⁾ of \$2 million.

Net earnings available to common shareholders of the Company

Net earnings available to common shareholders of the Company in the fourth quarter of 2018 were \$271 million (\$1.86 per common share), an increase of \$237 million compared to the same period in 2017. The increase included the favourable year-over-year net impact of adjusting items totaling \$231 million and the improvement in underlying operating performance of \$6 million, as described below.

- The favourable year-over-year net impact of certain adjusting items totaling \$231 million was primarily due to:
 - the fair value adjustment to the Trust Unit Liability of \$97 million;

- the year-over-year favourable impact of restructuring and other charges of \$77 million;
- the impact of prior year charges at Loblaw related to the *PC Optimum* Program of \$67 million; and
- the favourable impact of deferred tax recoveries of \$52 million;

partially offset by,

- the unfavourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$84 million.

- The improvement in underlying operating performance of \$6 million was mainly due to the following:
 - the favourable underlying operating performance of Choice Properties, including the impact of the acquisition of CREIT;
 - the favourable underlying operating performance of Loblaw's Retail segment, which more than offset the negative year-over-year impact of minimum wage increases and incremental healthcare reform, partially offset by a decline in the underlying operating performance of Loblaw's Financial Services segment; and
 - the positive contribution from the increase in the Company's ownership interest in Loblaw, as a result of Loblaw's share repurchases;

partially offset by,

- an increase in adjusted net interest expense and other financing charges⁽¹⁾, including the impact of the acquisition of CREIT, as described below;
- an increase in depreciation and amortization expense, as described below; and
- the unfavourable underlying operating performance of Weston Foods.

Adjusted net earnings available to common shareholders of the Company⁽¹⁾ in the fourth quarter of 2018 were \$232 million, an increase of \$6 million, or 2.7%, compared to the same period in 2017, due to the improvement in underlying operating performance, as described above.

Diluted net earnings per common share in the fourth quarter of 2018 were \$1.86, an increase of \$1.59 per common share compared to the same period in 2017. The increase was mainly due to:

- the favourable year-over-year impact of adjusting items totaling \$1.76 per common share, primarily due to the following:
 - the fair value adjustment to the Trust Unit Liability of \$0.66 per common share;
 - the year-over-year favourable impact of restructuring and other charges of \$0.61 per common share;
 - the impact of prior year charges at Loblaw related to the *PC Optimum* Program of \$0.51 per common share; and
 - the favourable impact of deferred tax recoveries of \$0.35 per common share;

partially offset by,

- the unfavourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$0.58 per common share;

partially offset by:

- a decline of \$0.17 per common share, including the net earnings improvement in the underlying operating performance described above, which was more than offset by the dilutive impact of the Company's issuance of approximately 26.6 million common shares in connection with the reorganization.

Adjusted diluted net earnings per common share⁽¹⁾ in the fourth quarter of 2018 were \$1.59, a decline of \$0.17 per common share, or 9.7% compared to the same period in 2017. Normalized for the dilutive impact of the Company's issuance of approximately 26.6 million common shares, adjusted diluted net earnings per common share⁽¹⁾ increased by approximately \$0.06 or 3.4%, which included the positive contribution from the increase in the Company's ownership interest in Loblaw of approximately \$0.04 per common share.

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Sales

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾	\$ Change	% Change
Weston Foods	\$ 507	\$ 527	\$ (20)	(3.8)%
Loblaw	\$ 11,218	\$ 10,992	\$ 226	2.1 %
Choice Properties	\$ 323	\$ 211	\$ 112	53.1 %
Intersegment	\$ (331)	\$ (328)		
Consolidated	\$ 11,717	\$ 11,402	\$ 315	2.8 %

Sales in the fourth quarter of 2018 were \$11,717 million, an increase of \$315 million compared to the same period in 2017. The increase in sales in the fourth quarter of 2018 was impacted by each of its reportable operating segments as follows:

- Negatively by 0.2% due to sales decline of 3.8% at Weston Foods, primarily due to the negative impact of foreign currency translation. Excluding the favourable impact of foreign currency translation, sales decreased by 5.9%, mainly due to a decrease in volumes, including the impact of product rationalization and the loss of sales to key customers, and the negative impact of changes in sales mix.
- Positively by 2.0% due to sales growth of 2.1% at Loblaw, driven by an increase in Loblaw's Retail segment and Loblaw's Financial Services segment. Retail sales increased by \$181 million, or 1.7%, compared to the same period in 2017. Excluding the consolidation of franchises, Retail sales increased by \$103 million, or 1.0%. The increase was primarily due to positive same-store sales growth.
- Positively by 1.0% due to sales growth of 53.1% at Choice Properties, primarily due to the acquisition of CREIT of \$106 million and an increase in base rent and operating cost recoveries from existing properties.

Operating income

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾	\$ Change	% Change
Weston Foods	\$ 22	\$ 8	\$ 14	175.0%
Loblaw	\$ 443	\$ 55	\$ 388	705.5%
Choice Properties	\$ 202	\$ 152	\$ 50	32.9%
Other and Intersegment	\$ 23	\$ (51)		
Consolidated	\$ 690	\$ 164	\$ 526	320.7%

Operating income in the fourth quarter of 2018 was \$690 million, an increase of \$526 million compared to the same period in 2017. The increase in operating income in the fourth quarter of 2018 included improvements in the underlying operating performance of \$61 million, and the favourable year-over-year net impact of adjusting items totaling \$465 million, as described below:

- the improvements in underlying operating performance of \$61 million were primarily due to:
 - the underlying operating performance of Choice Properties, driven by the acquisition of CREIT; and
 - the underlying operating performance of Loblaw's Retail segment, including the favourable year-over-year contribution from the consolidation of Loblaw franchises in the quarter, partially offset by a decline in the underlying operating performance of Loblaw's Financial Services segment;
 partially offset by,
 - the underlying operating performance of Weston Foods.

- the favourable year-over-year net impact of adjusting items totaling \$465 million was primarily due to:
 - the year-over-year favourable impact of restructuring and other charges of \$193 million;
 - the impact of prior year charges at Loblaw related to the *PC Optimum* Program of \$187 million; and
 - the impact of prior year charges related to the Loblaw Card Program of \$107 million;
 partially offset by,
 - the unfavourable prior year impact of income earned, net of certain costs incurred, from the wind-down of *PC Financial* banking services of \$17 million; and
 - the year-over-year unfavourable impact of the fair value adjustment of derivatives of \$13 million.

Adjusted EBITDA⁽¹⁾

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017	\$ Change	% Change
Weston Foods	\$ 55	\$ 61	\$ (6)	(9.8)%
Loblaw	\$ 893	\$ 880	\$ 13	1.5 %
Choice Properties	\$ 229	\$ 155	\$ 74	47.7 %
Other and Intersegment	\$ (31)	\$ (31)		
Consolidated	\$ 1,146	\$ 1,065	\$ 81	7.6 %

Adjusted EBITDA⁽¹⁾ in the fourth quarter of 2018 was \$1,146 million, an increase of \$81 million compared to the same period in 2017. The increase in adjusted EBITDA⁽¹⁾ in the fourth quarter of 2018 was impacted by each of its reportable operating segments as follows:

- Negatively by 0.6% due to a decrease of 9.8% in adjusted EBITDA⁽¹⁾ at Weston Foods driven by higher input and distribution costs and the decline in sales, partially offset by productivity improvements and the net benefits realized from the transformation program.
- Positively by 1.2% due to an increase of 1.5% in adjusted EBITDA⁽¹⁾ at Loblaw, primarily driven by improvements in Loblaw's Retail segment, partially offset by Loblaw's Financial Services segment. The improvement in Retail adjusted EBITDA⁽¹⁾ was primarily driven by an increase in Retail gross profit, partially offset by an increase in Retail SG&A, and included the favourable contribution from the consolidation of franchises in the quarter.
- Positively by 6.9% due to an increase of 47.7% in adjusted EBITDA⁽¹⁾ at Choice Properties primarily driven by the acquisition of CREIT. The increase also included an increase in net operating income from existing properties.

Management's Discussion and Analysis

Depreciation and Amortization

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017	\$ Change	% Change
Weston Foods	\$ 27	\$ 35	\$ (8)	(22.9)%
Loblaw	\$ 356	\$ 342	\$ 14	4.1 %
Choice Properties	\$ 1	\$ —	\$ 1	100.0 %
Other and Intersegment	\$ 32	\$ 30		
Consolidated	\$ 416	\$ 407	\$ 9	2.2 %

Depreciation and amortization in the fourth quarter of 2018 was \$416 million, an increase of \$9 million compared to the same period in 2017, and included \$120 million (2017 – \$121 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart recorded by Loblaw and \$10 million in 2017 of accelerated depreciation recorded by Weston Foods related to restructuring and other charges. Excluding these amounts, depreciation and amortization increased by \$20 million driven by:

- an increase in depreciation from the consolidation of Loblaw franchises;
- higher depreciation due to an increase in Loblaw's IT assets;
- higher depreciation due to investments in capital at Weston Foods; and
- an increase in depreciation on Choice Properties' investment properties classified as fixed assets by the Company and measured at cost.

Net Interest Expense and Other Financing Charges

(unaudited) (\$ millions)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017	\$ Change	% Change
Net interest expense and other financing charges	\$ 218	\$ 115	\$ 103	89.6%
Add: Fair value adjustment of the Trust Unit liability	85	8	77	
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(94)	10	(104)	
Loblaw's Spin-out of Choice Properties	(1)	—	(1)	
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 208	\$ 133	\$ 75	56.4%

Net interest expense and other financing charges in the fourth quarter of 2018 were \$218 million, an increase of \$103 million compared to the same period in 2017. The increase in net interest expense and other financing charges in the fourth quarter of 2018 was primarily due to the year-over-year impact of adjusting items totaling \$28 million, itemized in the table above, and an increase in adjusted net interest expense and other financing charges⁽¹⁾ of \$75 million primarily due to:

- higher interest expense in Choice Properties segment, as a result of the issuance of new senior unsecured debentures, debt assumed on the acquisition of CREIT, higher distributions from newly issued Trust Units to former CREIT unitholders as part of the acquisition consideration, partially offset by the repayment of Series A senior unsecured debentures and interest income on the joint ventures assumed on the acquisition of CREIT; and
- higher interest expense in Loblaw's Financial Services segment, primarily due to an increase in interest rates on borrowings related to credit card receivables and a net increase in Guaranteed Investment Certificates ("GICs").

Income Taxes

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017	\$ Change	% Change
Income taxes	\$ 60	\$ (29)	\$ 89	306.9 %
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽¹⁾⁽ⁱ⁾	56	170	(114)	
Remeasurement of deferred tax balances	62	19	43	
Statutory corporate income tax rate change	—	19	(19)	
Adjusted income taxes ⁽¹⁾	\$ 178	\$ 179	\$ (1)	(0.6)%
Effective income tax rate applicable to earnings before taxes	12.7%	(59.2)%		
Adjusted income tax rate applicable to adjusted earnings before taxes ⁽¹⁾	27.7%	27.3 %		

(i) See the adjusted EBITDA table and the adjusted net interest expense and other financing charges table included in Section 18, "Non-GAAP Financial Measures", of this MD&A for a complete list of items excluded from adjusted earnings before taxes⁽¹⁾.

The effective tax rate in the fourth quarter of 2018 was 12.7%, compared to negative 59.2% in the same period in 2017. The increase in the effective tax rate was primarily attributable to an increase in earnings.

The adjusted income tax rate⁽¹⁾ for the fourth quarter of 2018 was 27.7%, compared to 27.3% in the same period in 2017. The increase was primarily attributable to an increase in certain non-deductible items.

In the fourth quarter of 2018, the Company recorded a deferred tax recovery of \$62 million resulting primarily from the change in the manner by which the Company expects to recover certain assets.

In the fourth quarter of 2017, the Company recorded a deferred tax recovery of \$19 million resulting from a change in the applicable provincial income tax rate used to measure certain deferred tax balances caused by a change in the location of certain business activities.

In the fourth quarter of 2017, the U.S. government enacted a 14.0% decrease in the U.S. federal statutory corporate income tax rate from 35.0% to 21.0%. As a result, Weston Foods recorded a recovery of \$19 million in 2017 related to the remeasurement of its deferred tax liabilities.

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Cash Flows

(unaudited) (\$ millions)	Quarters Ended		
	Dec. 31, 2018	Dec. 31, 2017	Change
Cash and cash equivalents, beginning of period	\$ 1,853	\$ 1,838	\$ 15
Cash flows from operating activities	\$ 455	\$ 1,213	\$ (758)
Cash flows used in investing activities	\$ (117)	\$ (950)	\$ 833
Cash flows used in financing activities	\$ (678)	\$ (69)	\$ (609)
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ 8	\$ 2	\$ 6
Cash and cash equivalents, end of period	\$ 1,521	\$ 2,034	\$ (513)

Cash Flows from Operating Activities The year-over-year decrease in cash inflows in the fourth quarter of 2018 was \$758 million, primarily due to an unfavourable change in non-cash working capital and a reduction in provision balances, partially offset by higher cash earnings.

Cash Flows used in Investing Activities The year-over-year decrease in cash outflows in the fourth quarter of 2018 was \$833 million, primarily due to the change in security deposits and short term investments and proceeds from the disposal of assets.

The following table summarizes the Company's capital investments by each of its reportable operating segments for the quarters ended as indicated:

(unaudited) (\$ millions)	Quarters Ended	
	Dec. 31, 2018	Dec. 31, 2017
Weston Foods	\$ 91	\$ 88
Loblaw	414	399
Choice Properties	115	88
Total capital investments	\$ 620	\$ 575

Cash Flows used in Financing Activities The year-over-year increase in cash outflows in the fourth quarter of 2018 was \$609 million, primarily due to higher net payment of debt and share repurchases conducted by GWL.

Free Cash Flow⁽¹⁾

(unaudited) (\$ millions)	Quarters Ended		
	Dec. 31, 2018	Dec. 31, 2017	Change
Cash flows from operating activities	\$ 455	\$ 1,213	\$ (758)
Less: Interest paid	224	104	120
Fixed asset purchases	546	486	60
Intangible asset additions	74	89	(15)
Free cash flow ⁽¹⁾	\$ (389)	\$ 534	\$ (923)

The year-over-year decrease in free cash flow⁽¹⁾ in the fourth quarter of 2018 was \$923 million, primarily due to lower cash flows from operating activities and higher interest paid.

9. FOURTH QUARTER RESULTS OF REPORTABLE OPERATING SEGMENTS

The following discussion provides details of the 2018 fourth quarter results of operations of each of the Company's reportable operating segments.

9.1 WESTON FOODS FOURTH QUARTER OPERATING RESULTS (UNAUDITED)

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017	\$ Change	% Change
Sales	\$ 507	\$ 527	\$ (20)	(3.8)%
Operating income	\$ 22	\$ 8	\$ 14	175.0 %
Adjusted EBITDA ⁽¹⁾	\$ 55	\$ 61	\$ (6)	(9.8)%
Adjusted EBITDA margin ⁽¹⁾	10.8%	11.6%		
Depreciation and amortization ⁽ⁱ⁾	\$ 27	\$ 35	\$ (8)	(22.9)%

(i) In the fourth quarter of 2017, depreciation and amortization includes \$10 million of accelerated depreciation related to restructuring and other charges.

Sales Weston Foods sales in the fourth quarter of 2018 were \$507 million, a decrease of \$20 million, or 3.8%, compared to the same period in 2017. Sales included the favourable impact of foreign currency translation of approximately 2.1%. Excluding the favourable impact of foreign currency translation, sales decreased by 5.9%, mainly due to a decrease in volumes, including the impact of product rationalization and the loss of sales to key customers, and the negative impact of changes in sales mix.

Operating income Weston Foods operating income in the fourth quarter of 2018 was \$22 million, an increase of \$14 million compared to the same period in 2017. The increase included the favourable year-over-year net impact of adjusting items totaling \$22 million partially offset by the decline in underlying operating performance of \$8 million. The year-over-year net impact of adjusting items included the following:

- the favourable year-over-year impact of restructuring and other charges of \$24 million; partially offset by,
- the unfavourable year-over-year impact of inventory losses, net of recoveries, of \$2 million.

Adjusted EBITDA⁽¹⁾ Weston Foods adjusted EBITDA⁽¹⁾ in the fourth quarter of 2018 was \$55 million, a decrease of \$6 million compared to the same period in 2017. Excluding the impact of a net gain related to the sale leaseback of a property for \$10 million, the decrease was driven by higher input and distribution costs and the decline in sales, partially offset by productivity improvements and the net benefits realized from the transformation program.

Weston Foods adjusted EBITDA margin⁽¹⁾ in the fourth quarter of 2018 was 10.8% compared to 11.6% in the same period in 2017. The decline in adjusted EBITDA margin⁽¹⁾ in the fourth quarter of 2018 was mainly due to the factors impacting adjusted EBITDA⁽¹⁾, as described above.

Depreciation and Amortization Weston Foods depreciation and amortization in the fourth quarter of 2018 was \$27 million, a decrease of \$8 million compared to the same period in 2017. Depreciation and amortization in the fourth quarter of 2018 included a nominal amount (2017 – \$10 million) of accelerated depreciation related to the closure of an unprofitable facility in the U.S. Excluding this amount, depreciation and amortization in the fourth quarter of 2018 increased by \$2 million due to investments in capital.

Weston Foods Other Business Matters

For details see section 6.1, "Weston Foods Operating Results", of this MD&A.

Management's Discussion and Analysis

9.2 LOBLAW FOURTH QUARTER OPERATING RESULTS (UNAUDITED)⁽⁴⁾

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾	\$ Change	% Change
Sales	\$ 11,218	\$ 10,992	\$ 226	2.1%
Operating income	\$ 443	\$ 55	\$ 388	705.5%
Adjusted EBITDA ⁽¹⁾	\$ 893	\$ 880	\$ 13	1.5%
Adjusted EBITDA margin ⁽¹⁾	8.0%	8.0%		
Depreciation and amortization ⁽ⁱ⁾	\$ 356	\$ 342	\$ 14	4.1%

(i) Depreciation and amortization includes \$120 million (2017 – \$121 million) in the fourth quarter of 2018 of amortization of intangible assets acquired with Shoppers Drug Mart.

Immediately following Loblaw's spin-out of Choice Properties, Loblaw no longer retained its interest in Choice Properties and has ceased to consolidate its equity interest in Choice Properties from its consolidated financial statements. As a result, Loblaw's current and comparative financial results are restated to present Continuing Operations of Loblaw. For further details, see Section 5.3 "Consolidated Other Business Matters" of this MD&A.

As previously announced, Loblaw's year-over-year financial performance was negatively impacted by minimum wage increases and incremental healthcare reform.

Sales Loblaw sales in the fourth quarter of 2018 were \$11,218 million, an increase of \$226 million, or 2.1%, compared to the same period in 2017, primarily driven by Retail. Retail sales increased by \$181 million, or 1.7%, compared to the same period in 2017 and included food retail sales of \$7,750 million (2017 – \$7,623 million) and drug retail sales of \$3,226 million (2017 – \$3,172 million). Excluding the consolidation of franchises, Retail sales increased by \$103 million, or 1.0% due to positive same-store sales growth, primarily driven by the following factors:

- food retail same-store sales growth was 0.8%. Loblaw's food retail average quarterly internal food price index was moderately lower than the average quarterly national food price inflation of 1.7% as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- drug retail same-store sales growth was 1.9%, including pharmacy same-store sales growth of 0.6% and front store same-store sales growth of 2.8%. Pharmacy same-store sales growth included the impact of incremental healthcare reform.

In the last 12 months, 17 food and drug stores were opened and 22 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.1 million square feet, or 0.1%.

The redemption of Loblaw Cards resulted in the delivery of approximately \$4 million of free products to customers in the fourth quarter of 2018, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or Loblaw's financial performance and Loblaw's management does not believe it had a significant impact on food retail same-store sales.

Operating income Loblaw operating income in the fourth quarter of 2018 was \$443 million, an increase of \$388 million compared to the same period in 2017, primarily driven by the favourable year-over-year net impact of adjusting items totaling \$390 million, partially offset by a decline in underlying operating performance of \$2 million, as described below:

- the decline in underlying operating performance of \$2 million was primarily driven by Financial Services, partially offset by the improvements in the underlying operating performance of Retail, including the favourable year-over-year contribution from the consolidation of franchises in the quarter; and
- the favourable year-over-year net impact of adjusting items totaling \$390 million was primarily due to the following:
 - prior year charges related to the *PC Optimum* Program of \$187 million;
 - the year-over-year favourable impact of restructuring and other related charges of \$175 million; and

- the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$107 million;
- partially offset by,
- the year-over-year unfavourable impact of asset impairments, net of recoveries, of \$30 million;
 - the unfavourable impact of prior year income earned, net of certain costs incurred, from the wind-down of *PC Financial* banking services of \$17 million;
 - the unfavourable change in fair value adjustment on fuel and foreign currency contracts of \$13 million; and
 - the unfavourable impact of the prior year recovery related to land transfer tax assessment of \$9 million.

Adjusted EBITDA⁽¹⁾ Loblaw adjusted EBITDA⁽¹⁾ in the fourth quarter of 2018 was \$893 million, an increase of \$13 million compared to the same period in 2017. The increase was primarily driven by improvements in Retail including the favourable contribution from the consolidation of franchises in the quarter, partially offset by Financial Services.

Retail adjusted EBITDA⁽¹⁾ was \$855 million, an increase of \$26 million compared to the same period in 2017, driven by an increase in gross profit, partially offset by an increase in SG&A.

- Retail gross profit percentage of 29.6% increased by 20 basis points compared to the fourth quarter of 2017. Excluding the consolidation of franchises, Retail gross profit percentage was 27.7%, a decrease of 30 basis points compared to the fourth quarter of 2017. Margins were negatively impacted by health care reform and positively impacted by food retail.
- Retail SG&A as a percentage of sales was 21.9%, an increase of 20 basis points compared to the fourth quarter of 2017. Excluding the consolidation of franchises, SG&A decreased \$19 million and as a percentage of sales was 20.1%, an improvement of 30 basis points compared to the fourth quarter of 2017, mainly driven by the following factors:
 - lower store costs driven by process efficiencies and a decrease in advertising costs, partially offset by minimum wage increases; and
 - lower store support costs driven by previously announced costs savings initiatives;
 partially offset by,
 - the unfavourable year-over-year impact of foreign exchange.

Financial Services adjusted EBITDA⁽¹⁾ decreased by \$13 million compared to the same period in 2017, primarily driven by lower core banking income attributable to the discontinuation of the personal banking services under the *PC Financial* brand, higher operating costs including investments in digital strategy and higher customer acquisition costs, partially offset by higher net interchange income attributable to the growth in the credit card portfolio.

Loblaw adjusted EBITDA⁽¹⁾ in the fourth quarter of 2018 also included a net gain of \$8 million (2017 – \$7 million) related to the sale leaseback of properties.

Depreciation and Amortization Loblaw's depreciation and amortization in the fourth quarter of 2018 was \$356 million, an increase of \$14 million compared to the same period in 2017. The increase in depreciation and amortization was primarily driven by the consolidation of franchises, an increase in IT assets and the change in estimated useful life of certain building components as a result of the spin-out of Choice Properties. Depreciation and amortization included \$120 million (2017 – \$121 million) in the fourth quarter of 2018 of amortization of intangible assets acquired with Shoppers Drug Mart.

Loblaw Other Business Matters

For details see Section 6.2, "Loblaw Operating Results", of this MD&A.

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9.3 CHOICE PROPERTIES FOURTH QUARTER OPERATING RESULTS (UNAUDITED)

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2018	Dec. 31, 2017	\$ Change	% Change
Revenue	\$ 323	\$ 211	\$ 112	53.1 %
Net interest (income) expense and other financing charges ⁽ⁱ⁾	\$ (80)	\$ 116	\$ (196)	(169.0)%
Net income	\$ 281	\$ 36	\$ 245	680.6 %
Funds from operations ⁽¹⁾	\$ 172	\$ 117	\$ 55	47.0 %

(i) Net interest expense and other financing charges includes a fair value adjustment on Class B Limited Partnership units.

Choice Properties' current and comparative financial results are presented as a reportable operating segment of the Company on a full year basis.

Revenue Revenue in the fourth quarter of 2018 was \$323 million, an increase of \$112 million compared to the fourth quarter of 2017, and included \$185 million (2017 – \$180 million) generated from tenants within Loblaw Retail. The increase in revenue was primarily driven by:

- additional revenue generated from the investment properties included in the CREIT acquisition of \$106 million; and
- an increase in base rent and operating cost recoveries from existing properties.

Net Interest (Income) Expense and Other Financing Charges Net interest expense and other financing charges in the fourth quarter of 2018 resulted in income of \$80 million, compared to net interest expense of \$116 million in the fourth quarter of 2017. The change of \$196 million was primarily driven by:

- a favourable change in the fair value adjustment on Class B Limited Partnership units of \$234 million; partially offset by,
- higher interest expense resulting from the issuance of new debt related to the acquisition of CREIT; including senior unsecured debentures, term loans and draws on the syndicated credit facility and interest expense on the debt assumed on the acquisition of CREIT.

Net income Net income in the fourth quarter of 2018 was \$281 million, an increase of \$245 million compared to the fourth quarter of 2017. The increase was primarily driven by:

- an increase in net operating income from investment properties acquired as part of the acquisition of CREIT;
- an increase in net operating income from existing properties;
- the favourable change in net interest expense and other financing charges, described above;

partially offset by,

- an unfavourable change in the fair value adjustment to investment properties; and
- acquisition and other costs related to the acquisition of CREIT of \$11 million.

Funds from Operations⁽¹⁾ Funds from Operations⁽¹⁾ in the fourth quarter of 2018 were \$172 million, an increase of \$55 million compared to the fourth quarter of 2017, primarily driven by additional property operating income attributable to the acquired portfolio, partially offset by higher interest expense due to the acquisition of CREIT.

Other Matters For details see Section 6.3 "Choice Properties Operating Results", of this MD&A.

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 Chief Executive Officer, and Chief Financial Officer caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2018.

11. INTERNAL CONTROL OVER FINANCIAL REPORTING

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

As required by NI 52-109, the Chief Executive Officer (“CEO”), and the Chief Financial Officer (“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, 2018.

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

Changes in Internal Control over Financial Reporting There were no changes in the Company’s internal controls over financial reporting in 2018 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting, except as noted below:

As permitted by the provisions of National Instrument 52-109, “Certification of Disclosures in Issuers’ Annual and Interim Filings”, management, including the CEO and CFO, limited the scope of their design of the Company’s disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of CREIT. Choice Properties acquired the assets and liabilities of CREIT and its subsidiaries on May 4, 2018. The assessment on CREIT’s design effectiveness of disclosure controls and procedures and the harmonization of the internal controls over financial reporting frameworks is expected to be completed by the first quarter of 2019.

Further details related to the acquisition of CREIT are set out in Section 6.3, “Choice Properties Segment Results” and in Note 6, “Business Acquisitions” of the Company’s audited annual consolidated financial statements for the year ended December 31, 2018.

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. To ensure the continued growth and success of the Company, risks are identified and managed through the Company’s Enterprise Risk Management (“ERM”) program.

ERM program The 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.

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

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

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

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

Risk monitoring and reporting Management provides periodic updates to the Board (or a Committee of the Board) on the status of the key risks based on significant changes from the prior update, anticipated impacts in future periods and significant changes in key risk indicators. In addition, the long term (three year) risk levels are assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities.

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

Operating Risks 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, 2018, which is hereby incorporated by reference:

Healthcare Reform	Food, Drug, Product Safety and Public Health
Cyber Security, Privacy and Data Breaches	Legal Proceedings
IT Systems Implementations and Data Management	Regulatory Compliance
Governance, Change Management, Process and Efficiency	Commodity Prices
Competitive Environment and Strategy	Execution of Strategic Initiatives
Distribution and Supply Chain	Consumer and Retail Customer Trends
Electronic Commerce and Disruptive Technologies	

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

Sales of prescription drugs, pharmacy reimbursement and drug prices may be affected by changes to the health care industry, including legislative or other changes that impact patient eligibility, drug product eligibility, the allowable cost of a prescription drug product, the mark-up permitted on a prescription drug product, the amount of professional or dispensing fees paid by 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 or cash. These payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers, which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products. Other measures that have been implemented by certain government payers include restricting the number of interchangeable prescription drug products which are eligible for reimbursement under provincial drug plans. Additionally, the Council of the Federation, an institution created by the provincial Premiers in 2003 to collaborate on intergovernmental relations, continues its work regarding cost reduction initiatives for pharmaceutical products and services.

Legislation in certain provincial jurisdictions 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 sector. 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, prescription drug pricing, manufacturer allowance funding and private label prescription drug products, legislative or otherwise, are expected to continue to put downward pressure on prescription drug sales. These changes may have a material adverse effect on Loblaw's business, sales and profitability. In addition, Loblaw could incur significant costs in the course of complying with any changes in the regulatory regime affecting prescription drugs. Non-compliance with any such existing or proposed laws or regulations, particularly those that provide for the licensing and conduct of wholesalers, the

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licensing and conduct of pharmacists, the regulation and ownership of pharmacies, the advertising of pharmacies and prescription services, the provision of information concerning prescription drug products, the pricing of prescription drugs and restrictions on manufacturer allowance funding, could result in audits, civil or regulatory proceedings, fines, penalties, injunctions, recalls or seizures, any of which could adversely affect the reputation, operations or financial performance of the Company.

Cyber Security, 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, 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, including personal health and financial information ("Confidential Information") regarding the Company and its employees, franchisees, Associates, vendors, customers, patients, credit card holders and loyalty program members. Some of this Confidential Information is held and managed by third party service providers. As with other large and prominent companies, the Company is regularly subject to cyberattacks and such attempts are occurring more frequently, are constantly evolving in nature and are becoming more sophisticated.

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

Despite these measures, all of the Company's information systems, including its back-up systems and any third party service provider systems that it employs, are vulnerable to damage, interruption, disability or failures due to a variety of reasons, including physical theft, 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 those of our third party service providers' information systems.

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

IT Systems Implementations and Data Management The Company continues to undertake investments in new IT systems to improve the operating effectiveness of the organization. Failure to successfully migrate from legacy systems to the new IT systems or a significant disruption in the Company's current IT systems during the implementation of new systems could result in a lack of accurate data to enable management to effectively

manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

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

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.

Governance, Change Management, Process and Efficiency Many initiatives are underway to reduce the complexity and cost of the Company's business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. These efforts include initiatives focused on improving processes and generating efficiencies across its administrative, store, manufacturing, and distribution network infrastructures, and other organizational changes.

In 2018, the Company completed the acquisition of CREIT and Loblaw's spin-out of Choice Properties. In addition, Weston Foods continues with the implementation of the multi-year transformation program, to position it for long term growth and profitability. This transformation program includes changes to the organization and its operation, and significant capital investments including upgrade of its IT system.

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.

Competitive Environment and Strategy The Company operates in highly competitive industries.

Loblaw competes against a wide variety of retailers including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, online retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drug and general merchandise. Others remain focused on supermarket-type merchandise. In addition, Loblaw 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. Loblaw'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 Loblaw's loyalty program must be well managed and coordinated to preserve positive customer perception. Loblaw has made significant investments in support of certain strategic priorities. Failure to achieve these strategic priorities could adversely affect its ability to compete with competitors, which could in turn affect the Company's financial position.

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

Management's Discussion and Analysis

Weston Foods' competitors include multi-national food processing companies as well as national and smaller-scale bakery operations in North America.

Failure by Weston Foods or Loblaw to sustain their competitive position could adversely affect the Company's financial performance.

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, labour disagreements, or other shipping 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 store 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.

Electronic Commerce and Disruptive Technologies Loblaw's electronic commerce strategy is a growing business initiative. As part of the e-commerce initiative, customers expect innovative concepts and a positive customer experience, including a user-friendly website, certain websites and customer offerings that are integrated with Loblaw'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. Loblaw 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 do not function effectively, Loblaw's ability to grow its e-commerce business could be adversely affected. Loblaw 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.

The retail landscape is quickly changing due to the rise of the digitally influenced shopping experience and the emergence of disruptive technologies, such as digital payments, drones, driverless cars and robotics. In addition, the effect of increasing digital advances could have an impact on the physical space requirements of retail businesses. Although the importance of a retailer's physical presence has been demonstrated, the size requirements and locations may be subject to further disruption. Any failure to adapt the business models to recognize and manage this shift in a timely manner could adversely affect Loblaw's operations or financial performance.

Food, Drug, Product Safety and Public Health 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 assure 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 or ingredients could affect the Company's ability to be effective in a recall situation. Loblaw is also subject to risk associated with errors made through medication dispensing or errors related to patient services or consultation. The occurrence of such events or incidents, as well as the failure to maintain the cleanliness and health standards at Loblaw's store level or the Company's manufacturing facilities, could result in harm to customers, negative publicity or could adversely affect the Company's brands, reputation, operations or financial performance and could lead to unforeseen liabilities from legal claims or otherwise.

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, Associates, franchisees, regulators, tax authorities or other persons. The potential outcome of legal proceedings and claims is uncertain.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice ("the Superior Court") against the Company, Loblaw and certain of its

subsidiaries and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately \$2 billion in damages.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Superior Court by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of \$500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. The Superior Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class.

In 2017, the Company and Loblaw 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 Loblaw 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 Loblaw believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2018 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved.

As part of its response to this issue, Loblaw and the Company acknowledged their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, Loblaw offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. Loblaw recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017. In 2018, on a year-to-date basis, Loblaw had recorded an additional charge of \$4 million. The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages.

As a result of their admission that they participated in the arrangement and their cooperation in the Competition Bureau's investigation, the Company and Loblaw 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 Loblaw and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia.

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 (collectively, "laws") 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 or financial condition or performance of the Company.

Management's Discussion and Analysis

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

On December 19, 2017, the Company and Loblaw announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Please refer to the "Legal Proceedings" risk on page 54 of this MD&A.

The Régie de l'assurance maladie du Québec ("RAMQ") has been investigating certain aspects of Shoppers Drug Mart's contractual arrangements with pharmacists and drug manufacturers. Shoppers Drug Mart has and will continue to cooperate with RAMQ in its review of these practices. If RAMQ is not satisfied with Shoppers Drug Mart's practices, then RAMQ may pursue remedies that could have a material adverse effect on the Company's reputation, operations, or financial condition or performance.

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.

Loblaw is subject to externally imposed capital requirements from OSFI, the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio 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 regulators could result in regulatory intervention and reputational damages.

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

Commodity Prices Weston Foods' costs are directly impacted by fluctuations in the prices of commodity linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect effect of changing commodity prices on the price of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices.

Execution of Strategic Initiatives The Company undertakes from time to time acquisitions and dispositions that meet its strategic objectives. The Company holds cash and short term investments and is continuing to evaluate

strategic opportunities for the use or deployment of these funds. The use or deployment of the funds and the execution of the Company's capital plans could pose a risk if they do not align with the Company's strategic objectives or if the Company experiences integration difficulties on the acquisition of any businesses. Execution of the strategic plan requires prudent operational planning, availability and attention of key personnel, timely implementation and effective change management. In addition, the Company may not be able to realize upon the synergies, business opportunities and growth prospects expected from any such investment opportunities or from the execution of the Company's strategies. Finally, any acquisition or divestiture activities may present unanticipated costs and managerial and operational risks, including the diversion of management's time and attention from day-to-day activities. If the Company's strategies are not effectively developed and executed, it could negatively affect the reputation, operations or financial performance of the Company.

Consumer and Retail Customer Trends The North American bakery market continues to evolve as consumer preferences and consumption patterns shift. As a result of evolving retail customer trends, the Company must anticipate and meet these trends in a highly competitive environment on a timely basis. The failure of Weston Foods to anticipate, identify and react to shifting consumer and retail customer trends and preferences through successful innovation and enhanced manufacturing capability could adversely result in reduced demand for its products, which could in turn negatively affect the financial performance of the Company.

12.2 FINANCIAL RISKS AND RISK MANAGEMENT

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

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

Liquidity	Common Share and Trust Unit Prices
Foreign Currency Exchange Rates	Interest Rates
Credit	

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

Foreign Currency Exchange Rates The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the U.S. and its foreign subsidiaries held by Dunedin Holdings GmbH and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income,

Management's Discussion and Analysis

while translation gains and losses on the net investment in foreign operations in the U.S. are recorded in accumulated other comprehensive income (loss).

Revenues and expenses of all 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 recognized. An appreciating U.S. dollar relative to the Canadian dollar will positively impact operating income and net earnings, while a depreciating U.S. dollar relative to the Canadian dollar will have the opposite impact.

Weston Foods and Loblaw are also exposed to fluctuations in the prices of U.S. dollar denominated purchases as a result of changes in U.S. dollar exchange rates. A depreciating Canadian dollar relative to the U.S. dollar will negatively impact operating income and net earnings, while an appreciating Canadian dollar relative to the U.S. dollar will have the opposite impact. Weston Foods and Loblaw entered into derivative instruments in the form of futures contracts and forward contracts to manage their current and anticipated exposure to fluctuations in U.S. dollar exchange rates.

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, Loblaw's franchise loans receivable, pension assets held in the Company's defined benefit plans, Loblaw's accounts receivable including amounts due from franchisees, government, prescription sales and third-party drug plans, independent accounts and amounts owed from vendors, and other receivables from Weston Foods' customers and suppliers. Failure to manage credit risk could adversely affect the financial performance of the Company.

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

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

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

Loblaw's franchise loans receivable and Loblaw's accounts receivable including amounts due from franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors, and other receivables from Weston Foods' customers and suppliers, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Despite the mitigation strategies described above, it is possible that the Company's financial performance could be negatively impacted by the failure of a counterparty to fulfill its obligations.

Common Share and Trust Unit Prices Changes in the Loblaw common share price impact the Company's net interest expense and other financing charges. In 2001, Weston Holdings Limited ("WHL") entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of \$48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of \$118.42 (2017 – \$113.45) per Loblaw common share as at year end 2018. The forward matures in 2031 and will be settled in cash as follows: WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of WHL under this forward is secured by the underlying Loblaw common shares. WHL recognizes a non-cash charge or income, which is included in consolidated net

interest expense and other financing charges, representing the fair value adjustment of WHL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw common shares it owns. At maturity, if the forward price is greater (less) than the market price, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. Any cash paid under the forward contract could be offset by the sale of Loblaw common shares.

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

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

13. RELATED PARTY TRANSACTIONS

The Company's majority shareholder is Mr. W. Galen Weston, who beneficially owns, directly and indirectly through private companies which he controls, including Wittington Investments, Limited ("Wittington"), a total of 81,465,025 of GWL's common shares, representing approximately 53.1% (2017 – 63.2%) of GWL's outstanding common shares.

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed below.

In 2018, the Company made rental payments to Wittington in the amount of \$4 million (2017 – \$4 million). As at year end 2018 and 2017, there were no rental payments outstanding.

In 2018, inventory purchases from Associated British Foods plc, a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company, amounted to \$44 million (2017 – \$39 million). As at year end 2018, \$3 million (2017 – \$6 million) was included in trade payables and other liabilities relating to these inventory purchases.

Joint Venture In 2014, a joint venture, formed between Choice Properties and Wittington, completed the acquisition of property from Loblaw. The joint venture intends to develop the acquired site into a mixed-used property, anchored by a Loblaw food store. As at year end 2018, the joint venture did not have any operating activity. Choice Properties uses the equity method of accounting to record its 40% interest in the joint venture, which is included in other assets.

Operating Lease Choice Properties entered into a ten-year lease for office space with Wittington that commenced in 2014. Lease payments will total \$3 million over the term of the lease. Effective January 1, 2018, Choice Properties entered into a sub-lease for additional office space with a subsidiary of the Company, with a term effective until the end of the existing lease in 2024. Over the term of the sub-lease, lease payments will total \$1 million.

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.

Management's Discussion and Analysis

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

Compensation of Key Management Personnel The Company's key management personnel is comprised of certain members of the executive team of GWL, Loblaw, Weston Foods and Wittington, as well as members of the Boards of GWL, Loblaw 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.

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

(\$ millions)	2018	2017
Salaries, director fees and other short term employee benefits	\$ 8	\$ 9
Share-based compensation	12	13
Total compensation	\$ 20	\$ 22

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

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

Basis of Consolidation

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

Inventories

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

Impairment of non-financial assets (goodwill, intangible assets and fixed assets)

Judgments Made in Relation to Accounting Policies Applied Management is required to use judgment in determining the grouping of assets to identify their cash generating units ("CGU") for the purposes of testing fixed assets for impairment. Judgment is further required to determine appropriate groupings of CGUs for the level at which goodwill and intangible assets are tested for impairment. The Company has determined that each retail location is a separate CGU for purposes of fixed asset impairment testing. For the purpose of goodwill and indefinite life intangible assets impairment testing, CGUs are grouped at the lowest level at which goodwill and

indefinite life intangible assets are monitored for internal management purposes. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed.

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

Impairment of Franchise loans receivable and certain other financial assets

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

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

Customer Loyalty Awards Programs

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

Impairment of Credit card receivables

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

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

Fair Value of Investment Properties

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

Management's Discussion and Analysis

Income and other taxes

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

Provisions

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

15. ACCOUNTING STANDARDS IMPLEMENTED

On January 1, 2018, the Company implemented IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts on implementation of IFRS 15 and IFRS 9 on the Company's consolidated financial statements are described below.

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

The Company adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or were completed on or before January 1, 2017 do not require restatement.

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

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

The impact of the above changes on equity as at January 1, 2017 and December 31, 2017 is as follows:

Consolidated Balance Sheets Increase (Decrease) (\$ millions)	As at	
	January 1, 2017	December 31, 2017
Loyalty liability	\$ (43)	\$ (64)
Income taxes payable	12	11
Deferred income tax liabilities	—	7
Equity	31	46

The impact of this change on the comparative periods for 12 weeks and 52 weeks ended December 30, 2017 is as follows:

Consolidated Statements of Earnings Increase (Decrease) (\$ millions)	(unaudited)	(audited)
	12 Weeks Ended December 31, 2017	52 Weeks Ended December 31, 2017
Revenue	\$ (7)	\$ (3)
SG&A	(24)	(24)
Income taxes	5	6

The implementation of IFRS 15 had an impact on basic and diluted net earnings per share of \$0.05 for 52 weeks ended December 31, 2017.

The quarterly and annual impacts of this change in 2017 are as follows:

Summary of Condensed Consolidated Quarterly Statement of Earnings (unaudited)					
Increase (Decrease) (\$ millions)	March 25, 2017	June 17, 2017	October 7, 2017	December 31, 2017	December 31, 2017
	(12 weeks)	(12 weeks)	(16 weeks)	(12 weeks)	(52 weeks)
Revenue	\$ 3	\$ 1	\$ —	\$ (7)	\$ (3)
SG&A	—	—	—	(24)	(24)
Income taxes	1	—	—	5	6
Net earnings	2	1	—	12	15

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

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

Management's Discussion and Analysis

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

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

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

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

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

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

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

The ECL model had a significant impact on PC Bank's impairment of credit card receivables. The Company revised certain inputs of the ECL model since the implementation of IFRS 9 in the first quarter of 2018 and has retrospectively applied the impact of these revisions with no impact to earnings. As a result of the refinements, the cumulative impact arising from the ECL model on the impairment of credit card receivables as at January 1, 2018 was as follows:

Consolidated Balance Sheets	As at
Increase (Decrease)	January 1, 2018
(\$ millions)	
Credit card receivables	\$ (98)
Deferred income tax assets	26
Income taxes payable	4
Deferred income tax liabilities	(4)
Equity	(72)

The Company also applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Company. The Company adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The

provision matrix and ECL models applied do not have a material impact on trade receivables and other financial assets of the Company.

General hedging IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Company’s risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company’s risk management strategy and hedging activities are disclosed in Note 33 “Financial Instruments” and Note 34 “Financial Risk Management”.

Changes to Significant Accounting Policies

The following significant accounting policies reflect certain impacts to the presentation of the Company’s annual consolidated financial statements.

Investment Properties Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company’s investment properties include single tenant properties held to earn rental income and certain multi-tenant properties.

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

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

Consolidated Balance Sheets		
Increase (Decrease)	As at	As at
(\$ millions)	December 31, 2017	January 1, 2017
Investment Properties	\$ 41	\$ 41
Deferred income tax liabilities	5	5
Equity	36	36

16. FUTURE ACCOUNTING STANDARDS

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

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

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

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

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

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

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

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

While the standard was adopted on January 1, 2019, the Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, data systems, IT, and financing and compensation arrangements. The Company has implemented a lease management system and is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at January 1, 2019.

Based on the information currently available, as a result of the initial application of IFRS 16 as at January 1, 2019, Management anticipates recognizing approximately \$4 billion of right-of-use assets and approximately \$5 billion of lease liabilities, inclusive of current finance leases, on its consolidated balance sheet, and derecognizing approximately \$130 million of deferred rent obligation from its consolidated balance sheet, with the difference, net of the deferred tax impact, recorded in opening retained earnings. Certain other balance sheet accounts are impacted through reclassification to applicable IFRS 16 balance sheet line items.

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

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

17. OUTLOOK⁽³⁾

Weston Foods is focused on becoming a premier North American bakery and delivering solid financial results. In 2019, Weston Foods will focus on growing its core business, selectively innovating in new segments and markets, and strengthening key processes.

In 2019, on a full-year comparative basis, Weston Foods expects its business performance to stabilize:

- Sales will be lower when compared to 2018, due to the impact of lapping sales lost from key customers last year and the impact of product rationalization, partially offset by growth in key categories and pricing;
- Excluding the prior year gains on the sale leaseback of properties, adjusted EBITDA⁽¹⁾ will be slightly lower when compared to 2018. Adjusted EBITDA⁽¹⁾ will be impacted by headwinds from higher input and distribution costs in an inflationary environment and by sales trends as described above, partially offset by improvements driven from productivity and the transformation program;
- Investment in capital expenditures to decrease to approximately \$200 million; and
- Depreciation will increase compared to 2018.

Loblaw is focused on its strategic framework, delivering best in food and health and beauty, using data driven insights underpinned by process and efficiency excellence. This framework is supported by Loblaw's financial plan of maintaining a stable trading environment that targets positive same-store sales and stable gross margin, creating efficiencies to deliver operating leverage, investing for the future and returning capital to shareholders.

Loblaw will remain focused on delivering Process and Efficiency improvements to offset increasing costs and to fund continued incremental investments in its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments & Rewards.

In 2019, on a full-year comparative basis, Loblaw expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive market;
- deliver positive adjusted net earnings⁽¹⁾ growth;
- invest approximately \$1.1 billion in capital expenditures, net of proceeds from property disposals; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

Choice Properties' strategy is to grow and manage its portfolio and cash flow by leveraging its sizable base of assets, its relationship with Loblaw and its solid capital structure. With the acquisition of CREIT on May 4, 2018, Choice Properties has evolved into two primary functional areas: an existing income producing property portfolio and a development business. The income producing property portfolio provides a solid foundation for stable cash flows and is diversified by both geographic location and product type including retail, industrial, office and residential assets. Development initiatives provide the opportunity to add high quality real estate by focusing primarily on retail intensification projects and well located rental residential projects at various stages of development. Looking forward, Choice Properties will continue to focus on financial and operational stability, the advancement of retail and industrial development projects and the expansion of its multi-residential platform.

In 2019, Choice Properties will continue to focus on financial and operational stability. This includes improvement to its portfolio quality through property acquisition and dispositions, the advancement of retail and industrial development projects, the expansion of its multi-residential platform and prudent management of maturing debt and variable interest rate exposure.

For 2019, the Company expects adjusted net earnings⁽¹⁾ to increase due to the results from its operating segments as described above.

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18. NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: adjusted EBITDA and adjusted EBITDA margin, adjusted net earnings attributable to shareholders of the Company, adjusted net earnings available to common shareholders of the Company, adjusted diluted net earnings per common share, adjusted return on average equity attributable to common shareholders of the Company, adjusted return on capital and free cash flow; and with respect to Choice Properties: funds from operations. In addition to these items, the following measures are used by management in calculating adjusted diluted net earnings per common share: adjusted operating income, adjusted net interest expense and other financing charges, adjusted income taxes and adjusted income tax rate. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

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

Adjusted EBITDA The Company believes adjusted EBITDA is useful in assessing and making decisions regarding the underlying operating performance of the Company's ongoing operations and in assessing the Company's ability to generate cash flows to fund its cash requirements, including its capital investment program.

The following table reconciles adjusted EBITDA to operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company reported for the periods ended as indicated.

(unaudited) (\$ millions)	Quarters Ended									
	Dec. 31, 2018					Dec. 31, 2017 ⁽⁵⁾				
	Weston Foods	Loblaw ⁽⁴⁾	Choice Properties ⁽⁴⁾	Other & Intersegment ⁽⁴⁾	Consolidated	Weston Foods	Loblaw ⁽⁴⁾	Choice Properties ⁽⁴⁾	Other & Intersegment ⁽⁴⁾	Consolidated
Net earnings attributable to shareholders of the Company					\$ 281					\$ 44
Add impact of the following:										
Non-controlling interests					131					34
Income taxes					60					(29)
Net interest expense and other financing charges					218					115
Operating income	\$ 22	\$ 443	\$ 202	\$ 23	\$ 690	\$ 8	\$ 55	\$ 152	\$ (51)	\$ 164
Add impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ —	\$ 120	\$ —	\$ —	\$ 120	\$ —	\$ 121	\$ —	\$ —	\$ 121
Asset impairments, net of recoveries	—	83	—	(77)	6	—	53	—	—	53
Restructuring and other charges	9	(4)	—	—	5	33	171	—	(6)	198
Loblaw's Spin-out of Choice Properties	—	2	—	8	10	—	—	—	—	—
Loblaw Card Program	—	—	—	—	—	—	107	—	—	107
Fair value adjustment on investment properties	—	5	15	(16)	4	—	—	3	(3)	—
Fair value adjustment of derivatives	(3)	8	—	—	5	(3)	(5)	—	—	(8)
Wind-down of PC Financial banking services	—	—	—	—	—	—	(17)	—	—	(17)
CREIT acquisition and other related costs	—	—	11	—	11	—	—	—	—	—
Inventory loss, net of recoveries	—	—	—	—	—	(2)	—	—	—	(2)
PC Optimum Program	—	—	—	—	—	—	187	—	—	187
Certain prior period items	—	—	—	—	—	—	(4)	—	—	(4)
Prior year land transfer tax recovery	—	—	—	—	—	—	(9)	—	—	(9)
Foreign currency translation ⁽ⁱ⁾	—	—	—	(1)	(1)	—	—	—	(1)	(1)
Adjusting items	\$ 6	\$ 214	\$ 26	\$ (86)	\$ 160	\$ 28	\$ 604	\$ 3	\$ (10)	\$ 625
Adjusted operating income	\$ 28	\$ 657	\$ 228	\$ (63)	\$ 850	\$ 36	\$ 659	\$ 155	\$ (61)	\$ 789
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱⁱ⁾	27	236	1	32	296	25	221	—	30	276
Adjusted EBITDA	\$ 55	\$ 893	\$ 229	\$ (31)	\$ 1,146	\$ 61	\$ 880	\$ 155	\$ (31)	\$ 1,065

(i) Represents the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations.

(ii) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$120 million (2017 – \$121 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million recorded in 2017 of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

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(unaudited) (\$ millions)	Years Ended					Dec. 31, 2017 ⁽⁵⁾				
	Dec. 31, 2018					Weston Foods	Loblaw ⁽⁴⁾	Choice Properties ⁽⁴⁾	Other & Intersegment ⁽⁴⁾	Consolidated
Net earnings attributable to shareholders of the Company					\$ 574					\$ 766
Add impact of the following:										
Non-controlling interests					424					823
Income taxes					639					449
Net interest expense and other financing charges					948					523
Operating income	\$ 73	\$ 1,915	\$ 593	\$ 4	\$ 2,585	\$ 91	\$ 2,041	\$ 756	\$ (327)	\$ 2,561
Add impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ —	\$ 521	\$ —	\$ —	\$ 521	\$ —	\$ 524	\$ —	\$ —	\$ 524
Asset impairments, net of recoveries	—	83	—	(77)	6	—	53	—	3	56
Impact of healthcare reform on inventory balances	—	19	—	—	19	—	—	—	—	—
Restructuring and other charges	38	10	—	(15)	33	48	177	—	(12)	213
Loblaw's Spin-out of Choice Properties	—	8	—	12	20	—	—	—	—	—
Loblaw Card Program	—	4	—	—	4	—	107	—	—	107
Fair value adjustment on investment properties	—	6	89	(47)	48	—	—	(160)	160	—
Pension annuities and buy-outs	—	1	—	—	1	2	12	—	—	14
Fair value adjustment of derivatives	(12)	(3)	—	—	(15)	14	20	—	—	34
Wind-down of PC Financial banking services	—	(20)	—	—	(20)	—	(24)	—	—	(24)
CREIT acquisition and other related costs	—	—	141	—	141	—	—	—	—	—
Inventory loss, net of recoveries	(1)	—	—	—	(1)	(6)	—	—	—	(6)
Gain on sale of air rights	—	—	—	(13)	(13)	—	—	—	—	—
PC Optimum Program	—	—	—	—	—	—	187	—	—	187
Certain prior period items	—	—	—	—	—	—	(4)	—	—	(4)
Prior year land transfer tax recovery	—	—	—	—	—	—	(9)	—	—	(9)
Gain on disposition of Loblaw's gas bar operations	—	—	—	—	—	—	(501)	—	—	(501)
Foreign currency translation ⁽ⁱ⁾	—	—	—	(17)	(17)	—	—	—	34	34
Adjusting items	\$ 25	\$ 629	\$ 230	\$ (157)	\$ 727	\$ 58	\$ 542	\$ (160)	\$ 185	\$ 625
Adjusted operating income	\$ 98	\$ 2,544	\$ 823	\$ (153)	\$ 3,312	\$ 149	\$ 2,583	\$ 596	\$ (142)	\$ 3,186
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱⁱ⁾	121	976	1	118	1,216	107	930	1	113	1,151
Adjusted EBITDA	\$ 219	\$ 3,520	\$ 824	\$ (35)	\$ 4,528	\$ 256	\$ 3,513	\$ 597	\$ (29)	\$ 4,337

(i) Represents the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations.

(ii) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$521 million (2017 – \$524 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$9 million (2017 – \$10 million) of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

The following items impacted operating income in 2018 and 2017:

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately \$6 billion of definite life intangible assets, which are being amortized over their estimated useful lives. Loblaw expects to recognize annual amortization associated with the acquired intangible assets of approximately \$525 million until 2024, and decreasing thereafter.

Asset impairments, net of recoveries At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets.

Impact of healthcare reform on inventory balances In the first quarter of 2018, Loblaw recorded an inventory provision for the write-down of inventories below cost to net realizable value, related to its generic drug inventory, as a result of healthcare reform announced in the first quarter of 2018, effective April 1, 2018.

Restructuring and other charges The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. For details on the restructuring and other charges incurred by each of the Company's operating segments see Section 6.1, "Weston Foods Operating Results" and Section 6.2, "Loblaw Operating Results" of this MD&A.

Loblaw's Spin-out of Choice Properties In the second half of 2018, the Company and Loblaw recorded transaction and other related costs in connection with the spin-out of Loblaw's interest in Choice properties.

Loblaw Card Program In the fourth quarter of 2017, the Company and Loblaw acknowledged their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, Loblaw offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. Loblaw has recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017. In 2018, Loblaw recorded an additional charge of \$4 million.

Fair value adjustment to investment properties In conjunction with the acquisition of CREIT, the Company elected to change the measurement of investment properties from cost model to fair value model. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

Pension annuities and buy-outs The Company is undertaking annuity purchases and pension buy-outs in respect of former employees designed to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks.

Fair value adjustment of derivatives The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations primarily as a result of purchases of certain raw materials, fuels and utilities. In accordance with the Company's commodity risk management policy, the Company enters into commodity and foreign currency derivatives to reduce the impact of price fluctuations in forecasted raw material and fuel purchases over a specified period of time. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, certain changes in fair value, which include realized and unrealized gains and losses related to future purchases of raw materials and fuel, 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.

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Wind-down of PC Financial banking services In the third quarter of 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

CREIT acquisition and other related costs During 2018, Choice Properties recorded acquisition and other related costs in connection with the acquisition of CREIT.

Inventory loss, net of recoveries In 2016, Weston Foods' damaged inventory of \$11 million (U.S. \$9 million) was written-off and was recorded in SG&A in the Company's consolidated statement of earnings. The Company received partial proceeds from the insurance claim in 2018 and 2017. The insurance claim remains in progress and further proceeds are expected to be recorded as the claim progresses.

Gain on sale of air rights In the third quarter of 2018, a joint venture owned by Choice Properties completed the sale of air rights on one of its properties. The Company recorded a gain of \$13 million in the third quarter related to the sale.

PC Optimum Program In the fourth quarter of 2017, Loblaw announced plans to bring together the *Shoppers Optimum* and *PC Plus* reward programs to create one program, *PC Optimum*. As a result, Loblaw recorded a charge of \$165 million, related to the revaluation of the existing liability for outstanding points to reflect a higher anticipated redemption rate under the new program, and \$22 million, related to the impairment of certain IT assets that support the existing loyalty programs in the fourth quarter of 2017.

Certain prior period items In the fourth quarter of 2017, Management identified excess impairment that was recorded against Loblaw's Franchise Loans Receivable balance on the consolidated balance sheets and recorded a gain to correct this prior period error. Management determined that the impact of this item on the Company's previously issued annual and interim financial statements and the current period financial statements was not material. This gain was partially offset by certain charges associated with a prior period regulatory matter recorded in the fourth quarter of 2017.

Prior year land transfer tax recovery In the fourth quarter of 2017, Loblaw recorded a recovery of \$9 million in SG&A in Loblaw's Retail segment related to a partial recovery of a prior year land transfer tax assessment.

Gain on disposition of Loblaw's gas bar operations On July 17, 2017, Loblaw sold its gas bar operations, for proceeds of approximately \$540 million. Loblaw has recorded a pre-tax gain on sale of \$501 million (post-tax gain of \$432 million), net of related costs, in the third quarter of 2017.

Foreign currency translation The Company’s consolidated financial statements are expressed in Canadian dollars. A portion of the Company’s (excluding Loblaw’s) net assets are denominated in U.S. dollars and as a result, the Company is exposed to foreign currency translation gains and losses. The impact of foreign currency translation on a portion of the U.S. dollar denominated net assets, primarily cash and cash equivalents and short term investments held by foreign operations, is recorded in SG&A and the associated tax, if any, is recorded in income taxes. In the fourth quarter of 2018, a foreign currency translation gain of \$1 million (2017 – \$1 million) was recorded in SG&A as a result of the appreciation of the U.S. dollar relative to the Canadian dollar. Year-to-date, a foreign currency translation gain of \$17 million (2017 – loss of \$34 million) was recorded in SG&A as a result of the appreciation (2017 – depreciation) of the U.S. dollar relative to the Canadian dollar.

Adjusted Net Interest Expense and Other Financing Charges The Company believes adjusted net interest expense and other financing charges is useful in assessing the ongoing net financing costs of the Company.

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)	Quarters Ended		Years Ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Net interest expense and other financing charges	\$ 218	\$ 115	\$ 948	\$ 523
Add: Loblaw’s charge related to Glenhuron Bank Limited	—	—	(176)	—
Fair value adjustment of the Trust Unit liability	85	8	41	7
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(94)	10	(50)	25
Loblaw’s Spin-out of Choice Properties	(1)	—	(1)	—
Adjusted net interest expense and other financing charges	\$ 208	\$ 133	\$ 762	\$ 555

In addition to certain items described in the “Adjusted EBITDA” section above, the following items impacted net interest expense and other financing charges in 2018 and 2017:

Loblaw’s charge related to Glenhuron Bank Limited In the third quarter of 2018, Loblaw recorded a charge of \$367 million related to the Tax Court’s decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest expense and other financing charges and \$191 million was recorded in income taxes.

Fair value adjustment of the Trust Unit liability The Company is exposed to market price fluctuations as a result of the Choice Properties Trust Units held by unitholders other than the Company. These Trust Units are presented as a liability on the Company’s consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting date based on the market price of Trust Units at the end of each period. An increase (decrease) in the market price of Trust Units results in a charge (income) to net interest expense and other financing charges.

Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares The fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares is non-cash and is included in net interest expense and other financing charges. The adjustment is determined by changes in the value of the underlying Loblaw common shares. An increase (decrease) in the market price of Loblaw common shares results in a charge (income) to net interest expense and other financing charges.

Management's Discussion and Analysis

Adjusted Income Taxes and Adjusted Income Tax Rate The Company believes the adjusted income tax rate applicable to adjusted earnings before taxes is useful in assessing the underlying operating performance of its business.

The following table reconciles the effective income tax rate applicable to adjusted earnings before taxes to the GAAP effective income tax rate applicable to earnings before taxes as reported for the periods ended as indicated.

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾
Adjusted operating income ⁽ⁱ⁾	\$ 850	\$ 789	\$ 3,312	\$ 3,186
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	208	133	762	555
Adjusted earnings before taxes	\$ 642	\$ 656	\$ 2,550	\$ 2,631
Income taxes	\$ 60	\$ (29)	\$ 639	\$ 449
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽ⁱⁱ⁾	56	170	170	225
Loblaw's charge related to Glenhuron Bank Limited	—	—	(191)	—
Remeasurement of deferred tax balances	62	19	62	19
Statutory corporate income tax rate change	—	19	—	19
Adjusted income taxes	\$ 178	\$ 179	\$ 680	\$ 712
Effective income tax rate applicable to earnings before taxes	12.7%	(59.2)%	39.0%	22.0%
Adjusted income tax rate applicable to adjusted earnings before taxes	27.7%	27.3 %	26.7%	27.1%

(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.

In addition to certain items described in the "Adjusted EBITDA" and "Adjusted Net Interest Expense and Other Financing Charges" sections above, the following item impacted income taxes and the effective income tax rate in 2018 and 2017:

Loblaw's charge related to Glenhuron Bank Limited In the third quarter of 2018, Loblaw recorded a charge of \$367 million related to the Tax Court's decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest expense and other financing charges and \$191 million was recorded in income taxes.

Remeasurement of deferred tax balances In the fourth quarter of 2018, the Company recorded a deferred tax recovery of \$62 million resulting from the change in the manner by which the Company expects to recover certain assets. In the fourth quarter of 2017, the Company recorded a deferred tax recovery of \$19 million resulting from a change in the applicable provincial income tax rate used to measure certain deferred tax balances caused by a change in the location of certain business activities.

Statutory corporate income tax rate change The Company's deferred income tax assets and liabilities are impacted by changes to provincial and federal statutory corporate income tax rates resulting in a charge or benefit to earnings. The Company implements changes in the statutory corporate income tax rate in the same period the change is substantively enacted by the legislative body.

In the fourth quarter of 2017, the U.S. government enacted a 14.0% decrease in the U.S. federal statutory corporate income tax rate from 35.0% to 21.0%. As a result, Weston Foods recorded a recovery of \$19 million in 2017 related to the remeasurement of its deferred tax liabilities.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings per Common Share The Company believes 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.

The following table reconciles net earnings attributable to shareholders of the Company to net earnings available to common shareholders of the Company and then to adjusted net earnings available to common shareholders of the Company reported for the periods ended as indicated.

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾	Dec. 31, 2018	Dec. 31, 2017 ⁽⁵⁾
Net earnings attributable to shareholders of the Company	\$ 281	\$ 44	\$ 574	\$ 766
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Net earnings available to common shareholders of the Company	\$ 271	\$ 34	\$ 530	\$ 722
Less: Reduction in net earnings due to dilution at Loblaw	—	—	(2)	(6)
Net earnings available to common shareholders for diluted earnings per share	\$ 271	\$ 34	\$ 528	\$ 716
Net earnings attributable to shareholders of the Company	\$ 281	\$ 44	\$ 574	\$ 766
Adjusting items (refer to the following table)	(39)	192	378	181
Adjusted net earnings attributable to shareholders of the Company	\$ 242	\$ 236	\$ 952	\$ 947
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Adjusted net earnings available to common shareholders of the Company	\$ 232	\$ 226	\$ 908	\$ 903
Less: Reduction in net earnings due to dilution at Loblaw	—	—	(2)	(6)
Adjusted net earnings available to common shareholders for diluted earnings per share	\$ 232	\$ 226	\$ 906	\$ 897
Weighted average common shares outstanding (millions) ⁽ⁱ⁾	145.7	128.3	132.2	128.3

(i) Includes impact of dilutive instruments for purposes of calculating adjusted diluted net earnings per common share.

Management's Discussion and Analysis

The following table reconciles 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 periods ended as indicated.

	Quarters Ended			
	Dec. 31, 2018		Dec. 31, 2017 ⁽⁵⁾	
(unaudited) (\$ except where otherwise indicated)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share
As reported	\$ 271	\$ 1.86	\$ 34	\$ 0.27
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 44	\$ 0.30	\$ 44	\$ 0.35
Asset impairments, net of recoveries	(26)	(0.17)	19	0.15
Restructuring and other charges	5	0.03	82	0.64
Loblaw's Spin-out of Choice Properties	9	0.06	—	—
Loblaw Card Program	—	—	39	0.30
Fair value adjustment on investment properties	4	0.03	—	—
Fair value adjustment of derivatives	1	0.01	(5)	(0.04)
Wind-down of PC Financial banking services	—	—	(7)	(0.05)
CREIT acquisition and other related costs	9	0.06	—	—
Inventory loss, net of recoveries	—	—	(1)	(0.01)
PC Optimum Program	—	—	67	0.51
Certain prior period items	—	—	(6)	(0.05)
Prior year land transfer tax recovery	—	—	(3)	(0.02)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	77	0.53	(7)	(0.05)
Remeasurement of deferred tax balances	(62)	(0.43)	(10)	(0.08)
Fair value adjustment of the Trust Unit liability	(99)	(0.68)	(2)	(0.02)
Statutory corporate income tax rate change	—	—	(19)	(0.15)
Foreign currency translation	(1)	(0.01)	1	0.01
Adjusting items	\$ (39)	\$ (0.27)	\$ 192	\$ 1.49
Adjusted	\$ 232	\$ 1.59	\$ 226	\$ 1.76

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

(unaudited) (\$ except where otherwise indicated)	Years Ended			
	Dec. 31, 2018		Dec. 31, 2017 ⁽⁵⁾	
	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share
As reported	\$ 530	\$ 3.99	\$ 722	\$ 5.58
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 191	\$ 1.45	\$ 184	\$ 1.43
Loblaw's charge related to Glenhuron Bank Limited	184	1.39	—	—
Asset impairments, net of recoveries	(26)	(0.19)	22	0.17
Impact of healthcare reform on inventory balances	7	0.05	—	—
Restructuring and other charges	26	0.19	93	0.73
Loblaw's Spin-out of Choice Properties	16	0.12	—	—
Loblaw Card Program	1	0.01	39	0.30
Fair value adjustment on investment properties	23	0.17	—	—
Pension annuities and buy-outs	1	0.01	5	0.04
Fair value adjustment of derivatives	(10)	(0.08)	17	0.13
Wind-down of PC Financial banking services	(7)	(0.05)	(9)	(0.07)
CREIT acquisition and other related costs	68	0.51	—	—
Inventory loss, net of recoveries	(1)	(0.01)	(3)	(0.02)
Gain on sale of air rights	(6)	(0.05)	—	—
PC Optimum Program	—	—	67	0.52
Certain prior period items	—	—	(6)	(0.05)
Prior year land transfer tax recovery	—	—	(3)	(0.02)
Gain on disposition of Loblaw's gas bar operations	—	—	(207)	(1.61)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	45	0.35	(18)	(0.14)
Remeasurement of deferred tax balances	(62)	(0.47)	(10)	(0.08)
Fair value adjustment of the Trust Unit liability	(57)	(0.43)	(2)	(0.02)
Statutory corporate income tax rate change	—	—	(19)	(0.15)
Foreign currency translation	(15)	(0.11)	31	0.25
Adjusting items	\$ 378	\$ 2.86	\$ 181	\$ 1.41
Adjusted	\$ 908	\$ 6.85	\$ 903	\$ 6.99

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

Free Cash Flow The Company believes free cash flow is useful in assessing the Company's cash available for additional financing and investing activities.

The following table reconciles free cash flow to GAAP measures reported for the periods ended as indicated.

(unaudited) (\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Cash flows from operating activities	\$ 455	\$ 1,213	\$ 2,719	\$ 3,425
Less: Interest paid	224	104	992	556
Fixed asset purchases	546	486	1,250	1,177
Intangible asset additions	74	89	343	297
Free cash flow	\$ (389)	\$ 534	\$ 134	\$ 1,395

Management's Discussion and Analysis

Choice Properties' Funds from Operations The following table reconciles Choice Properties' Funds from Operations to net income for the periods ended as indicated. Choice Properties considers Funds from Operations to be a useful measure of operating performance as it adjusts for items included in net income that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust's performance.

(unaudited) (\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
Net income	\$ 281	\$ 36	\$ 650	\$ 405
Add (deduct) impact of the following:				
Fair value adjustments on Class B Limited Partnership units	(215)	19	(594)	(38)
Distributions on Class B Limited Partnership units	72	59	271	232
Fair value adjustments on investment properties	19	3	89	(159)
CREIT acquisition and other related costs	11	—	141	—
Fair value adjustments of investment property held in equity accounted joint ventures	1	—	5	1
Internal expenses for leasing	2	1	6	2
Capitalized interest on equity accounted joint venture	1	—	3	—
Accelerated amortization of debt premium	—	—	37	—
Net income attributable to non-controlling interests	—	(1)	—	(1)
Fair value adjustments on unit-based compensation	—	—	(4)	1
Funds from Operations	\$ 172	\$ 117	\$ 604	\$ 443

19. ADDITIONAL INFORMATION

Additional information about the Company, including its 2018 AIF and other disclosure documents, has been filed electronically with the Canadian securities regulatory authorities through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com.

This Annual Report includes selected information on Loblaw, a public company with shares trading on the TSX. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw with SEDAR from time to time. These filings are also available on Loblaw's website at www.loblaw.ca.

This Annual Report includes selected information on Choice Properties. The Trust is listed on the TSX. For information regarding Choice Properties, readers should also refer to the materials filed by Choice Properties with SEDAR from time to time. These filings are also available on Choice Properties' website at www.choicereit.ca.

Toronto, Canada

February 25, 2019

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Management's Statement of Responsibility for Financial Reporting

The management of George Weston 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. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. It also includes ensuring that the financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Management is also responsible 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 controls over financial reporting. A dedicated control compliance team reviews and evaluates internal controls, the results of which are shared with management on a quarterly basis.

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

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

[signed]

Galen G. Weston
Chairman and
Chief Executive Officer

[signed]

Richard Dufresne
President and
Chief Financial Officer

Toronto, Canada
February 25, 2019

Independent Auditors' Report

To the Shareholders of George Weston Limited:

Opinion

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

- the consolidated balance sheets as at December 31, 2018 and December 31, 2017
- the consolidated statements of earnings for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2018 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

Independent Auditors' Report

We obtained the information included in Management's Discussion and Analysis and a document entitled "2018 Annual Report" filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

The image shows a handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a single horizontal line that starts under the 'K' and ends under the 'P', serving as a decorative underline.

Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada
February 25, 2019

Consolidated Statements of Earnings

For the years ended December 31

(millions of Canadian dollars except where otherwise indicated)

	2018	2017 ⁽ⁱ⁾
Revenue	\$ 48,568	\$ 48,289
Operating Expenses		
Cost of inventories sold (note 13)	33,378	33,836
Selling, general and administrative expenses (note 33)	12,605	11,892
	45,983	45,728
Operating Income	2,585	2,561
Net Interest Expense and Other Financing Charges (note 7)	948	523
Earnings Before Income Taxes	1,637	2,038
Income Tax (note 8)	639	449
Net Earnings	998	1,589
Attributable to:		
Shareholders of the Company (note 9)	574	766
Non-Controlling Interests	424	823
Net Earnings	\$ 998	\$ 1,589
Net Earnings per Common Share (\$) (note 9)		
Basic	\$ 4.02	\$ 5.65
Diluted	\$ 3.99	\$ 5.58

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31

(millions of Canadian dollars)

	2018	2017 ⁽ⁱ⁾
Net earnings	\$ 998	\$ 1,589
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment (note 33)	84	(64)
Unrealized gains on cash flow hedges (note 33)	4	2
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial gains (losses) (note 29)	92	(20)
Adjustment to fair value of investment properties (note 16)	16	—
Other comprehensive income (loss)	196	(82)
Comprehensive Income	1,194	1,507
Attributable to:		
Shareholders of the Company	717	692
Non-Controlling Interests	477	815
Comprehensive Income	\$ 1,194	\$ 1,507

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

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31
(millions of Canadian dollars)

	2018	2017 ⁽ⁱ⁾
ASSETS		
Current Assets		
Cash and cash equivalents (note 10)	\$ 1,521	\$ 2,034
Short term investments (note 10)	281	1,113
Accounts receivable (note 11)	1,309	1,324
Credit card receivables (note 12)	3,329	3,100
Inventories (note 13)	5,001	4,623
Prepaid expenses and other assets	370	236
Assets held for sale (note 14)	44	33
Total Current Assets	11,855	12,463
Fixed Assets (note 15)	12,101	11,689
Investment Properties (note 16)	4,847	276
Equity Accounted Joint Venture (note 17)	734	19
Intangible Assets (note 18)	7,958	8,368
Goodwill (note 19)	4,781	4,377
Deferred Income Taxes (note 8)	286	247
Security Deposits (note 10)	87	86
Franchise Loans Receivable (note 33)	78	166
Other Assets (note 20)	1,087	849
Total Assets	\$ 43,814	\$ 38,540
LIABILITIES		
Current Liabilities		
Bank indebtedness (note 36)	\$ 56	\$ 110
Trade payables and other liabilities	5,762	5,451
Loyalty liability (note 21)	228	349
Provisions (note 22)	205	325
Income taxes payable	171	148
Short term debt (note 23)	1,579	1,258
Long term debt due within one year (note 24)	1,343	1,635
Associate interest	260	263
Total Current Liabilities	9,604	9,539
Provisions (note 22)	167	190
Long Term Debt (note 24)	13,975	10,457
Trust Unit Liability (note 33)	2,658	634
Deferred Income Taxes (note 8)	2,515	2,163
Other Liabilities (note 25)	691	762
Total Liabilities	29,610	23,745
EQUITY		
Share Capital (note 26)	3,583	1,038
Retained Earnings	5,017	7,188
Contributed Surplus (notes 27 & 30)	(799)	(432)
Accumulated Other Comprehensive Income	239	140
Total Equity Attributable to Shareholders of the Company	8,040	7,934
Non-Controlling Interests	6,164	6,861
Total Equity	14,204	14,795
Total Liabilities and Equity	\$ 43,814	\$ 38,540

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

Contingent liabilities (note 35).

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board

[signed]

Galen G. Weston

Chairman and

Chief Executive Officer

[signed]

Barbara G. Stymiest

Director

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to Fair Value on Transfer of Investment Properties	Total Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance as at Dec. 31, 2017⁽ⁱ⁾	\$ 221	\$ 817	\$ 1,038	\$ 7,188	\$ (432)	\$ 139	\$ 1	\$ —	\$ 140	\$ 6,861	\$ 14,795
Impact of adopting IFRS 9 ⁽ⁱⁱ⁾	—	—	—	(36)	—	—	—	—	—	(36)	(72)
Restated balance as at Jan. 1, 2018	\$ 221	\$ 817	\$ 1,038	\$ 7,152	\$ (432)	\$ 139	\$ 1	\$ —	\$ 140	\$ 6,825	\$ 14,723
Net earnings	—	—	—	574	—	—	—	—	—	424	998
Other comprehensive income ⁽ⁱⁱⁱ⁾	—	—	—	47	—	85	3	8	96	53	196
Comprehensive income	—	—	—	621	—	85	3	8	96	477	1,194
Effect of share-based compensation (notes 26 & 30)	12	—	12	—	(9)	—	—	—	—	(1)	2
Shares purchased and cancelled (note 26)	(14)	—	(14)	(109)	—	—	—	—	—	—	(123)
Net effect of shares held in trusts (notes 26 & 30)	—	—	—	10	—	—	—	—	—	—	10
Spin-out of Choice Properties	2,547	—	2,547	(2,353)	—	—	3	—	3	(73)	124
Loblaw capital transactions and dividends (notes 27 & 30)	—	—	—	—	(350)	—	—	—	—	(1,064)	(1,414)
Dividends declared											
Per common share (\$)											
– \$1.950	—	—	—	(261)	—	—	—	—	—	—	(261)
Per preferred share (\$)											
– Series I – \$1.45	—	—	—	(13)	—	—	—	—	—	—	(13)
– Series III – \$1.30	—	—	—	(10)	—	—	—	—	—	—	(10)
– Series IV – \$1.30	—	—	—	(10)	—	—	—	—	—	—	(10)
– Series V – \$1.1875	—	—	—	(10)	—	—	—	—	—	—	(10)
Tax impact on conversion of Class C LP Units (note 6)	—	—	—	—	(8)	—	—	—	—	—	(8)
	2,545	—	2,545	(2,756)	(367)	—	3	—	3	(1,138)	(1,713)
Balance as at Dec. 31, 2018	\$ 2,766	\$ 817	\$ 3,583	\$ 5,017	\$ (799)	\$ 224	\$ 7	\$ 8	\$ 239	\$ 6,164	\$ 14,204

(millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to Fair Value on Transfer of Investment Properties	Total Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance as at Dec. 31, 2016⁽ⁱ⁾	\$ 195	\$ 817	\$ 1,012	\$ 6,722	\$ (156)	\$ 204	\$ —	\$ —	\$ 204	\$ 7,044	\$ 14,826
Impact of adopting IFRS 15 ⁽ⁱⁱ⁾	—	—	—	15	—	—	—	—	—	16	31
Restated balance as at Jan. 1, 2017	\$ 195	\$ 817	\$ 1,012	\$ 6,737	\$ (156)	\$ 204	\$ —	\$ —	\$ 204	\$ 7,060	\$ 14,857
Net earnings	—	—	—	766	—	—	—	—	—	823	1,589
Other comprehensive income (loss) ⁽ⁱⁱⁱ⁾	—	—	—	(10)	—	(65)	1	—	(64)	(8)	(82)
Comprehensive income (loss)	—	—	—	756	—	(65)	1	—	(64)	815	1,507
Effect of share-based compensation (notes 26 & 30)	26	—	26	(1)	(1)	—	—	—	—	(4)	20
Shares purchased and cancelled (note 26)	—	—	—	(31)	—	—	—	—	—	—	(31)
Net effect of shares held in trusts (notes 26 & 30)	—	—	—	2	—	—	—	—	—	—	2
Loblaw capital transactions and dividends (notes 27 & 30)	—	—	—	—	(275)	—	—	—	—	(1,010)	(1,285)
Dividends declared											
Per common share (\$)											
– \$1.805	—	—	—	(232)	—	—	—	—	—	—	(232)
Per preferred share (\$)											
– Series I – \$1.45	—	—	—	(14)	—	—	—	—	—	—	(14)
– Series III – \$1.30	—	—	—	(10)	—	—	—	—	—	—	(10)
– Series IV – \$1.30	—	—	—	(9)	—	—	—	—	—	—	(9)
– Series V – \$1.1875	—	—	—	(10)	—	—	—	—	—	—	(10)
	26	—	26	(305)	(276)	—	—	—	—	(1,014)	(1,569)
Balance as at Dec. 31, 2017	\$ 221	\$ 817	\$ 1,038	\$ 7,188	\$ (432)	\$ 139	\$ 1	\$ —	\$ 140	\$ 6,861	\$ 14,795

- (i) Certain opening retained earnings and non-controlling interests adjustments have been made to reflect the implementation of IFRS 9 and 15 and a change in accounting policy (note 2).
- (ii) Other comprehensive loss includes actuarial gains of \$92 million (2017 – losses of \$20 million), gains of \$47 million (2017 – losses of \$10 million) of which is presented above in retained earnings and gains of \$45 million (2017 – losses of \$10 million) in non-controlling interests. Also included in non-controlling interests is a foreign currency translation loss of \$1 million, an unrealized gain on cash flow hedges of \$1 million and fair value gain on transfer of investment properties of \$8M.
- See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31
(millions of Canadian dollars)

	2018	2017 ⁽ⁱ⁾
Operating Activities		
Net earnings	\$ 998	\$ 1,589
Add:		
Net interest expense and other financing charges (note 7)	948	523
Income taxes (note 8)	639	449
Depreciation and amortization	1,746	1,685
Adjustment to fair value of investment properties	48	—
Gain on disposition of Loblaw's gas bar operations (note 14)	—	(501)
Asset impairments, net of recoveries	21	109
Foreign currency translation loss (note 33)	(17)	34
Change in provisions (note 22)	(188)	238
PC Optimum Program (note 21)	—	165
	4,195	4,291
Change in credit card receivables (note 12)	(327)	(174)
Change in non-cash working capital	(624)	147
Income taxes paid	(557)	(892)
Interest received	44	23
Other	(12)	30
Cash Flows from Operating Activities	2,719	3,425
Investing Activities		
Fixed asset and investment properties purchases	(1,250)	(1,177)
Intangible asset additions (note 18)	(343)	(297)
Business acquisition, net of cash acquired (note 6)	(1,619)	—
Cash assumed on initial consolidation of franchises (note 6)	18	26
Change in short term investments (note 10)	832	(135)
Change in security deposits (note 10)	(1)	—
Proceeds from disposal of assets	189	24
Proceeds from sale of Loblaw's gas bar operations (note 14)	—	540
Other	(82)	(56)
Cash Flows used in Investing Activities	(2,256)	(1,075)
Financing Activities		
Change in bank indebtedness	(54)	(5)
Change in short term debt (note 23)	321	17
Interest paid	(992)	(556)
Long term debt – Issued (note 24)	4,880	686
– Retired (note 24)	(3,565)	(450)
Share capital – Issued (notes 26 & 30)	134	22
– Purchased and held in trusts (note 26)	—	(7)
– Purchased and cancelled (note 26)	(123)	(31)
Loblaw common share capital – Issued (notes 27 & 30)	78	41
– Purchased and held in trusts (note 27)	(36)	(48)
– Purchased and cancelled (note 27)	(1,082)	(1,091)
Dividends – To common shareholders	(241)	(229)
– To preferred shareholders	(44)	(44)
– To minority shareholders	(228)	(175)
Other	(35)	5
Cash Flows used in Financing Activities	(987)	(1,865)
Effect of foreign currency exchange rate changes on cash and cash equivalents	11	(11)
Change in Cash and Cash Equivalents	(513)	474
Cash and Cash Equivalents, Beginning of Period	2,034	1,560
Cash and Cash Equivalents, End of Period	\$ 1,521	\$ 2,034

(i) Certain comparative figures have been restated (note 2).
See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1. Nature and Description of the Reporting Entity

George Weston Limited (“GWL” or the “Company”) is a Canadian public company incorporated in 1928, with its registered office located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. The Company’s parent is Wittington Investments, Limited (“Wittington”).

On November 1, 2018, the Company and Loblaw completed a reorganization under which Loblaw Companies Limited (“Loblaw”) spun out its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust (“Choice Properties”) (the “reorganization”), as described in Note 5 “Loblaw’s Spin-out of Choice Properties Real Estate Investment Trust”. In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw shareholders other than the Company and its subsidiaries (“Loblaw minority shareholders”). Following the reorganization, the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by GWL prior to the reorganization) and Choice Properties became a reportable operating segment of the Company.

The Company operates through its three reportable operating segments, Weston Foods, Loblaw and Choice Properties. The Company also holds cash and short term investments. The Weston Foods operating segment includes a leading North American bakery that offers packaged bread and rolls in Canada as well as frozen and artisan bread and rolls, cakes, donuts, pies, biscuits and alternatives throughout Canada and the U.S.

Loblaw has two reportable operating segments, Retail and Financial Services. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services and wireless mobile products and services. Loblaw is one reportable operating segment of the Company.

Choice Properties owns, manages and develops a high quality portfolio of commercial retail, industrial, office and residential properties across Canada.

As at year end 2018, GWL’s ownership interests in Loblaw and Choice Properties were approximately 50.4% (2017 – 48.6%) and 65.4% (2017 – 88.5%), respectively.

Note 2. Significant Accounting Policies

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

These consolidated financial statements were authorized for issuance by the Company’s Board of Directors (“Board”) on February 25, 2019.

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

- investment properties as described in note 16;
- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 29;
- amounts recognized for cash-settled share-based compensation arrangements as described in note 30; and
- certain financial instruments as described in note 33.

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

The consolidated financial statements are presented in Canadian dollars.

Fiscal Year The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31.

As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2017 and December 31, 2016 contained 52 weeks. The next 53-week year will occur in fiscal year 2020.

Basis of Consolidation The consolidated financial statements include the accounts of GWL 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. The Company's interest in the voting share capital of its subsidiaries is 100%, except for Choice Properties, with an effective interest of approximately 65.4% (2017 - 88.5%) and for Loblaw, which is approximately 50.4% (2017 - 48.6%). GWL's ownership in Choice Properties and Loblaw is impacted by changes in Choice Properties' trust units and Loblaw's common share equity, respectively.

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' portion of the net assets and net earnings of Loblaw. Transactions with non-controlling interests are treated as transactions with equity owners of the Company. Changes in GWL's ownership interest in its subsidiaries are accounted for as equity transactions.

Choice Properties' Trust Units held by non-controlling interests are presented as a liability as the Trust Units are redeemable for cash at the option of the holder, subject to certain restrictions.

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

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.

Notes to the Consolidated Financial Statements

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

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

Weston Foods recognizes sales upon delivery of its products to customers and acceptance of its products by customers net of provisions for returns, discounts and allowances.

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

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

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

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

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

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

Income Taxes Current and deferred taxes are recognized in the consolidated statements 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 sheets.

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

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

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

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

Choice Properties qualifies as a “mutual fund trust” and a real estate investment trust (“REIT”) under the *Income Tax Act* (Canada). Certain legislation relating to the federal income taxation of Specified Investment Flow Through trusts or partnerships (“SIFT”) provides that certain distributions from a SIFT will not be deductible in computing the SIFT’s taxable income and that the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations.

Under the SIFT rules, the taxation regime will not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”) and distributions may be deducted against the REIT’s taxable income. Choice Properties has reviewed the SIFT rules and has assessed its interpretation and application to Choice Properties’ assets and revenue and has determined that it meets the REIT Conditions. The Trustees intend to annually distribute all taxable income directly earned by Choice Properties to Unitholders and to deduct such distributions for income tax purposes and, accordingly, no net current income tax expense or deferred income tax assets or liabilities have been recorded in the consolidated financial statements of Choice Properties related to its Canadian investment properties.

The Trust also consolidates certain taxable entities in Canada and in the United States for which current and deferred income taxes are recorded. 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.

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

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

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

Accounts Receivable Accounts receivable consists primarily of receivables from Loblaw’s non-consolidated franchisees, government and third-party drug plans arising from prescription drug sales, independent accounts and receivables from Weston Foods customers and suppliers, and are recorded net of allowances.

Notes to the Consolidated Financial Statements

Credit Card Receivables Loblaw, through President's Choice Bank ("PC Bank"), a wholly-owned subsidiary of Loblaw, 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, Loblaw estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. For credit-impaired credit card receivables, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

The Company implemented IFRS 9, "Financial Instruments" ("IFRS 9"), replacing International Accounting Standard 39, "Financing Instruments: Recognition and Measurement" ("IAS 39"), on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at January 1, 2018 with no restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

Prior to January 1, 2018, under IAS 39, credit card receivables are considered past due when a cardholder has not made a payment by the contractual due date, taking into account a grace period. The amount of credit card receivables that fall within the grace period is considered current. Credit card receivables past due but not impaired are those receivables that are either less than 90 days past due or whose past due status is reasonably expected to be remedied. Any credit card receivables with a payment that is contractually 180 days in arrears, or where the likelihood of collection is considered remote, is written off.

As at January 1, 2018 and thereafter, under IFRS 9, the Company applies the "expected credit loss" ("ECL") model to assess for impairment on its credit card receivables at each balance sheet date. Credit card receivables are assessed collectively for impairment by applying the three-stage approach. Refer to the Impairment of Financial Assets policy for details of each stage. The application of the ECL model required PC Bank to apply significant judgments, assumptions and estimations (see note 3).

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

Loblaw, 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. Loblaw consolidates *Eagle* as a structured entity.

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

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

Inventories The Company values inventories at the lower of cost and net realizable value. Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. Loblaw's retail store inventories, Loblaw's inventories at distribution centres and Weston Foods' inventories are measured at weighted average cost. Shoppers Drug Mart's inventories are measured on a first-in first-out basis.

Loblaw 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 or services, and are recognized as a reduction in the cost of inventories sold and the related inventory in the consolidated statements of earnings and the consolidated balance sheets, 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.

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

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

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

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

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

Buildings	10 to 40 years
Equipment and fixtures	2 to 16 years
Building improvements	up to 10 years
Leasehold improvements	Lesser of term of the lease and useful life up to 25 years
Assets held under financing leases	Lesser of term of the lease ⁽ⁱ⁾ and useful life ⁽ⁱⁱ⁾

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 30 years, and are tested for impairment as described in the Impairment of Non-Financial Assets policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually. Amortization expense for intangible assets is recognized in SG&A.

Indefinite life intangible assets are measured at cost less any accumulated impairment losses. These intangible assets are tested for impairment on an annual basis or more frequently if there are indicators that intangible assets may be impaired as described in the Impairment of Non-Financial Assets policy.

Impairment of Non-Financial Assets At each balance sheet date, the Company reviews the carrying amounts of its non-financial assets, other than inventories and deferred tax assets, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of cash inflows of other assets or groups of assets. This grouping is referred to as a cash generating unit (“CGU”). Weston Foods’ manufacturing assets are grouped together at the level of production categories which are capable of servicing their customers independently of other production categories. Loblaw has determined that each location is a separate CGU for purposes of impairment testing.

Corporate assets, which include head office facilities and distribution centers, do not generate separate cash inflows. Corporate assets are tested for impairment at the minimum grouping of CGUs to which the corporate assets can be reasonably and consistently allocated. Goodwill arising from a business combination is tested for impairment at the minimum grouping of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of a CGU or CGU grouping is the higher of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows from the CGU or CGU grouping, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU or CGU grouping. The fair value less costs to sell is based on the best information available to reflect the amount that could be obtained from the disposal of the CGU or CGU grouping in an arm’s length transaction between knowledgeable and willing parties, net of estimates of the costs of disposal.

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

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

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

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

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

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

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

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

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

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

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

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

Financial liabilities are classified and measured based on two categories: amortized cost or FVTPL.

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

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

Asset/Liability	Classification / Measurement
Cash and cash equivalents	Amortized cost
Short term investments	Amortized cost
Accounts receivable	Amortized cost
Credit card receivables	Amortized cost
Security deposits	Fair value through profit and loss
Franchise loans receivable	Amortized cost
Certain other assets	Amortized cost / fair value through profit and loss
Certain long term investments	Fair value through other comprehensive income
Bank indebtedness	Amortized cost
Trade payables and other liabilities	Amortized cost
Short term debt	Amortized cost
Long term debt	Amortized cost
Trust Unit liability	Fair value through profit and loss
Certain other liabilities	Amortized cost
Derivatives	Fair value through profit and loss / fair value through other comprehensive income

Financial derivative instruments in the form of forwards and futures, as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts, are recorded at fair value on the consolidated balance sheet. The Company does not use derivative instruments for speculative purposes. Embedded derivatives are separated from the host contract and accounting 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 33 "Financial Instruments" and Note 34 "Financial Risk Management".

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

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

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

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

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

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

Type	Valuation Approach
Cash and Cash Equivalents, Short Term Investments, Security Deposits, Accounts Receivable, Credit Card Receivables, Bank Indebtedness, Trade Payables and Other Liabilities and Short Term Debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise Loans Receivable	The carrying amount approximates fair value as fluctuations in the forward interest rates would not have significant impacts on the valuation and the provisions recorded for all impaired receivables.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: <ul style="list-style-type: none"> • Quoted market prices or dealer quotes for similar instruments; • Observable market information as well as valuations determined by external valutors with experience in the financial markets.
Long Term Debt, Trust Unit Liability and certain Other Financial Instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

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

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

Impairment of Financial Assets The Company implemented IFRS 9 replacing IAS 39 on January 1, 2018 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at January 1, 2018 with no restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 39.

Prior to January 1, 2018, under IAS 39, an assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the estimated future cash flows occur after their initial recognition and the loss can be reliably measured. If such objective evidence has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the

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financial assets' original effective interest rate. Impairment losses are recorded in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

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

As at January 1, 2018 and thereafter, under IFRS 9, a forward-looking ECL model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the increase in credit risks of a financial instrument:

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

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

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

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

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

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

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

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

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

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

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

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

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

Multi-Employer Pension Plans The Company participates in multi-employer pension plans ("MEPP") 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 Share-Based Compensation Plans Stock options, Restricted Share Units ("RSUs"), Performance Share Units ("PSUs"), Director Deferred Share Units ("DSUs") and Executive Deferred Share Units ("EDSUs") issued by the Company are settled in common shares and are accounted for as equity-settled awards.

The Company and Loblaw's 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 prices of the GWL or Loblaw common shares 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 GWL or Loblaw common share. Dividends paid may be reinvested in RSUs and PSUs and are treated as capital transactions.

GWL and Loblaw established trusts for each of their RSU and PSU plans to facilitate the purchase of shares for future settlement upon vesting. Each company is the sponsor of their respective trusts and has assigned Computershare Trust Company of Canada as the trustee. GWL and Loblaw fund the purchase of shares for settlement and earn management fees from the trusts. 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 obligations.

Members of GWL's, Loblaw's and Choice Properties' Board, who are not management, 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 Share-Based Compensation Plans Unit Options, Restricted Units ("RUs"), Performance Units ("PUs"), and Trustee Deferred Units ("DUs") issued by Choice Properties, and certain DSUs are accounted for as cash-settled awards.

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

- The expected distribution yield is estimated based on the expected annual distribution prior to the balance sheet date and the closing Unit price as at the balance sheet date;
- The expected Unit price volatility is estimated based on the average volatility of investment grade entities in the Standard & Poor's/Toronto Stock Exchange ("TSX") REIT Index over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the balance sheet date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on expectations of option holder behaviour.

Notes to the Consolidated Financial Statements

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

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

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

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

Unit-Based Compensation Unit-Settled Restricted Units ("URUs") are accounted for as cash-settled awards. Typically, full vesting of the URUs would not occur until the employee had remained with Choice for three or five years from the grant date. Depending on the nature of the grant, the URUs are subject to a six- or seven-year holding period during which the Units cannot be disposed. The fair value of each URU granted is measured based on the market value of a Trust Unit at the balance sheet date, less a discount to account for the vesting and holding period restriction placed on the URUs.

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

Accounting Standards Implemented in 2018

On January 1, 2018, the Company implemented IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 9, "Financial Instruments" ("IFRS 9"), in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts on implementation of IFRS 15 and IFRS 9 on the Company's consolidated financial statements are described below.

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

The Company adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or were completed on or before January 1, 2017 do not require restatement. Refer to the Revenue Recognition policy for significant accounting policies under IFRS 15.

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

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

The impact of the above changes on equity as at January 1, 2017 and December 31, 2017 is as follows:

Consolidated Balance Sheets			
Increase (Decrease) (\$ millions)	As at		As at
	January 1, 2017	December 31, 2017	December 31, 2017
Loyalty liability	\$ (43)	\$	(64)
Income taxes payable	12		11
Deferred income tax liabilities	—		7
Equity	31		46

The impact of this change on the comparative periods for 52 weeks ended December 31, 2017 is as follows:

Consolidated Statements of Earnings	
Increase (Decrease) (\$ millions)	52 Weeks Ended
	December 31, 2017
Revenue	\$ (3)
SG&A	(24)
Income taxes	6

The implementation of IFRS 15 had an impact on basic and diluted net earnings per share of \$0.05 for 52 weeks ended December 31, 2017.

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

The ECL model had a significant impact on PC Bank’s impairment of credit card receivables. The Company revised certain inputs of the ECL model since the implementation of IFRS 9 in the first quarter of 2018 and has retrospectively applied the impact of these revisions with no impact to earnings. As a result of the refinements, the cumulative impact arising from the ECL model on the impairment of credit card receivables as at January 1, 2018 was as follows:

Consolidated Balance Sheets	As at
Increase (Decrease)	January 1, 2018
(\$ millions)	
Credit card receivables	\$ (98)
Deferred income tax assets	26
Income taxes payable	4
Deferred income tax liabilities	(4)
Equity	(72)

The Company also applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Company. The Company adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied do not have a material impact on trade receivables and other financial assets of the Company.

General hedging IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in Note 33 "Financial Instruments" and Note 34 "Financial Risk Management".

Changes to Significant Accounting Policies

The following significant accounting policies reflect certain impacts to the presentation of the Company's annual consolidated financial statements.

Investment Properties Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company's investment properties include single tenant properties held to earn rental income and certain multi-tenant properties.

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

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

Consolidated Balance Sheets

Increase (Decrease) (\$ millions)	As at December 31, 2017	As at January 1, 2017
Investment Properties	\$ 41	\$ 41
Deferred income tax liabilities	5	5
Equity	36	36

Notes to the Consolidated Financial Statements

Note 3. Critical Accounting Estimates and Judgments

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

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

The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the Company believes could have the most significant impact on the amounts recognized in the consolidated financial statements. The Company's significant accounting policies are disclosed in note 2.

Basis of Consolidation

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

Inventories

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

Impairment of non-financial assets (goodwill, intangible assets and fixed assets)

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

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

Impairment of Franchise loans receivable and certain other financial assets

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

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

Customer Loyalty Awards Programs

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

Impairment of Credit card receivables

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

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

Fair Value of Investment Properties

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

Income and other taxes

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

Notes to the Consolidated Financial Statements

Provisions

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

Note 4. Future Accounting Standards

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

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

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

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

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

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

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

- grandfather lease definition for existing contracts at the date of initial application;
- exclude low-value and short term leases from IFRS 16 lease accounting;
- use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;

- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

While the standard was adopted on January 1, 2019, the Company continues to assess the impact of the standard on the Company's business processes, internal controls over financial reporting, data systems, IT, and financing and compensation arrangements. The Company has implemented a lease management system and is in the final stages of refining and validating the inputs and key assumptions used in its calculation of the cumulative effects of initial application to be recorded in opening retained earnings as at January 1, 2019.

Based on the information currently available, as a result of the initial application of IFRS 16 as at January 1, 2019, Management anticipates recognizing approximately \$4 billion of right-of-use assets and approximately \$5 billion of lease liabilities, inclusive of current finance leases, on its consolidated balance sheet, and derecognizing approximately \$130 million of deferred rent obligation from its consolidated balance sheet, with the difference, net of the deferred tax impact, recorded in opening retained earnings. Certain other balance sheet accounts are impacted through reclassification to applicable IFRS 16 balance sheet line items.

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

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

Note 5. Loblaw's Spin-out of Choice Properties Real Estate Investment Trust

On November 1, 2018, the Company and Loblaw completed a reorganization under which Loblaw distributed its approximate 61.6% effective interest in Choice Properties to the Company on a tax-free basis to Loblaw and its Canadian shareholders. In connection with the reorganization, Loblaw minority shareholders received 0.135 of a common share of the Company for each common share of Loblaw held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the reorganization, and the Company received Loblaw's approximate 61.6% effective interest in Choice Properties. Following the reorganization, Loblaw no longer had an interest in Choice Properties and the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by the Company prior to the completion of the reorganization).

As a result of the reorganization, Loblaw ceased to consolidate its equity interest in Choice Properties and Choice Properties became a separate reportable operating segment of the Company. The Loblaw segment results include transactions between Loblaw and Choice Properties in the current and comparative period, including, but not limited to, rent payments made by Loblaw to Choice Properties. Following the reorganization, the Loblaw segment results also include impairment and depreciation of certain assets associated with the retail locations that are leased from Choice Properties. These transactions are eliminated and the impairment and depreciation is reversed, as applicable, in Other and Intersegment Eliminations as they are consolidated by the Company.

In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw minority shareholders. The Company continues to be controlled by Mr. W. Galen Weston who, directly and indirectly through entities which he controls, owns approximately 53.1% of the outstanding common shares of the Company.

The Company recorded \$20 million in transaction costs and other related costs in 2018.

Notes to the Consolidated Financial Statements

Note 6. Business Acquisitions

Consolidation of Franchises Loblaw accounts for the consolidation of existing franchises as business acquisitions. During the year, Loblaw consolidated its franchises as of the date the franchisee entered into a new simplified franchise agreement with Loblaw. The assets acquired and liabilities assumed through the consolidation were valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises were included in Loblaw's results of operations from the date of acquisition.

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

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

(i) On consolidation, trade payables and other liabilities and other liabilities eliminate against existing accounts receivable, franchise loans receivable and franchise investments held by Loblaw.

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

In connection with the acquisition, Choice Properties arranged a new \$1,500 million committed revolving credit facility. Concurrent with the closing of the acquisition, Choice Properties repaid and cancelled its existing credit facilities and those acquired from CREIT (note 24).

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

The cash portion of the acquisition and other transactions in relation to CREIT was financed as follows:

- \$1,300 million of proceeds from the issuance of senior unsecured debentures Series K and L (note 24); and
- \$800 million unsecured term loan facilities (note 24).

The purchase equation is based on management's best estimate of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. Choice Properties has one year from the acquisition date to finalize the fair value of the assets acquired and the liabilities assumed and does not expect significant changes from the amounts presented below:

(\$ millions)	As at May 4, 2018
Net Assets Acquired:	
Cash and cash equivalents	\$ 32
Accounts receivable and other assets	50
Mortgages, loans and notes receivable ⁽ⁱ⁾	196
Equity accounted joint ventures	683
Investment properties	4,730
Intangible assets	30
Goodwill	367
Trade payables and other liabilities	(172)
Long term debt	(1,841)
Deferred income tax liabilities	(367)
Total Net Assets Acquired	\$ 3,708

(i) Included in other assets in the audited consolidated balance sheets.

The goodwill is generated on consolidation of Choice Properties and is attributable to deferred income tax recorded on temporary differences arising between the fair value of the investment properties acquired and their respective income tax bases for the Company's effective ownership interest in Choice Properties. The goodwill arising from this acquisition is not deductible for tax purposes. Management has allocated this goodwill to Loblaw segment for impairment testing.

As at December 31, 2018, on a year-to-date basis, Choice Properties incurred costs totaling \$141 million related to the acquisition of CREIT, which were recorded in SG&A.

Included in the consolidated financial statements, on a year-to-date basis, is \$274 million in revenue and \$192 million of operating income related to CREIT since the date of acquisition, excluding the impact of acquisition transaction costs and any adjustment to the fair value of the investment properties acquired.

On a year-to-date pro forma basis, the impact of the CREIT acquisition on the Company's revenue and net income attributable to shareholders of the Company in 2018 would have amounted to approximately \$409 million and \$5 million, respectively, excluding the impact of acquisition transaction costs and other related expenses and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective January 1, 2018.

Investment Properties As part of the acquisition of CREIT, Choice Properties acquired investment properties of \$4.7 billion, of which a sample of 78 investment properties and equity accounted investments, representing \$2.7 billion of the value, were independently appraised. In addition, Choice Properties has engaged independent nationally-recognized valuation firms to appraise the investment properties such that substantially all of the portfolio will be independently appraised at least once over a five-year period.

Joint Ventures Choice Properties accounts for its investments in joint ventures using the equity method. These investments hold development properties and some income-producing properties. As part of the acquisition of CREIT, Choice Properties acquired 23 equity accounted joint ventures.

Co-Ownership Property Interests Choice Properties acquired 45 co-owned property interests, joint operations, as part of the acquisition of CREIT. Choice Properties' proportionate share of the related assets, liabilities, revenue and expenses of these properties are included in the consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 7. Net Interest Expense and Other Financing Charges

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

(\$ millions)	2018	2017
Interest expense:		
Long term debt ⁽ⁱ⁾	\$ 636	\$ 518
Borrowings related to credit card receivables	41	30
Trust Unit distributions ⁽ⁱⁱ⁾	126	35
Independent funding trusts	19	16
Post-employment and other long term employee benefits (note 29)	12	11
Bank indebtedness	8	6
Capitalized interest (capitalization rate 4.0% (2017 - 3.5%)) (note 15 & 18)	(6)	(2)
	\$ 836	\$ 614
Interest income:		
Accretion income	\$ (5)	\$ (10)
Short term interest income	(43)	(25)
	\$ (48)	\$ (35)
Forward sale agreement ⁽ⁱⁱⁱ⁾	25	(49)
Fair value adjustment of the Trust Unit liability (note 33)	(41)	(7)
Charge related to Glenhuron Bank Limited (note 8)	176	—
Net interest expense and other financing charges	\$ 948	\$ 523

(i) Includes interest on debt assumed from the acquisition of CREIT.

(ii) Choice Properties issued 182,836,481 new trust units to trust unitholders other than the Company and Loblaw in connection with the acquisition of CREIT (note 6).

(iii) Included a charge of \$50 million (2017 – income of \$25 million) related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (see note 33). The fair value adjustment of the forward sale agreement is non-cash and results from changes in the value of the underlying Loblaw common shares. At maturity, any cash paid under the forward sale agreement could be offset by the sale of the underlying Loblaw common shares. Also included is forward accretion income of \$47 million (2017 – \$42 million), and the forward fee of \$22 million (2017 – \$18 million), associated with the forward sale agreement.

Note 8. Income Taxes

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

(\$ millions)	2018	2017
Current income taxes		
Current period	\$ 584	\$ 679
Charges related to Glenhuron	191	—
Adjustment in respect of prior periods	(70)	8
Deferred income taxes		
Origination and reversal of temporary differences	(89)	(205)
Effect of change in income tax rates	(62)	(36)
Adjustment in respect of prior periods	85	3
Income taxes	\$ 639	\$ 449

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

(\$ millions)	2018	2017
Net defined benefit plan actuarial losses (gains) (note 29)	\$ 34	\$ (8)
Adjustment to fair value on transfer of investment properties	5	—
Total income tax (recoveries) recognized in Other comprehensive income	\$ 39	\$ (8)

The effective income tax rates in the consolidated statements of earnings were reported at rates different than the weighted average basic Canadian federal and provincial statutory income tax rates for the following reasons:

	2018	2017
Weighted average basic Canadian federal and provincial statutory income tax rate	26.6%	26.7%
Net (decrease) increase resulting from:		
Effect of tax rate in foreign jurisdictions	(1.0)	(0.3)
Charges related to Glenhuron	11.7	—
Impact of foreign currency translation	(0.2)	0.2
Non-taxable and non-deductible amounts	4.9	(3.5)
Impact of fair value adjustment of Trust Unit liability	(0.7)	(0.1)
Impact of income tax rate changes on deferred income tax balances	(3.8)	(1.8)
Adjustments in respect of prior periods	1.4	0.7
Other	0.1	0.1
Effective income tax rate applicable to earnings before income taxes	39.0%	22.0%

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

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

Notes to the Consolidated Financial Statements

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

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

Deferred income tax assets which were not recognized on the consolidated balance sheets were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Deductible temporary differences	\$ 26	\$ 28
Income tax losses and credits	164	160
Unrecognized deferred income tax assets	\$ 190	\$ 188

The income tax losses and credits expire in the years 2026 to 2038. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

Deferred income tax assets and liabilities recognized on the consolidated balance sheets were attributable to the following:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Trade payables and other liabilities	\$ 69	\$ 69
Other liabilities	352	404
Fixed assets	(1,062)	(591)
Goodwill and intangible assets	(1,820)	(1,936)
Other assets	49	53
Non-capital losses carried forward (expiring 2026 to 2038)	174	133
Capital losses carried forward	8	21
Other	1	(69)
Net deferred income tax liabilities	\$ (2,229)	\$ (1,916)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	\$ 286	\$ 247
Deferred income tax liabilities	(2,515)	(2,163)
Net deferred income tax liabilities	\$ (2,229)	\$ (1,916)

Note 9. Basic and Diluted Net Earnings per Common Share

(\$ millions except where otherwise indicated)	2018	2017 ⁽ⁱ⁾
Net earnings attributable to shareholders of the Company	\$ 574	\$ 766
Prescribed dividends on preferred shares in share capital	(44)	(44)
Net earnings available to common shareholders of the Company	\$ 530	\$ 722
Reduction in net earnings due to dilution at Loblaw	(2)	(6)
Net earnings available to common shareholders for diluted earnings per share	\$ 528	\$ 716
Weighted average common shares outstanding (in millions) (note 26)	131.8	127.7
Dilutive effect of share-based compensation ⁽ⁱⁱ⁾ (in millions)	0.4	0.6
Weighted average common shares outstanding ⁽ⁱⁱⁱ⁾ (in millions)	132.2	128.3
Basic net earnings per common share (\$)	\$ 4.02	\$ 5.65
Diluted net earnings per common share (\$)	\$ 3.99	\$ 5.58

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

(ii) Excluded from the computation of diluted net earnings per common share were 674,981 (2017 – 450,042) potentially dilutive instruments, as they were anti-dilutive.

(iii) Includes impact of dilutive instruments for purposes of calculating diluted net earnings per common share.

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

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

Cash and Cash Equivalents

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Cash	\$ 661	\$ 655
Cash equivalents:		
Bankers' acceptances	258	685
Government treasury bills	405	237
Corporate commercial paper	197	457
Cash and cash equivalents	\$ 1,521	\$ 2,034

Short Term Investments

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Bankers' acceptances	\$ 85	\$ 341
Government treasury bills	143	297
Corporate commercial paper	52	442
Government agency securities	—	31
Other	1	2
Short term investments	\$ 281	\$ 1,113

Notes to the Consolidated Financial Statements

Security Deposits

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Cash	\$ 48	\$ 48
Government treasury bills	39	38
Security deposits	\$ 87	\$ 86

As at year end 2018, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$45 million (2017 – \$45 million) and \$103 million (2017 – \$102 million), respectively. As at year end 2018, GWL and Loblaw had \$45 million (2017 – \$45 million) and \$2 million (2017 – \$3 million) deposited with major financial institutions, respectively, and classified as security deposits on the consolidated balance sheets.

Note 11. Accounts Receivable

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

(\$ millions)	As at				As at			
	Dec. 31, 2018				Dec. 31, 2017			
	0 - 90 days	> 90 days	> 180 days	Total	0 - 90 days	> 90 days	> 180 days	Total
Accounts receivable	\$ 1,188	\$ 53	\$ 68	\$ 1,309	\$ 1,224	\$ 45	\$ 55	\$ 1,324

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

(\$ millions)	2018	2017
Allowance, beginning of year	\$ (57)	\$ (75)
Net write-offs	23	18
Allowance, end of year	\$ (34)	\$ (57)

Credit risk associated with accounts receivable is discussed in note 34.

Note 12. Credit Card Receivables

The components of credit card receivables were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Gross credit card receivables	\$ 3,496	\$ 3,147
Allowance for credit card receivables ⁽ⁱ⁾	(167)	(47)
Credit card receivables	\$ 3,329	\$ 3,100
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> [®] (note 24)	\$ 750	\$ 900
Securitized to Other Independent Securitization Trusts (note 23)	915	640
Total securitized to independent securitization trusts	\$ 1,665	\$ 1,540

(i) Allowance on credit card receivables as at December 31, 2018 includes the impact of the implementation of IFRS 9 (note 2).

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

Loblaw has arranged letters of credit on behalf of PC Bank for the benefit of the Independent Securitization Trusts (see note 36).

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 year end 2018 and throughout the year.

The following is an aging of gross credit card receivables:

(\$ millions)	As at							
	Dec. 31, 2018				Dec. 31, 2017			
	Current	1-90 days past due	> 90 days past due	Total	Current	1-90 days past due	> 90 days past due	Total
Gross credit card receivables	\$ 3,280	\$ 187	\$ 29	\$ 3,496	\$ 2,951	\$ 169	\$ 27	\$ 3,147

Notes to the Consolidated Financial Statements

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

(\$ millions)	As at December 31, 2018			Total
	Stage 1	Stage 2	Stage 3	
Balance, beginning of the year per IAS 39	\$ —	\$ —	\$ —	\$ 47
IFRS 9 Adjustment ⁽ⁱ⁾	—	—	—	98
Balance, beginning of the year per IFRS 9	\$ 51	\$ 71	\$ 23	\$ 145
Increase/ (Decrease) during the period:				
Transfers ⁽ⁱⁱ⁾				
To Stage 1	26	(26)	—	—
To Stage 2	(4)	6	(2)	—
To Stage 3	(1)	(14)	15	—
New loans originated ⁽ⁱⁱⁱ⁾	9	14	3	26
New remeasurements ^(iv)	(19)	29	80	90
Write-offs	—	—	(120)	(120)
Recoveries	—	—	26	26
Balance, end of year	\$ 62	\$ 80	\$ 25	\$ 167

(i) Allowance at the beginning of 2018 includes the impact of the implementation of IFRS 9 (note 2).

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

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

(iv) New remeasurement of loss allowance includes impact from changes in loan balances and credit quality during the year.

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

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

Note 13. Inventories

The components of inventories were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Raw materials and supplies	\$ 68	\$ 72
Finished goods	4,933	4,551
Inventories	\$ 5,001	\$ 4,623

As at year end 2018, inventories included a charge of \$37 million (2017 – \$39 million) recorded by Loblaw for the write-down of inventories below cost to net realizable value. The write-down was included in cost of inventories sold in the consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during 2018 and 2017.

Note 14. Assets Held for Sale and Disposition

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

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

Note 15. Fixed Assets

The following is a continuity of the cost and accumulated depreciation and impairment losses of fixed assets for the year ended December 31, 2018:

(\$ millions)	Land	Buildings and Building Improvements	Equipment and fixtures	Leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	\$ 2,016	\$ 8,560	\$ 8,452	\$ 2,089	\$ 937	\$ 705	\$ 22,759
Additions	59	38	301	121	20	710	1,249
Disposals	(34)	(10)	(100)	(21)	(6)	(4)	(175)
Transfer to assets held for sale	(15)	(15)	—	—	—	—	(30)
Net transfer from investment properties (note 16)	45	22	—	(3)	—	—	64
Transfer from assets under construction	52	261	382	17	—	(712)	—
Business acquisitions (note 6)	—	—	78	—	—	—	78
Impact of foreign currency translation	1	19	51	—	—	8	79
Cost, end of year	\$ 2,124	\$ 8,875	\$ 9,164	\$ 2,203	\$ 951	\$ 707	\$ 24,024
Accumulated depreciation and impairment losses, beginning of year	\$ 2	\$ 3,314	\$ 6,177	\$ 1,077	\$ 492	\$ 8	\$ 11,070
Depreciation	—	237	516	156	45	(1)	953
Impairment losses	—	20	19	20	3	(5)	57
Reversal of impairment losses	(1)	(35)	(1)	(11)	—	—	(48)
Disposals	1	(30)	(80)	(23)	—	(1)	(133)
Transfer to assets held for sale	—	(1)	—	—	—	—	(1)
Transfer to investment properties (note 16)	—	(6)	—	(3)	—	—	(9)
Impact of foreign currency translation	—	6	28	—	—	—	34
Accumulated depreciation and impairment losses, end of year	\$ 2	\$ 3,505	\$ 6,659	\$ 1,216	\$ 540	\$ 1	\$ 11,923
Carrying amount as at:							
December 31, 2018	\$ 2,122	\$ 5,370	\$ 2,505	\$ 987	\$ 411	\$ 706	\$ 12,101

Notes to the Consolidated Financial Statements

The following is a continuity of the cost and accumulated depreciation and impairment losses of fixed assets for the year ended December 31, 2017:

(\$ millions)	Land	Buildings and Building Improvements	Equipment and fixtures	Leasehold improvements	Finance leases - land, buildings, equipment and fixtures	Assets under construction	Total
Cost, beginning of year	\$ 1,954	\$ 8,327	\$ 7,856	\$ 1,977	\$ 920	\$ 755	\$ 21,789
Additions	21	54	238	98	15	737	1,163
Disposals	(2)	(10)	(50)	(17)	—	—	(79)
Transfer to assets held for sale	—	(93)	(49)	(3)	—	—	(145)
Net transfer to investment properties (note 16)	1	5	—	—	2	—	8
Transfer from assets under construction	43	292	413	33	—	(781)	—
Business acquisitions	—	—	81	1	—	—	82
Impact of foreign currency translation	(1)	(15)	(37)	—	—	(6)	(59)
Cost, end of year	\$ 2,016	\$ 8,560	\$ 8,452	\$ 2,089	\$ 937	\$ 705	\$ 22,759
Accumulated depreciation and impairment losses, beginning of year	\$ —	\$ 3,121	\$ 5,806	\$ 910	\$ 410	\$ 8	\$ 10,255
Depreciation	—	220	463	165	64	—	912
Impairment losses	1	17	18	21	18	—	75
Reversal of impairment losses	—	(8)	(2)	(2)	—	—	(12)
Disposals	—	(9)	(41)	(16)	—	—	(66)
Transfer to assets held for sale	—	(25)	(46)	(1)	—	—	(72)
Net transfer to investment properties (note 16)	1	2	—	—	—	—	3
Impact of foreign currency translation	—	(4)	(21)	—	—	—	(25)
Accumulated depreciation and impairment losses, end of year	\$ 2	\$ 3,314	\$ 6,177	\$ 1,077	\$ 492	\$ 8	\$ 11,070
Carrying amount as at:							
December 31, 2017	\$ 2,014	\$ 5,246	\$ 2,275	\$ 1,012	\$ 445	\$ 697	\$ 11,689

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

Assets under Construction The cost of additions to properties under construction for 2018 was \$710 million (2017 – \$737 million). Included in this amount were capitalized borrowing costs of \$6 million (2017 – \$2 million) with a weighted average capitalization rate of 4.0% (2017 – 3.5%) (see note 7).

Security and Assets Pledged As at year end 2018, no fixed assets were encumbered by mortgages. As at December 31, 2017, fixed assets with a carrying amount of \$187 million were encumbered by mortgages of \$81 million (see note 24).

Fixed Asset Commitments As at year end 2018, the Company had entered into commitments of \$310 million (2017 – \$201 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses and Reversals In 2018, the Company recorded \$50 million (2017 – \$60 million) of impairment losses on fixed assets in respect of 23 CGUs (2017 – 21 CGUs). The recoverable amount was based on the greater of the CGU’s fair value less costs to sell and its value in use. Approximately 26% (2017 – 29%) of impaired CGUs had carrying values which were \$16 million (2017 – \$11 million) greater than their fair value less costs to sell. The remaining 74% (2017 – 71%) of impaired CGUs had carrying values which were \$34 million (2017 – \$48 million) greater than their value in use.

In 2018, the Company recorded \$48 million (2017 – \$12 million) of impairment reversals on fixed assets in respect of 38 CGUs (2017 – seven CGUs). Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. Approximately 34% (2017 – 57%) of CGUs with impairment reversals had fair value less costs to sell greater than their carrying values which were \$13 million (2017 – \$6 million). The remaining 66% (2017 – 43%) of CGUs with impairment reversals had value in use which were \$35 million (2017 – \$5 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. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which are consistent with strategic plans presented to GWL’s and Loblaw’s Board. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at the end of 2018 (2017 – 8.0% to 8.5%).

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

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

Note 16. Investment Properties

The following are continuities of investment properties for the years ended December 31, 2018 and December 31, 2017:

(\$ millions)	2018	2017 ⁽⁵⁾
Balance, beginning of the year	\$ 276	\$ 261
Adjustment to fair value on transfer of investment properties	(48)	(2)
Additions	78	32
Business acquisitions (note 6)	4,730	—
Disposals	(127)	(7)
Impairment losses	(4)	(1)
Net transfer to fixed assets ⁽ⁱ⁾ (note 15)	(62)	(5)
Net transfer (to) from assets held for sale	(2)	1
Other	6	(3)
Balance, end of the year	\$ 4,847	\$ 276

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

Notes to the Consolidated Financial Statements

During 2018, the Company recognized in operating income \$329 million (2017 – \$11 million) of rental revenue and incurred direct operating costs of \$108 million (2017 – \$10 million) related to its investment properties. In addition, the Company recognized direct operating costs of \$3 million (2017 – \$2 million) related to its investment properties for which no rental revenue was earned.

Independent Appraisals

Properties are typically independently appraised at the time of acquisition. As part of the Choice Properties' acquisition of the CREIT's portfolio, a sample of investment properties were independently appraised. In addition, Choice Properties has engaged independent nationally-recognized valuation firms to appraise its investment properties such that substantially all of the portfolio will be independently appraised at least once over a four-year period. When an independent appraisal is obtained, the internal valuation team assesses all major inputs used by the independent valuers in preparing their reports and holds discussions with them on the reasonableness of their assumptions. The reports are then used by the internal valuation team for consideration in preparing the valuations as reported in these consolidated financial statements.

Internal Appraisals

The investment properties were measured at fair value, which was primarily determined by using the discounted cash flow method. Under the discounted cash flow methodology, discount rates were applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the investment properties based on a capitalization rate applied to the estimated net operating income, a non-GAAP measure, in the terminal year.

Choice Properties' management reviews the valuation processes and results prepared by the internal valuation team at least once per quarter. On a quarterly basis, the valuation team reviews and updates, as deemed necessary, the valuation models to reflect current market data. Updates may be made to capitalization rates, discount rates, market rents, as well as current leasing and/or development activity, renewal probability, downtime on lease expiry, vacancy allowances, and expected maintenance costs.

Note 17. Equity Accounted Joint Ventures

Choice Properties accounts for its investments in joint ventures using the equity method. These investments hold primarily development properties and some income-producing properties. The table below summarizes Choice Properties' investment in joint ventures.

	2018		2017	
	Number of joint ventures	Ownership interest	Number of joint ventures	Ownership interest
Retail	16	25% - 75%	—	—
Industrial	4	50% - 85%	—	—
Residential	3	47% - 50%	—	—
Mixed-use	1	40%	1	40%
Total equity accounted joint ventures	24		1	
The Company's investment in equity accounted joint ventures (\$ million)		\$ 734		\$ 19

Note 18. Intangible Assets

The following is a continuity of the cost and accumulated amortization and impairment losses of intangible assets for the year ended December 31, 2018:

(\$ millions)	Indefinite life intangible assets	Definite life internally generated intangible assets	Definite life trademarks and brand names	Software	Other definite life intangible assets	Total
Cost, beginning of year	\$ 3,485	\$ 20	\$ 20	\$ 2,458	\$ 6,147	\$ 12,130
Additions	4	—	—	331	8	343
Business acquisitions	30	—	—	—	25	55
Disposal	—	—	—	(5)	(2)	(7)
Write-off cost of fully amortized assets	—	—	—	—	(11)	(11)
Impact of foreign currency translation	—	—	—	5	7	12
Cost, end of year	\$ 3,519	\$ 20	\$ 20	\$ 2,789	\$ 6,174	\$ 12,522
Accumulated amortization and impairment losses, beginning of year	\$ —	\$ 20	\$ 9	\$ 1,576	\$ 2,157	\$ 3,762
Amortization	—	—	1	269	534	804
Impairment losses	—	—	—	11	1	12
Disposal	—	—	—	(4)	(1)	(5)
Write-off amortization of fully amortized assets	—	—	—	—	(11)	(11)
Impact of foreign currency translation	—	—	—	—	2	2
Accumulated amortization and impairment losses, end of year	\$ —	\$ 20	\$ 10	\$ 1,852	\$ 2,682	\$ 4,564
Carrying amount as at:						
December 31, 2018	\$ 3,519	\$ —	\$ 10	\$ 937	\$ 3,492	\$ 7,958

Notes to the Consolidated Financial Statements

The following is a continuity of the cost and accumulated amortization and impairment losses of intangible assets for the year ended December 31, 2017:

(\$ millions)	Indefinite life intangible assets	Definite life internally generated intangible assets	Definite life trademarks and brand names	Software	Other definite life intangible assets	Total
Cost, beginning of year	\$ 3,475	\$ 20	\$ 25	\$ 2,180	\$ 6,125	\$ 11,825
Additions	10	—	—	279	8	297
Business acquisitions	—	—	—	—	27	27
Disposal	—	—	(5)	—	—	(5)
Write-off cost of fully amortized assets	—	—	—	—	(6)	(6)
Impact of foreign currency translation	—	—	—	(1)	(7)	(8)
Cost, end of year	\$ 3,485	\$ 20	\$ 20	\$ 2,458	\$ 6,147	\$ 12,130
Accumulated amortization and impairment losses, beginning of year	\$ —	\$ 20	\$ 8	\$ 1,300	\$ 1,622	\$ 2,950
Amortization	—	—	1	247	532	780
Impairment losses	—	—	—	29	11	40
Disposals	—	—	—	—	—	—
Write-off amortization of fully amortized assets	—	—	—	—	(6)	(6)
Impact of foreign currency translation	—	—	—	—	(2)	(2)
Accumulated amortization and impairment losses, end of year	\$ —	\$ 20	\$ 9	\$ 1,576	\$ 2,157	\$ 3,762
Carrying amount as at: December 31, 2017	\$ 3,485	\$ —	\$ 11	\$ 882	\$ 3,990	\$ 8,368

Indefinite Life Intangible Assets Indefinite life intangible assets recorded by Loblaw are comprised of brand names, trademarks, import purchase quotas and certain liquor licenses. The brand names and trademarks are a result of Loblaw's acquisition of Shoppers Drug Mart and T&T Supermarket Inc. Loblaw 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, Loblaw assessed these intangibles to have indefinite useful lives.

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

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 19).

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

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

Note 19. Goodwill

The following are continuities of the cost and accumulated amortization and impairment losses of goodwill:

(\$ millions)	2018	2017
Cost, beginning of year	\$ 5,444	\$ 5,431
Business acquisitions (note 6)	387	27
Impact of foreign currency translation	17	(14)
Cost, end of year	\$ 5,848	\$ 5,444
Accumulated amortization and impairment losses, beginning of year	\$ 1,067	\$ 1,067
Impairment loss	—	—
Accumulated amortization and impairment losses, end of year	\$ 1,067	\$ 1,067
Carrying amount as at:		
December 31	\$ 4,781	\$ 4,377

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

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Weston Foods	\$ 312	\$ 295
Shoppers Drug Mart	2,972	2,952
Market	375	375
Discount	459	459
T&T Supermarket Inc.	129	129
Other	534	167
Carrying amount of goodwill	\$ 4,781	\$ 4,377

The Company completed its annual impairment tests for goodwill and concluded that there was no impairment.

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

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

Cash flow projections were discounted using a rate derived from the Company's after-tax weighted average cost of capital. As at year end 2018, the after-tax discount rate used in the recoverable amount calculations was 7.0% to 9.3% (2017 – 7.1%). The pre-tax discount rate was 9.5% to 12.7% (2017 – 9.7%).

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using an estimated long term growth rate of 2.0% (2017 – 2.0%). The budgeted adjusted EBITDA⁽ⁱ⁾ growth was based on the strategic plans approved by GWL's and Loblaw's Boards.

(i) Excludes certain items and is used internally by management when analyzing segment underlying operating performance.

Notes to the Consolidated Financial Statements

Note 20. Other Assets

The components of other assets were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Fair value of equity forward (note 33)	\$ 556	\$ 435
Sundry investments and other receivables	31	56
Net accrued benefit plan asset (note 29)	233	154
Mortgages, loans and notes receivable ⁽ⁱ⁾	187	29
Other	179	201
Total Other Assets	\$ 1,186	\$ 875
Current portion of mortgages, loans and receivables ⁽ⁱⁱ⁾	99	26
Other assets	\$ 1,087	\$ 849

(i) In connection with the acquisition of CREIT, the Company assumed mortgages, loans and notes receivable of \$196 million (note 6).

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

Note 21. Customer Loyalty Awards Program Liability

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

(\$ millions)	Dec. 31, 2018	Dec. 31, 2017
Loyalty liability	\$ 228	\$ 349

The majority of the Company's loyalty liability, which is a contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

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

Note 22. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, onerous lease arrangements, legal claims, the Loblaw Card Program and a MEPP withdrawal liability.

The following are continuities of provisions for the years ended December 31, 2018 and December 31, 2017:

(\$ millions)	2018	2017
Provisions, beginning of year	\$ 515	\$ 281
Additions	151	379
Payments	(257)	(112)
Reversals	(41)	(29)
Impact of foreign currency translation	4	(4)
Provisions, end of year	\$ 372	\$ 515

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Carrying amount of provisions recorded in:		
Current provisions	\$ 205	\$ 325
Non-current provisions	167	190
Provisions	\$ 372	\$ 515

The Company's accrued insurance liabilities were \$83 million (2017 – \$84 million), of which \$48 million (2017 – \$48 million) was included in non-current provisions and \$35 million (2017 – \$36 million) in current provisions. Included in total accrued insurance liabilities were \$23 million (2017 – \$22 million) of U.S. workers' compensation liabilities. The related cost and accrued workers' compensation liabilities are based on actuarial valuations which are dependent on assumptions determined by management. The discount rate used in determining the 2018 U.S. workers' compensation cost and liability was 2.0% (2017 – 2.0%). The total workers' compensation liability is equal to the ultimate actuarial loss estimate less any actual losses paid to date. Any change in the workers' compensation liability is recognized immediately in operating income.

In 2018, the U.S. workers' compensation cost associated with the worker's compensation liabilities was \$4 million (2017 – \$6 million).

Competition Bureau Investigation In 2017, the Company and Loblaw announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. In connection with the arrangements, Loblaw offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. Loblaw recorded a charge of \$107 million in relation to the Loblaw Card Program in 2017 and in 2018, Loblaw recorded an additional charge of \$4 million. Loblaw 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 35).

Restructuring and other charges In 2018, Weston Foods recorded restructuring and other charges of \$38 million (2017 – \$48 million). In 2018, which were primarily related to the reorganization costs from the transformation program, which year-to-date included the previously announced closures of an unprofitable facility in Canada in the third quarter of 2018, and in the U.S. that was completed in the first quarter of 2018. Restructuring and other related costs recorded in 2018 included \$29 million (2017 - \$29 million) of severance and exit costs, \$9 million (2017 - 10 million) of accelerated depreciation and \$9 million recorded in 2017 of impairment of a definite life intangible asset.

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

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

Notes to the Consolidated Financial Statements

Note 23. Short Term Debt

The components of short term debt were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Other Independent Securitization Trusts (note 12)	\$ 915	\$ 640
Series B Debentures ⁽ⁱ⁾	664	618
Short term debt	\$ 1,579	\$ 1,258

(i) Series B Debentures issued by GWL are due on demand, and pay a current weighted average interest rate of 2.31% (2017 – 1.59%). The Series A, 7.00% (see note 24) and Series B Debentures are secured by a pledge of 9.6 million Loblaw common shares.

Other Independent Securitization Trusts The outstanding short term debt balances relate to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 12).

The securitization agreements between PC Bank and the Other Independent Securitization Trusts are renewed and extended on an annual basis. The existing agreements were renewed in 2018, with their respective maturity dates extended to 2020 and with all other terms and conditions remaining substantially the same.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at year end 2018 were \$110 million (2017 – \$160 million).

Note 24. Long Term Debt

The components of long term debt were as follows:

(\$ millions)

		As at	
		Dec. 31, 2018	Dec. 31, 2017
Unsecured Term Loan Facility			
Loblaw Companies Limited			
	0.13% + prime or 1.13% + Bankers' Acceptance, due 2019	\$ —	\$ 250
	0.45% + prime or 1.45% + Bankers' Acceptance, due 2019	—	48
	Choice Properties	175	—
	1.45% + Bankers' Acceptance, due 2022	625	—
	1.45% + Bankers' Acceptance, due 2023		
Debentures			
George Weston Limited Notes			
	Series A, 7.00%, due 2031 ⁽ⁱ⁾	466	466
	4.12%, due 2024	200	200
	7.10%, due 2032	150	150
	6.69%, due 2033	100	100
Loblaw Companies Limited Notes			
	3.75%, due 2019	—	800
	5.22%, due 2020	350	350
	4.86%, due 2023	800	800
	3.92% due 2024	400	—
	6.65%, due 2027	100	100
	4.49%, due 2028	400	—
	6.45%, due 2028	200	200
	6.50%, due 2029	175	175
	11.40%, due 2031		
	Principal	151	151
	Effect of coupon repurchase	(4)	(19)
	6.85%, due 2032	200	200
	6.54%, due 2033	200	200
	8.75%, due 2033	200	200
	6.05%, due 2034	200	200
	6.15%, due 2035	200	200
	5.90%, due 2036	300	300
	6.45%, due 2039	200	200
	7.00%, due 2040	150	150
	5.86%, due 2043	55	55
	Shoppers Drug Mart Notes	—	275
	2.36%, due 2018		
Choice Properties Debentures			
	Series A 3.55%, due 2018	—	400
	Series B 4.90%, due 2023	200	200
	Series C 3.50%, due 2021	250	250
	Series D 4.29%, due 2024	200	200
	Series E 2.30%, due 2020	250	250
	Series F 4.06%, due 2025	200	200
	Series G 3.20%, due 2023	250	250
	Series H 5.27%, due 2046	100	100
	Series I 3.01%, due 2022	300	—
	Series J 3.55%, due 2025	350	—
	Series K 3.56%, due 2024	550	—
	Series L 4.18%, due 2028	750	—
	Series 7 3.00%, due 2019	200	200
	Series 8 3.60%, due 2020	300	300
	Series 9 3.60%, due 2021	200	200
	Series 10 3.60%, due 2022	300	300
	Series B-C 4.32%, due 2021	100	—
	Series C-C 2.56%, due 2019	100	—
	Series D-C 2.95%, due 2023	125	—
Long Term Debt Secured by Mortgage			
	2.47% - 5.49%, due 2018 - 2029 (note 15)	1,328	81
Guaranteed Investment Certificates			
	0.85% - 3.78%, due 2019 - 2023	1,141	852
Independent Securitization Trust (note 12)			
	2.91%, due 2018	—	400
	2.23%, due 2020	250	250
	2.71%, due 2022	250	250
	3.10%, due 2023	250	—
Independent Funding Trusts			
	Finance Lease Obligations (note 32)	536	551
Choice Properties Credit Facilities			
		535	568
Choice Properties Construction Loans			
		325	561
Choice Properties Construction Loans			
		21	—
Transaction costs and other			
		(36)	(22)
Total long term debt		\$ 15,318	\$ 12,092
Less amount due within one year		1,343	1,635
Long term debt		\$ 13,975	\$ 10,457

(i) The Series A, 7.00% and Series B Debentures (see note 23) are secured by a pledge of 9.6 million Loblaw common shares.

Notes to the Consolidated Financial Statements

Significant long term debt transactions are described below:

Debentures The following table summarizes the debentures issued or assumed in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2018	2017
			Principal Amount	Principal Amount
Loblaw Term Loans				
– Loblaw Companies Limited Notes ⁽ⁱ⁾	3.92%	June 10, 2024	\$ 400	\$ —
– Loblaw Companies Limited Notes ⁽ⁱ⁾	4.49%	December 11, 2028	400	—
Choice Properties senior unsecured debentures				
– Series I ⁽ⁱⁱ⁾	3.01%	March 21, 2022	300	—
– Series J ⁽ⁱⁱ⁾	3.55%	January 10, 2025	350	—
– Series K ⁽ⁱⁱⁱ⁾	3.56%	September 9, 2024	550	—
– Series L ⁽ⁱⁱⁱ⁾	4.18%	March 8, 2028	750	—
– Series A-C ^(iv)	3.68%	July 24, 2018	125	—
– Series B-C ^(iv)	4.32%	January 15, 2021	100	—
– Series C-C ^(iv)	2.56%	November 30, 2019	100	—
– Series D-C ^(iv)	2.95%	January 18, 2023	125	—
Total debentures issued			\$ 3,200	\$ —

(i) On December 10, 2018, Loblaw issued debentures of \$400 million bearing interest at rates of 3.92% and 4.49%, maturing June 10, 2024 and December 11, 2028, respectively.

(ii) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus filed in the first quarter of 2018.

(iii) In the first quarter of 2018, the net proceeds from the issuance of Series K and L were held in escrow as a part of the financing for the acquisition of CREIT. During the second quarter of 2018, the Company completed the acquisition of CREIT and the proceeds were released from escrow (note 6).

(iv) Assumed by the Company in connection with the acquisition of CREIT (note 6).

The following table summarizes the debentures, unsecured term loan facilities and term loans repaid in the years ended as indicated:

(\$ millions except where otherwise indicated)	Interest Rate	Maturity Date	2018	2017
			Principal Amount	Principal Amount
Shoppers Drug Mart Corporation Notes	2.36%	May 24, 2018	\$ 275	\$ —
Loblaw Companies Limited - Term Loan ⁽ⁱ⁾	Variable	March 28, 2019	48	—
Loblaw Companies Limited - Term Loan ⁽ⁱⁱ⁾	Variable	March 29, 2019	250	—
Loblaw Companies Limited - Term Loan ⁽ⁱⁱⁱ⁾	3.75%	March 12, 2019	800	—
Choice Properties senior unsecured debentures				
– Series A-C	3.68%	July 24, 2018	125	—
– Series A	3.55%	July 5, 2018 ^(iv)	400	—
– Series 6	3.00%	April 20, 2017 ^(v)	—	200
Total debentures and term loans repaid			\$ 1,898	\$ 200

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

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

(iii) Redeemed on December 31, 2018.

(iv) Redeemed on February 12, 2018.

(v) Redeemed on January 23, 2017.

Unsecured Term Loan Facilities In the second quarter of 2018, Choice Properties obtained \$800 million through two unsecured term loan facilities, one \$175 million 4-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2022 and one \$625 million 5-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2023. The term loans bear interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing of these term loans is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at "BBB".

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

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

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

Independent Securitization Trust The notes issued by *Eagle* are debentures, which are collateralized by PC Bank's credit card receivables (see note 12). Loblaw has arranged letters of credit for the benefit of *Eagle* notes issued prior to 2015 and outstanding as at year end 2018 (see note 36).

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

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

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

Committed Credit Facilities The components of the committed lines of credit available as at year end 2018 and 2017 were as follows:

(\$ millions)	Maturity Date	As at			
		Dec. 31, 2018		Dec. 31, 2017	
		Available Credit	Drawn	Available Credit	Drawn
Loblaw committed credit facility	June 10, 2021	\$ 1,000	\$ —	\$ 1,000	\$ —
Choice Properties committed bi-lateral credit facility	December 21, 2018	—	—	250	250
Choice Properties committed syndicated credit facility	July 5, 2022	—	—	500	311
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	325	—	—
Total committed credit facilities		\$ 2,500	\$ 325	\$ 1,750	\$ 561

In the first half of 2018, Choice Properties repaid and cancelled the \$250 million committed bi-lateral credit facility and the \$500 million committed syndicated credit facility.

Notes to the Consolidated Financial Statements

In the second quarter of 2018, Choice Properties entered into a new syndicated \$1.5 billion senior unsecured committed revolving credit facility maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or bankers' acceptance rate plus 1.45%. The pricing of this credit facility is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at "BBB".

These facilities contain certain financial covenants (see note 28).

Long Term Debt due Within One Year The components of long term debt due within one year were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Choice Properties debenture	\$ 300	\$ 400
Shoppers Drug Mart MTN	—	275
GICs	274	193
Independent Securitization Trust	—	400
Independent funding trusts	536	—
Finance lease obligations	37	44
Long term debt secured by mortgage	182	73
Construction Loans	14	—
Choice Properties Credit Facility	—	250
Long term debt due within one year	\$ 1,343	\$ 1,635

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

(\$ millions)	As at	
	Dec. 31, 2018	
2019	\$	1,343
2020		1,823
2021		937
2022		1,280
2023		2,784
Thereafter		7,191
Long Term Debt (excludes transaction costs)	\$	15,358

See note 33 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 in the year ended as indicated:

(\$ millions)	2018	2017
Total long term debt, beginning of period	\$ 12,092	\$ 11,785
Long term debt assumed on acquisition on CREIT (note 6)	1,841	—
Long term debt issuances ⁽ⁱ⁾⁽ⁱⁱ⁾	4,880	686
Long term debt repayments ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾	(3,565)	(450)
Total cash flow from long term debt financing activities	1,315	236
Finance lease additions, net of disposals	13	16
Other non-cash changes	57	55
Total non-cash long term debt activities	70	71
Total long term debt, end of period	\$ 15,318	\$ 12,092

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

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

(iii) Includes repayment on finance lease obligations of \$83 million (2017 – \$94 million).

Note 25. Other Liabilities

The components of other liabilities were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Net defined benefit plan obligation (note 29)	\$ 347	\$ 380
Other long term employee benefit obligation	115	115
Deferred lease obligation	148	140
Fair value of acquired leases	54	65
Share-based compensation liability (note 30)	6	4
Other	21	58
Other liabilities	\$ 691	\$ 762

Note 26. Share Capital

The components of share capital were as follows:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Common share capital	\$ 2,766	\$ 221
Preferred shares, Series I	228	228
Preferred shares, Series III	196	196
Preferred shares, Series IV	197	197
Preferred shares, Series V	196	196
Share capital	\$ 3,583	\$ 1,038

Notes to the Consolidated Financial Statements

Common Share Capital (authorized – unlimited) Common shares issued are fully paid and have no par value. The following table summarizes the activity in the Company's common shares issued and outstanding for the years ended December 31, 2018 and December 31, 2017:

(\$ millions except where otherwise indicated)	2018		2017	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	127,905,581	\$ 221	127,898,582	\$ 195
Issued for Loblaw's Spin-out of Choice Properties (note 5)	26,596,641	2,547	—	—
Issued for settlement of stock options (note 30)	145,076	12	293,976	26
Purchased and cancelled	(1,277,190)	(14)	(286,977)	—
Issued and outstanding, end of year	153,370,108	\$ 2,766	127,905,581	\$ 221
Shares held in trusts, beginning of year	(228,803)	—	(266,999)	—
Purchased for future settlement of RSUs and PSUs	—	—	(70,198)	—
Released for settlement of RSUs and PSUs (note 30)	108,498	—	108,394	—
Shares held in trusts, end of year	(120,305)	—	(228,803)	—
Issued and outstanding, net of shares held in trusts, end of year	153,249,803	\$ 2,766	127,676,778	\$ 221
Weighted average outstanding, net of shares held in trusts	131,844,880		127,692,789	

Preferred Shares, Series I (authorized – 10.0 million) GWL has 9.4 million 5.80% non-voting Preferred Shares, Series I outstanding, with a face value of \$235 million, which entitle the holders to a fixed cumulative preferred cash dividend of \$1.45 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holders, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

Preferred Shares, Series III (authorized – 10.0 million) GWL has 8.0 million 5.20% non-voting Preferred Shares, Series III outstanding, with a face value of \$200 million, which entitle the holders to a fixed cumulative preferred cash dividend of \$1.30 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

Preferred Shares, Series IV (authorized – 8.0 million) GWL has 8.0 million 5.20% non-voting Preferred Shares, Series IV outstanding, with a face value of \$200 million, which entitle the holders to a fixed cumulative preferred cash dividend of \$1.30 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

Preferred Shares, Series V (authorized – 8.0 million) GWL has 8.0 million 4.75% non-voting Preferred Shares, Series V outstanding, with a face value of \$200 million, which entitle the holders to a fixed cumulative preferred cash dividend of \$1.1875 per share per annum which will, if declared, be payable quarterly. GWL may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares at \$25.00 per share, together with all accrued and unpaid dividends to the redemption date.

At any time after issuance, GWL may, at its option, give the holders of these preferred shares the right, at the option of the holder, to convert their preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Company's Board which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarter of 2017, the Board raised the quarterly common share dividend by \$0.015 to \$0.455 per share. During 2018, the Board raised the quarterly common share dividend by \$0.035 to \$0.49 in the second quarter and by \$0.025 to \$0.515 in the fourth quarter. The Board declared dividends as follows:

(\$)	2018	2017
Dividends declared per share ⁽ⁱ⁾ :		
Common share	\$ 1.950	\$ 1.805
Preferred share:		
Series I	\$ 1.45	\$ 1.45
Series III	\$ 1.30	\$ 1.30
Series IV	\$ 1.30	\$ 1.30
Series V	\$ 1.1875	\$ 1.1875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were payable on January 1, 2019 and subsequently paid on January 2, 2019. Dividend declared on Preferred Shares, Series I were payable on December 15, 2018 and subsequently paid on December 17, 2018.

The following table summarizes the Company's cash dividends declared subsequent to year end 2018:

(\$)	
Dividends declared per share ⁽ⁱ⁾ – Common share	\$ 0.515
– Preferred share:	
Series I	\$ 0.3625
Series III	\$ 0.3250
Series IV	\$ 0.3250
Series V	\$ 0.296875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V are payable on April 1, 2019. Dividends declared on Preferred Shares, Series I are payable on March 15, 2019.

Notes to the Consolidated Financial Statements

Normal Course Issuer Bid (“NCIB”) Program The following table summarizes the Company’s activity under its NCIB program:

(\$ millions except where otherwise indicated)	2018	2017
Purchased for future settlement of RSUs and PSUs (number of shares)	—	70,198
Purchased and cancelled (number of shares)	1,277,190	286,977
Cash consideration paid		
Purchased and held in trusts	\$ —	\$ (7)
Purchased and cancelled	(123)	(31)
Premium charged to retained earnings	\$ 109	\$ 38
Reduction in share capital	\$ 14	\$ —

In the second quarter of 2018, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange (“TSX”) or through alternative trading systems up to 6,398,134 of its common shares, representing approximately 5% of the common shares outstanding. 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.

In the third quarter of 2018, GWL was granted an exemption from TSX in connection with GWL’s NCIB, which commenced in the second quarter of 2018, subject to certain conditions. Pursuant to the exemption, GWL was permitted to purchase up to 1.9 million common shares during the five trading days immediately following the announcement of the reorganization, up to a daily maximum limit of 25% of the actual aggregate trading volume of its common shares across all Canadian published markets on each such day.

In the third quarter of 2018, the Company entered into and completed an automatic share purchase plan (“ASPP”) with a broker in order to facilitate the repurchase of the Company’s common shares under its current NCIB, contingent on the closing of the reorganization. Under the Company’s ASPP, the Company’s broker purchased common shares at times when the Company ordinarily would not be active in the market.

In the fourth quarter of 2018, GWL was granted an exemption from the TSX in connection with its NCIB. During the two week period following the closing of the reorganization, GWL was permitted to purchase up to 1.36 million common shares, up to a daily maximum limit of 25% of the actual aggregate trading volume of its common shares across all Canadian published markets on each such day.

As of December 31, 2018, the Company purchased 1,275,562 common shares under its current NCIB program, of which 713,700 common shares were purchased under the exemption.

Note 27. Loblaw Capital Transactions

Loblaw Preferred Shares As at year end 2018, the Second Preferred Shares, Series B in the amount of \$221 million net of \$4 million of after-tax issuance costs, and related cash dividends, were presented as a component of non-controlling interests in the Company's consolidated balance sheet. In 2018, Loblaw declared dividends of \$12 million (2017 – \$12 million) related to the Second Preferred Shares, Series B.

Loblaw Common Shares The following table summarizes Loblaw's common share activity under its share-based compensation arrangements and NCIB program, and includes the impact on the Company's consolidated financial statements for the years ended as follows:

(\$ millions except where otherwise indicated)	2018	2017
Issued (number of shares)	2,709,946	2,030,292
Purchased and held in trusts (number of shares)	(582,500)	(686,000)
Purchased and cancelled ⁽ⁱ⁾ (number of shares)	(16,584,209)	(15,555,539)
	(14,456,763)	(14,211,247)
Cash consideration received (paid)		
Share-based compensation	\$ 78	\$ 41
Purchased and held in trusts	(36)	(48)
Purchased and cancelled	(1,082)	(1,091)
	\$ (1,040)	\$ (1,098)
Increase (decrease) in contributed surplus		
Share-based compensation	\$ 18	\$ 14
Purchased and held in trusts	(9)	(12)
Purchased and cancelled	(359)	(277)
	\$ (350)	\$ (275)

(i) Common shares purchased and cancelled for the year ended December 29, 2018 does not include the shares repurchased from the ASPP entered into by Loblaw in the fourth quarter of 2018. Common shares purchased and cancelled for the year ended December 30, 2017 includes 22,012 shares held in escrow that were transferred and cancelled in a private transaction and are excluded from Loblaw's NCIB.

Notes to the Consolidated Financial Statements

Note 28. Capital Management

In order to manage its capital structure, the Company, among other activities, may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB program, 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; 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)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Bank indebtedness	\$ 56	\$ 110
Short term debt	1,579	1,258
Long term debt due within one year	1,343	1,635
Long term debt	13,975	10,457
Certain other liabilities	48	41
Fair value of financial derivatives related to the above debt	(556)	(435)
Total debt	\$ 16,445	\$ 13,066
Equity attributable to shareholders of the Company	8,040	7,934
Total capital under management	\$ 24,485	\$ 21,000

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

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

In 2018, Choice Properties filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$2 billion of Units and debt securities, or any combination thereof, over a 25-month period. Under this Prospectus, Choice Properties issued \$650 million of senior unsecured debentures (note 24).

In 2018, GWL filed a Base Shelf Prospectus allowing for the issuance of up to \$1 billion of senior and subordinated debt securities, and preferred shares, or any combination thereof over a 25-month period.

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

Choice Properties has certain key financial covenants in its debentures and credit facilities which include debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by Choice Properties on an on-going basis to ensure compliance with the agreements. As at year end 2018 and throughout the year, Choice Properties was in compliance with each of the key financial covenants under these agreements.

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

In addition, the Company has wholly-owned subsidiaries that engage in insurance related activities. These subsidiaries each exceeded their minimum regulatory capital and surplus requirements as at year end 2018.

Notes to the Consolidated Financial Statements

Note 29. Post-Employment and Other Long Term Employee Benefits

Post-Employment 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.

GWL's and Loblaw's Pension Committees ("the Committees") oversee the Company's pension plans. The Committees are responsible for assisting GWL's and Loblaw's Boards in fulfilling their general oversight responsibilities for the plans. The Committees assist the Boards with oversight of management's administration of the plans, pension investment and monitoring responsibilities, and compliance with legal and regulatory requirements.

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

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

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

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

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

The Company expects to make contributions in 2019 to its defined benefit and defined contribution plans and the MEPPs in which it participates as well as make 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.

(i) 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:

	As at			
	Dec. 31, 2018		Dec. 31, 2017	
(\$ millions)	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	\$ (1,561)	\$ —	\$ (1,870)	\$ —
Present value of unfunded obligations	(181)	(152)	(197)	(158)
Total present value of defined benefit obligations	\$ (1,742)	\$ (152)	\$ (2,067)	\$ (158)
Fair value of plan assets	1,802	—	2,023	—
Total funded status of surpluses (obligations)	\$ 60	\$ (152)	\$ (44)	\$ (158)
Assets not recognized due to asset ceiling	(22)	—	(24)	—
Total net defined benefit plan obligations	\$ 38	\$ (152)	\$ (68)	\$ (158)
Recorded on the consolidated balance sheets as follows:				
Other assets (note 20)	\$ 233	\$ —	\$ 154	\$ —
Other liabilities (note 25)	\$ (195)	\$ (152)	\$ (222)	\$ (158)

Notes to the Consolidated Financial Statements

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

(\$ millions)	2018			2017		
	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	\$ 2,023	\$ —	\$ 2,023	\$ 2,099	\$ —	\$ 2,099
Employer contributions	45	—	45	57	—	57
Employee contributions	5	—	5	4	—	4
Benefits paid	(66)	—	(66)	(79)	—	(79)
Interest income	70	—	70	82	—	82
Actuarial (losses) gains in other comprehensive income	(43)	—	(43)	149	—	149
Settlements ⁽ⁱ⁾	(228)	—	(228)	(285)	—	(285)
Other ⁽ⁱⁱ⁾	(4)	—	(4)	(4)	—	(4)
Fair value, end of year	\$ 1,802	\$ —	\$ 1,802	\$ 2,023	\$ —	\$ 2,023
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	\$ 2,067	\$ 158	\$ 2,225	\$ 2,077	\$ 176	\$ 2,253
Current service cost	61	5	66	59	6	65
Interest cost	74	5	79	84	6	90
Benefits paid	(80)	(8)	(88)	(89)	(7)	(96)
Employee contributions	3	—	3	4	—	4
Actuarial (gains) losses in other comprehensive income	(156)	(8)	(164)	203	(23)	180
Settlements ⁽ⁱ⁾	(227)	—	(227)	(271)	—	(271)
Balance, end of year	\$ 1,742	\$ 152	\$ 1,894	\$ 2,067	\$ 158	\$ 2,225

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

(ii) Includes foreign exchange impact on U.S. defined benefit pension plans.

In 2018, the Company completed several annuity purchases with respect to former employees. In 2017, the Company also completed several annuity purchases and pension buy-outs with respect to former employees. These activities are designed to reduce the Company's defined benefit pension plan obligations and decrease future risks and volatility associated with these obligations. The Company paid \$228 million (2017 – \$285 million) from the impacted plans' assets to settle \$227 million (2017 – \$271 million) of pension obligations and recorded settlement charges of \$1 million (2017 – \$14 million) in SG&A. The settlement charges resulted from the difference between the amount paid for the annuity purchases and pension buy-outs and the value of the Company's defined benefit plan obligations related to these annuity purchases and buy-outs at the time of the settlement.

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

For the year ended 2018, the actual return on plan assets was \$27 million (2017 – \$231 million).

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

- Active plan participants – 56% (2017 – 55%)
- Deferred plan participants – 10% (2017 – 10%)
- Retirees – 34% (2017 – 35%)

During 2019, the Company expects to contribute approximately \$79 million (2018 – contributed \$45 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

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

	2018			2017		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(\$ millions)						
Current service cost	\$ 61	\$ 5	\$ 66	\$ 59	\$ 6	\$ 65
Interest cost on net defined benefit plan obligations	4	5	9	2	6	8
Settlement charges ⁽ⁱ⁾	1	—	1	14	—	14
Other	4	—	4	4	—	4
Net post-employment defined benefit costs	\$ 70	\$ 10	\$ 80	\$ 79	\$ 12	\$ 91

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

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

	2018			2017		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(\$ millions)						
Return on plan assets excluding amounts included in interest income	\$ 43	\$ —	\$ 43	\$ (149)	\$ —	\$ (149)
Experience adjustments	8	2	10	29	(28)	1
Actuarial (gains) losses from change in financial assumptions	(164)	(10)	(174)	174	5	179
Change in liability arising from asset ceiling	(5)	—	(5)	(3)	—	(3)
Total net actuarial (gains) losses recognized in other comprehensive income before income taxes	\$ (118)	\$ (8)	\$ (126)	\$ 51	\$ (23)	\$ 28
Income tax expenses (recoveries) on actuarial (gains) losses (note 8)	33	1	34	(14)	6	(8)
Actuarial (gains) losses net of income tax expenses (recoveries)	\$ (85)	\$ (7)	\$ (92)	\$ 37	\$ (17)	\$ 20

Notes to the Consolidated Financial Statements

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

(\$ millions)	2018			2017		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Cumulative amount, beginning of year	\$ 65	\$ (75)	\$ (10)	\$ 14	\$ (52)	\$ (38)
Net actuarial (gains) losses recognized in the year before income taxes	(118)	(8)	(126)	51	(23)	28
Cumulative amount, end of year	\$ (53)	\$ (83)	\$ (136)	\$ 65	\$ (75)	\$ (10)

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

(\$ millions except where otherwise indicated)	As at		As at	
	Dec. 31, 2018		Dec. 31, 2017	
Equity securities				
Canadian – pooled funds	\$ 53	3%	\$ 83	4%
Foreign – pooled funds	481	27%	749	37%
Total equity securities	\$ 534	30%	\$ 832	41%
Debt securities				
Fixed income securities – government	\$ 468	25%	\$ 466	23%
– corporate	165	9%	140	7%
Fixed income pooled funds ⁽ⁱ⁾ – government	304	17%	433	21%
– corporate	10	1%	11	1%
Total debt securities	\$ 947	52%	\$ 1,050	52%
Other investments	\$ 123	7%	\$ 117	6%
Cash and cash equivalents	\$ 198	11%	\$ 24	1%
Total	\$ 1,802	100%	\$ 2,023	100%

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

As at year end 2018 and 2017, the defined benefit pension plans did not directly include any GWL or Loblaw or Choice Properties securities.

All equity and debt securities and other investments are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly as prices or indirectly, either derived from prices or as per agreements for contractual returns.

The Company's asset allocation reflects a balance of interest rate sensitive investments, such as fixed income investments, and equities, which are expected to provide higher returns over the long term. The Company's targeted asset allocations are actively monitored and adjusted on a plan by plan basis to align the asset mix with the liability profiles of the plans.

Principal Actuarial Assumptions The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan cost for the year were as follows (expressed as weighted averages):

	2018		2017	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	4.00%	4.00%	3.50%	3.50%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table ⁽ⁱ⁾	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational
Net Defined Benefit Plan Cost				
Discount rate	3.50%	3.50%	4.00%	3.75%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table ⁽ⁱ⁾	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/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 obligations as at year end 2018 is 17.4 years (2017 – 17.4 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at year end 2018 was estimated at 4.50% and is expected to remain at 4.50% by year end 2019 and thereafter.

Notes to the Consolidated Financial Statements

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2018 (expressed as weighted averages) and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan cost.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

Increase (Decrease) (\$ millions)	Defined Benefit Pension Plans		Other Defined Benefit Plans	
	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost ⁽ⁱ⁾	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost ⁽ⁱ⁾
Discount rate	4.00%	3.50%	4.00%	3.50%
Impact of: 1% increase	\$ (286)	\$ (29)	\$ (18)	\$ —
1% decrease	\$ 344	\$ 28	\$ 23	\$ —
Expected growth rate of health care costs			4.50%	4.50%
Impact of: 1% increase	n/a	n/a	\$ 16	\$ 1
1% decrease	n/a	n/a	\$ (13)	\$ (1)

n/a – not applicable

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

(ii) Multi-Employer Pension Plans

During 2018, the Company recognized an expense of \$67 million (2017 – \$67 million) in operating income, which represents the contributions made in connection with MEPPs. During 2019, the Company expects to continue to make contributions into these MEPPs.

Loblaw, together with its franchises, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan (“CCWIPP”), with approximately 54,000 (2017 – 54,000) employees as members. Included in the 2018 expense described above are contributions of \$65 million (2017 – \$65 million) to CCWIPP.

(iii) Post-Employment and Other Long Term Employee Benefit Costs

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

(\$ millions)	2018	2017
Net post-employment defined benefit cost ⁽ⁱ⁾	\$ 80	\$ 91
Defined contribution costs ⁽ⁱⁱ⁾	34	32
Multi-employer pension plan costs ⁽ⁱⁱⁱ⁾	67	67
Total net post-employment benefit costs	\$ 181	\$ 190
Other long term employee benefit costs ^(iv)	30	29
Net post-employment and other long term employee benefit costs	\$ 211	\$ 219
Recorded on the consolidated statements of earnings as follows:		
Operating income (note 31)	\$ 199	\$ 208
Net interest expense and other financing charges (note 7)	12	11
Net post-employment and other long term employee benefits costs	\$ 211	\$ 219

(i) Includes settlement charges of \$1 million (2017 – \$14 million) related to annuity purchases and pension buy-outs.

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

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

(iv) Other long term employee benefit costs include \$3 million (2017 – \$3 million) of net interest expense and other financing charges.

Note 30. Share-Based Compensation

The Company's share-based compensation arrangements include stock option plans, RSU plans, PSU plans, DSU plans, EDSU plans and Choice Properties' unit-based compensation plans. The Company's costs recognized in SG&A related to its share-based compensation arrangements in 2018 were \$60 million (2017 – \$72 million).

The following is the carrying amount of the Company's share-based compensation arrangements:

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Trade payables and other liabilities	\$ 7	\$ 11
Other liabilities (note 25)	\$ 6	\$ 4
Contributed surplus	\$ 123	\$ 132

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

Details related to the share-based compensation plans of GWL and Loblaw are as follows:

Stock Option Plans GWL maintains a stock option plan for certain employees. Under this plan, GWL may grant options for up to 6,453,726 of its common shares.

Loblaw maintains a stock option plan for certain employees. Under this plan, Loblaw may grant options for up to 28,137,162 of its common shares.

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

	2018		2017	
	Options (number of shares)	Weighted Average Exercise Price/Share	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	1,527,125	\$ 87.41	1,662,855	\$ 82.65
Granted	234,517	\$ 104.81	166,058	\$ 112.54
Exercised	(145,076)	\$ 71.51	(293,976)	\$ 74.62
Forfeited/cancelled	(67,878)	\$ 103.55	(7,812)	\$ 92.87
Expired	(644)	\$ 111.97	—	\$ —
Outstanding options, end of year	1,548,044	\$ 90.82	1,527,125	\$ 87.41
Options exercisable, end of year	926,956	\$ 81.50	851,666	\$ 76.81

Notes to the Consolidated Financial Statements

The following table summarizes information about GWL's outstanding stock options:

	2018				
	Outstanding Options		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
\$59.74 - \$77.83	459,761	1	\$ 68.26	459,761	\$ 68.26
\$77.84 - \$101.88	519,350	3	\$ 90.67	362,045	\$ 89.42
\$101.89 - \$123.73	568,933	5	\$ 109.18	105,150	\$ 112.13
	1,548,044		\$ 90.82	926,956	\$ 81.50

During 2018, GWL issued common shares on the exercise of stock options with a weighted average market share price of \$102.13 (2017 – \$109.91) per common share and received \$10 million (2017 – \$22 million) of cash consideration.

During 2018, GWL granted stock options with a weighted average exercise price of \$104.81 (2017 – \$112.54) per common share and a fair value of \$4 million (2017 – \$2 million). The assumptions used to measure the grant date fair value of the GWL options granted during the years ended under the Black-Scholes stock option valuation model were as follows:

	2018	2017
Expected dividend yield	1.7%	1.6
Expected share price volatility	14.9% - 15.6%	15.3% - 17.1%
Risk-free interest rate	2.0% - 2.1%	1.0% - 1.9%
Expected life of options	4.6 - 6.6 years	4.6 - 6.6 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at year end 2018 was 0.8% (2017 – 0.7%).

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

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

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

The following table summarizes information about Loblaw's outstanding stock options:

	2018				
	Outstanding Options		Exercisable Options		
Range of Exercise Prices (\$)	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$27.37 - \$54.30	2,968,083	2	\$ 42.74	2,253,523	\$ 40.56
\$54.31 - \$57.83	1,954,149	6	\$ 55.79	28,111	\$ 57.06
\$57.84 - \$65.46	2,587,399	5	\$ 58.59	751,522	\$ 58.42
	7,509,631		\$ 51.60	3,033,156	\$ 45.14

During 2018, Loblaw issued common shares on the exercise of stock options with a weighted average market share price of \$65.45 (2017 – \$70.98) per common share and received cash consideration of \$78 million (2017 – \$41 million).

During 2018, Loblaw granted stock options with a weighted average exercise price of \$53.26 (2017 – \$70.02) per common share and a fair value of \$15 million (2017 – \$15 million). The assumptions used to measure the grant date fair value of the Loblaw options granted during the years ended as indicated under the Black-Scholes stock option valuation model were as follows:

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

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

Restricted Share Unit Plans The following is a summary of GWL's and Loblaw's RSU plan activity:

(Number of awards)	GWL		Loblaw	
	2018	2017	2018	2017
Outstanding RSUs, beginning of year	183,960	213,084	824,705	858,106
Granted	63,694	58,325	528,614	337,846
Reinvested	1,810	656	7,954	4,418
Settled	(67,526)	(74,875)	(277,698)	(323,894)
Forfeited	(15,780)	(13,230)	(59,300)	(51,771)
Outstanding RSUs, end of year	166,158	183,960	1,024,275	824,705

The fair value of GWL's and Loblaw's RSUs granted during 2018 was \$7 million (2017 – \$6 million) and \$24 million (2017 – \$24 million), respectively.

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

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Performance Share Unit Plans The following is a summary of GWL's and Loblaw's PSU plan activity:

(Number of awards)	GWL		Loblaw	
	2018	2017	2018	2017
Outstanding PSUs, beginning of year	100,263	127,866	631,528	965,863
Granted	36,769	24,924	434,692	404,150
Reinvested	848	288	5,409	3,152
Settled	(44,695)	(40,820)	(355,618)	(687,007)
Forfeited	(3,529)	(11,995)	(41,066)	(54,630)
Outstanding PSUs, end of year	89,656	100,263	674,945	631,528

The fair value of GWL's and Loblaw's PSUs granted during 2018 was \$3 million (2017 – \$3 million) and \$15 million (2017 – \$16 million), respectively.

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

Settlement of Awards from Shares Held in Trusts The following table summarizes GWL's settlement of RSUs and PSUs from shares held in trusts for the years ended as indicated:

(Number of awards)	2018	2017
Settled	112,221	115,695
Released from trusts (note 26)	108,498	108,394

During 2018, the settlement of awards from shares held in trusts resulted in an increase of \$10 million (2017 – \$9 million) in retained earnings. There were nominal increases in share capital in 2018 and 2017 related to these settlements.

Director Deferred Share Unit Plans The following is a summary of GWL's and Loblaw's DSU plan activity:

(Number of awards)	GWL		Loblaw	
	2018	2017	2018	2017
Outstanding DSUs, beginning of year	176,688	191,232	220,672	188,202
Granted	19,330	16,373	78,860	29,289
Reinvested	3,476	3,043	2,917	3,181
Settled	(12,894)	(33,960)	(6,120)	—
Outstanding DSUs, end of year	186,600	176,688	296,329	220,672

The fair value of GWL's and Loblaw's DSUs granted during 2018 was \$2 million (2017 – \$2 million) and \$2 million (2017 – \$2 million), respectively.

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

Executive Deferred Share Unit Plans The following is a summary of GWL's and Loblaw's EDSU plan activity:

(Number of awards)	GWL		Loblaw	
	2018	2017	2018	2017
Outstanding EDSUs, beginning of year	44,847	45,199	47,294	35,559
Granted	—	1,955	11,402	16,558
Reinvested	883	716	578	686
Settled	(2,665)	(3,023)	(13,801)	(5,509)
Outstanding EDSUs, end of year	43,065	44,847	45,473	47,294

The fair value of GWL's and Loblaw's EDSUs granted during 2018 was nominal (2017 – nominal) and nominal (2017 – \$1 million), respectively.

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

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

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

	2018		2017	
	Number of awards	Weighted average exercise price/unit	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	4,403,857	\$ 11.56	3,990,231	\$ 11.25
Granted	724,571	\$ 11.92	451,000	\$ 14.20
Exercised	(899,566)	\$ 11.01	(37,374)	\$ 10.24
Cancelled	(464,755)	\$ 12.41	—	\$ —
Outstanding Unit Options, end of year	3,764,107	\$ 11.66	4,403,857	\$ 11.56
Unit Options exercisable, end of year	2,287,879	\$ 11.24	2,308,008	\$ 10.99

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

	2018	2017
Expected average distribution yield	6.42%	5.54%
Expected average Unit price volatility	14.39% - 25.19%	10.03% - 16.88%
Average risk-free interest rate	0.02% - 1.88%	0.01% - 1.85%
Expected average life of options	0.1 - 4.6 Years	0.1 - 4.8 Years

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Restricted Unit Plan RUs entitle certain employees to receive the value of the RU award in cash or Units at the end of the applicable vesting period, which is usually three years. The RU plan provides for the crediting of additional RUs in respect of distributions paid on Units for the period when a RU is outstanding. The fair value of each RU granted is measured based on the market value of a Trust Unit at the balance sheet date. There were no RUs vested as at year end 2018 (2017 – nil).

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

(Number of awards)	2018	2017
Outstanding Restricted Units, beginning of year	359,154	264,691
Granted	215,002	160,361
Reinvested	28,029	17,517
Settled	(118,670)	(83,398)
Cancelled	(37,174)	(17)
Outstanding RUs, end of year	446,341	359,154

Unit-Settled Restricted Unit Plan Under the terms of the URU plan, certain employees were granted URUs, which are subject to vesting conditions and disposition restrictions. Typically, full vesting of the URUs would not occur until the employee had remained with Choice Properties for three or five years from the date of grant. Depending on the nature of the grant, the URUs are subject to a six- or seven-year holding period during which the Units cannot be disposed. There were 1,110,761 URUs vested, but still subject to disposition restrictions as at year end 2018 (2017 – nil).

The following is a summary of Choice Properties' URU plan activity for units not yet vested:

(Number of awards)	2018	2017
Outstanding Unit-Settled Restricted Units, beginning of year	—	—
Assumed in conjunction with the acquisition of CREIT	626,128	—
Granted	577,306	—
Forfeited	(28,946)	—
No longer subject to disposition restrictions	(456,673)	—
Outstanding URUs, end of year	717,815	—

On May 4, 2018, Choice Properties assumed the obligations of CREIT under the CREIT URU plan and holders of CREIT RUs had each CREIT RU redeemed for Units in Choice Properties as part of the acquisition. Plan participants are subject to the same vesting, forfeiture and disposition provisions and such other terms and conditions as were applicable to the CREIT RUs pursuant to the CREIT RU plan immediately prior to the completion of the acquisition of CREIT.

Performance Unit Plan PUs entitle certain employees to receive the value of the PU award in cash or Units at the end of the applicable performance period, which is usually three years in length, based on the Trust achieving certain performance conditions. The PU plan provides for the crediting of additional PUs in respect of distributions paid on Units for the period when a PU is outstanding. The fair value of each PU granted is measured based on the market value of a Trust Unit at the balance sheet date. PUs were first granted in 2016; there were no PUs vested as at year end 2018 (2017 – nil).

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

(Number of awards)	2018	2017
Outstanding Performance Units, beginning of year	79,612	39,696
Granted	44,374	36,099
Reinvested	6,727	3,817
Cancelled	(16,194)	—
Added by performance factor	8,836	—
Settled	(18,906)	—
Outstanding PUs, end of year	104,449	79,612

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

A summary of the DU plan activity is as follows:

(Number of awards)	2018	2017
Outstanding Trustee Deferred Units, beginning of year	283,704	218,992
Granted	56,705	51,865
Reinvested	17,631	12,847
Cancelled	(1,108)	—
Exercised	(54,343)	—
Outstanding Trustee DUs, end of year	302,589	283,704

Note 31. Employee Costs

Included in operating income were the following employee costs:

(\$ millions)	2018	2017
Wages, salaries and other short term employee benefits	\$ 6,296	\$ 5,962
Post-employment benefits (note 29)	172	182
Other long term employee benefits (note 29)	27	26
Share-based compensation (note 30)	56	68
Capitalized to fixed assets	(54)	(46)
Employee costs	\$ 6,497	\$ 6,192

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Note 32. Leases

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

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

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

(\$ millions)	Payments due by year						As at	
	2019	2020	2021	2022	2023	Thereafter	Dec. 31, 2018	Dec. 31, 2017
Operating lease payments	\$ 708	\$ 666	\$ 602	\$ 523	\$ 447	\$ 1,880	\$ 4,826	\$ 4,742
Sub-lease income	(70)	(45)	(37)	(34)	(32)	(102)	(320)	(300)
Net operating lease payments	\$ 638	\$ 621	\$ 565	\$ 489	\$ 415	\$ 1,778	\$ 4,506	\$ 4,442

In 2018, the Company recorded operating lease expenses of \$712 million (2017 – \$704 million) and sub-lease income of \$63 million (2017 – \$55 million) in operating income. In addition, contingent rent expense in respect of operating leases and contingent rental income in respect of sub-leased operating leases were \$2 million (2017 – \$1 million) and \$3 million (2017 – \$3 million), respectively, and were also recognized in operating income.

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

(\$ millions)	Payments to be received by year						As at	
	2019	2020	2021	2022	2023	Thereafter	Dec. 31, 2018	Dec. 31, 2017
Net operating lease income	\$ 357	\$ 327	\$ 289	\$ 249	\$ 206	\$ 708	\$ 2,136	\$ 680

As at year end 2018, the Company leased certain owned land and buildings used by the Company with a cost of \$2,214 million (2017 – \$2,974 million) and related accumulated depreciation of \$556 million (2017 – \$796 million). For the year ended 2018, rental revenue was \$67 million (2017 – \$131 million) and contingent rent was \$1 million (2017 – \$2 million), both of which were recognized in operating income.

Finance Leases – As Lessee Future minimum lease payments relating to Loblaw’s finance leases are as follows:

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

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

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

(\$ millions)	Payments to be received by year						As at	
	2019	2020	2021	2022	2023	Thereafter	Dec. 31, 2018	Dec. 31, 2017
Sub-lease income	\$ 5	\$ 4	\$ 2	\$ 2	\$ 2	16	\$ 31	\$ 59

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

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Note 33. Financial Instruments

The following table presents the fair values and fair value hierarchy of the Company's financial instruments and excludes financial instruments measured at 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.

(\$ millions)	As at Dec. 31, 2018				Dec. 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Amortized cost:								
Franchise loans receivable	\$ —	\$ —	\$ 78	\$ 78	\$ —	\$ —	\$ 166	\$ 166
Certain other assets ⁽ⁱ⁾	—	—	154	154	\$ —	3	23	\$ 26
Fair value through other comprehensive income:								
Certain long term investments ⁽ⁱ⁾	50	20	—	70	20	21	—	41
Derivatives included in prepaid expenses and other assets	—	2	—	2	—	—	—	—
Fair value through profit and loss:								
Security deposits	87	—	—	87	86	—	—	86
Certain other assets ⁽ⁱ⁾	—	—	76	76	—	—	—	—
Derivatives included in accounts receivable	(2)	7	—	5	(2)	(7)	—	(9)
Derivatives included in prepaid expenses and other assets	2	11	—	13	3	—	2	5
Derivatives included in other assets	—	556	—	556	—	435	—	435
Financial liabilities								
Amortized cost:								
Long term debt	—	16,012	—	16,012	—	13,103	—	13,103
Certain other liabilities ⁽ⁱ⁾	—	—	13	13	—	—	18	18
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	—	7	—	7	—	1	—	1
Fair value through profit and loss:								
Trust Unit liability	2,658	—	—	2,658	634	—	—	634
Derivatives included in trade payables and other liabilities	11	—	3	14	—	10	—	10

(i) Certain other assets, certain other long term investments, and certain other liabilities are included in the consolidated balance sheets in Other Assets and Other Liabilities, respectively.

There were no transfers between the levels of the fair value hierarchy during 2018 and 2017.

During 2018, a gain of \$6 million (2017 – loss of \$6 million) was recognized in operating income on financial instruments designated as amortized cost. In addition, a net gain of \$5 million (2017 – loss of \$3 million) was recognized in earnings before income taxes on financial instruments required to be classified as fair value through profit or loss.

Cash and Cash Equivalents, Short Term Investments and Security Deposits As at year end 2018, the Company had cash and cash equivalents, short term investments and security deposits of \$1,889 million (2017 – \$3,233 million), including U.S. dollars of \$161 million (2017 – \$573 million) that was held primarily by Dunedin Holdings GmbH (“Dunedin”), a subsidiary of GWL, and certain of its affiliates (see note 10).

In 2018, a gain of \$84 million (2017 – loss of \$64 million) was recognized in other comprehensive income related to the effect of foreign currency translation on the Company's U.S. net investment in foreign operations.

In addition, in 2018, a gain of \$17 million (2017 – loss of \$34 million) was recorded in SG&A related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.

Level 3 Financial Instruments

Franchise Loans Receivable and Franchise Investments in Other Assets As at year end 2018, the value of Loblaw franchise loans receivable of \$78 million (2017 – \$166 million) was recorded on the consolidated balance sheets. In 2018, Loblaw recorded a gain of \$3 million (2017 – gain of \$8 million) in operating income related to these loans receivable.

As at year end 2018, the value of Loblaw franchise investments was \$14 million (2017 – \$20 million) and was recorded in other assets. During 2018, Loblaw recorded a gain of \$3 million (2017 – \$2 million) in operating income related to these investments.

Embedded Derivatives The Level 3 financial instruments classified as fair value through profit or loss consist of Loblaw 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 would result in a significantly higher (lower) fair value measurement.

In 2018, a fair value loss of \$5 million (2017 – gain of \$4 million) was recognized in operating income related to these derivatives. In addition, as at year end 2018, a corresponding liability of \$3 million was included in trade payables and other liabilities (2017 – \$2 million asset included in prepaid expenses and other assets). As at December 31, 2018, a 1% increase (decrease) in foreign currency exchange rates would result in a \$1 million gain (loss) in fair value.

Equity Derivative Contracts As at year end 2018, Weston Holdings Limited (“WHL”), a subsidiary of GWL, held an outstanding equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of \$48.50 per Loblaw common share. As at year end 2018, the forward price had increased to \$118.42 (2017 – \$113.45) per Loblaw common share under the terms of the agreement. In 2018, a fair value loss of \$50 million (2017 – gain of \$25 million) was recorded in net interest expense and other financing charges related to this agreement (see note 7).

Trust Unit Liability In 2018, a fair value gain of \$41 million (2017 – \$7 million) was recognized in net interest expense and other financing charges (see note 7).

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

	Dec. 31, 2018		
(\$ millions)	Net asset (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges			
Foreign Exchange Currency Risk - Foreign Exchange Forwards	\$ 1	\$ 2	\$ —
Interest Rate Risk - Bond Forwards ⁽ⁱ⁾	(4)	(5)	1
Interest Rate Risk - Interest Rate Swaps ⁽ⁱⁱ⁾	(1)	6	—
Total derivatives designated as cash flow hedges	(4)	3	1
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	\$ 18	\$ —	\$ 41
Other Non-Financial Derivatives	(13)	—	(24)
Total derivatives not designated in a formal hedging relationship	5	—	17
Total derivatives	1	3	18

- (i) As a result of the issuance of Eagles' notes, bond forward agreements with a notional value of \$250 million were settled in 2018, resulting in a realized fair value off of \$1 million recorded in OCI (note 24).
- (ii) Choice Properties uses interest rate swaps, with a notional value of \$322 million, which were assumed during the second quarter of 2018 in connection with the acquisition of CREIT, to manage its interest rate risk related to variable rate mortgages. The fair value of the derivatives is included in other assets and other liabilities.

	Dec. 31, 2017		
(\$ millions)	Net asset (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges⁽ⁱ⁾			
Foreign Exchange Currency Risk - Foreign Exchange Forwards	\$ (1)	\$ (3)	\$ 1
Interest Rate Risk - Bond Forwards ⁽ⁱⁱ⁾	—	6	—
Total derivatives designated as cash flow hedges	(1)	3	1
Derivatives not designated in a formal hedging relationship			
Foreign Exchange Futures and Forwards	\$ (17)	\$ —	\$ (36)
Other Non-Financial Derivatives	1	—	(3)
Total derivatives not designated in a formal hedging relationship	(16)	—	(39)
Total derivatives	(17)	3	(38)

- (i) Includes interest rate swap agreements with a notional value of \$100 million. During 2017, a nominal unrealized fair value gain was recorded in OCI relating to these agreements.
- (ii) Bond forward agreements with a notional value of \$200 million were settled in 2017, resulting in realized fair value gain of \$6 million recorded in OCI.

Note 34. Financial Risk Management

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

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

Maturity Analysis The following are the undiscounted contractual maturities of significant financial liabilities as at December 31, 2018:

(\$ millions)	2019	2020	2021	2022	2023	Thereafter	Total ⁽ⁱⁱⁱ⁾
Long term debt including interest payments ⁽ⁱ⁾	\$ 2,745	\$ 2,369	\$ 1,435	\$ 1,745	\$ 3,200	\$ 9,719	\$ 21,213
Foreign exchange forward contracts	446	—	—	—	—	—	446
Short term debt (note 23)	1,579	—	—	—	—	—	1,579
Bank indebtedness	56	—	—	—	—	—	56
Certain other liabilities	2	3	3	—	—	—	8
	\$ 4,828	\$ 2,372	\$ 1,438	\$ 1,745	\$ 3,200	\$ 9,719	\$ 23,302

- (i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for consolidated structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as at year end 2018.
- (ii) The Trust Unit liability has been excluded as this liability does not have a contractual maturity date. The Company also excluded trade payables and other liabilities which are due within the next 12 months.

Foreign Currency Exchange Rate Risk The Company's consolidated financial statements are expressed in Canadian dollars, however a portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars through both its net investment in foreign operations in the U.S. and its foreign subsidiaries held by Dunedin and certain of its affiliates with a functional currency that is the same as that of the Company. The U.S. dollar denominated net assets are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to foreign currency translation gains and losses. Those gains and losses arising from the translation of the U.S. dollar denominated assets of foreign subsidiaries with a functional currency that is the same as that of the Company are included in operating income, while translation gains and losses on the net investment in foreign operations in the U.S. are recorded in accumulated other comprehensive income (loss). The Company estimates that based on the U.S. net assets held by foreign operations that have the same functional currency as that of the Company at the end of 2018, an appreciation of the Canadian dollar of one cent relative to the U.S. dollar would result in a loss of \$0.3 million in earnings before income taxes.

Revenues and expenses of all 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 recognized. An appreciating U.S. dollar relative to the Canadian dollar will positively impact operating income and net earnings, while a depreciating U.S. dollar relative to the Canadian dollar will have the opposite impact.

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Weston Foods and Loblaw are also exposed to fluctuations in the prices of U.S. dollar denominated purchases as a result of changes in U.S. dollar exchange rates. A depreciating Canadian dollar relative to the U.S. dollar will negatively impact operating income and net earnings, while an appreciating Canadian dollar relative to the U.S. dollar will have the opposite impact. Weston Foods and Loblaw entered into derivative instruments in the form of futures contracts and forward contracts to manage their current and anticipated exposure to fluctuations in U.S. dollar exchange rates.

Credit Risk 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, Loblaw's franchise loans receivable, pension assets held in the Company's defined benefit plans, Loblaw's accounts receivable including amounts due from franchisees, government, prescription sales and third-party drug plans, independent accounts and amounts owed from vendors, and other receivables from Weston Foods' customers and suppliers. Failure to manage credit risk could adversely affect the financial performance of the Company.

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

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

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

Loblaw's franchise loans receivable and Loblaw's accounts receivable including amounts due from franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors, and other receivables from Weston Foods' customers and suppliers, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

The Company's maximum exposure to credit risk as it relates to derivative instruments is approximated by the positive fair market value of the derivatives on the consolidated balance sheets (see note 33).

Refer to notes 11 and 12 for additional information on the credit quality performance of Loblaw's credit card receivables and other receivables, mentioned above, of Loblaw and Weston Foods.

Common Share and Trust Unit Price Risk Changes in the Loblaw common share price impact the Company's net interest expense and other financing charges. The obligation of WHL under the equity forward sale agreement based on 9.6 million Loblaw common shares, which matures in 2031, is secured by the underlying Loblaw common shares. If the market value of the underlying Loblaw common shares exceeds the obligation of WHL under this forward, a portion of the proceeds from a future sale of these shares may be used to satisfy the obligation under this forward contract upon termination or maturity. At maturity, if the forward price is greater (less) than the market price of the Loblaw common shares, WHL will receive (pay) cash equal to the difference between the notional value and the market value of the forward contract. A one dollar increase in the market value of the underlying shares of the equity forward, with all other variables held constant, would result in an increase of \$10 million in net interest expense and other financing charges.

The Company is exposed to market price risk from Choice Properties' Trust Units that are held by unitholders other than the Company. These Trust Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holders. The liability is recorded at fair value at each reporting period based on the market price of Trust Units. The change in the fair value of the liability negatively impacts net earnings when the Trust Unit price increases and positively impacts net earnings when the Trust Unit price declines. A one dollar increase in the market value of Trust Units, with all other variables held constant, would result in an increase of \$231 million in net interest expense and other financing charges.

Interest Rate Risk The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 100 basis point increase (decrease) in short term interest rates, with all other variables held constant, would result in an increase (decrease) of \$7 million in net interest expense and other financing charges.

Commodity Price Risk Weston Foods' costs are directly impacted by fluctuations in the prices of commodity linked raw materials such as wheat flours, sugars, vegetable oils, cocoa powders and chocolate. Loblaw is also exposed to fluctuations in the commodity prices as a result of the indirect effect of changing commodity prices on the price of consumer products. In addition, both Weston Foods and Loblaw are exposed to increases in the prices of energy in operating, in the case of Weston Foods, its bakeries and distribution networks, and, in the case of Loblaw, its stores and distribution networks. Both Weston Foods and Loblaw use purchase commitments and derivative instruments in the form of futures contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices. The Company estimates that based on the outstanding derivative contracts held by the Company as at year end 2018, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a net loss of \$13 million in earnings before income taxes. This amount excludes the offsetting impact of the commodity price risk inherent in the transactions being hedged.

Notes to the Consolidated Financial Statements

Note 35. 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 these 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 or 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 such accruals or provisions and will make any necessary adjustments.

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

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice ("the Superior Court") against the Company, Loblaw and certain of its subsidiaries and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately \$2 billion in damages. The Company believes this proceeding is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements. In July 2017, the Superior Court dismissed the action and the plaintiffs appealed. The decision of the Ontario Court of Appeal, released December 20, 2018, upheld the Superior Court's dismissal of the action. Costs awarded in respect of the original motion were reduced by 30%. The plaintiffs are seeking leave to appeal to the Supreme Court of Canada.

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

In 2017, the Company and Loblaw 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 Loblaw 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 Loblaw believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2018 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved.

As part of its response to this issue, Loblaw and the Company acknowledged their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, Loblaw offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. Loblaw recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017. In 2018, on a year-to-date basis, Loblaw had recorded an additional charge of \$4 million. The Company expects that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages.

As a result of their admission that they participated in the arrangement and their cooperation in the Competition Bureau's investigation, the Company and Loblaw 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 Loblaw and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. Loblaw believes this proceeding is without merit and is vigorously defending it. Loblaw does not currently have any significant accruals or provisions for this matter recorded in the consolidated financial statements.

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

Notes to the Consolidated Financial Statements

Note 36. 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 \$400 million (2017 – \$424 million). In addition, Loblaw and Choice Properties has provided to third parties the following significant guarantees:

Associate Guarantees Loblaw 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 year end 2018, Loblaw's maximum obligation in respect of such guarantees was \$580 million (2017 – \$580 million) with an aggregate amount of \$466 million (2017 – \$509 million) in available lines of credit was allocated to the Associates by the various banks. As at year end 2018, Associates had drawn an aggregate amount of \$56 million (2017 – \$110 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse in the event that any payments are made under the guarantees, Loblaw 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 24). As at year end 2018, Loblaw has agreed to provide a credit enhancement of \$64 million (2017 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2017 – 10%) of the principal amount of the loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to Loblaw'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 Loblaw 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 Loblaw and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. Loblaw 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, Loblaw has assigned leases to third parties. Loblaw remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, was in aggregate, approximately \$12 million (2017 – \$15 million). Additionally, Loblaw has guaranteed lease obligations of a third-party distributor in the amount of \$3 million (2017 – \$3 million).

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

Cash Collateralization As at year end 2018, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$45 million (2017 – \$45 million) and \$103 million (2017 – \$102 million), respectively. As at year end 2018, GWL and Loblaw had \$45 million (2017 – \$45 million) and \$2 million (2017 – \$3 million) deposited with major financial institutions, respectively, and classified as security deposits on the consolidated balance sheets.

Financial Services Loblaw 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 year end 2018, the guarantee on behalf of PC Bank to MasterCard[®] was U.S. dollars \$190 million (2017 – U.S. dollars \$190 million).

Loblaw 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 (2017 – \$76 million).

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. Loblaw has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was \$89 million (2017 – \$62 million), which represented approximately 10% (2017 – 10%) of the securitized credit card receivables amount (see note 23).

Choice Properties Letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities are issued by Choice Properties. As at year end 2018, the aggregate gross potential liability related to these letters of credit totaled \$39 million (2017 – \$33 million).

Choice Properties’ credit facilities and debentures are guaranteed by each of the General Partner, the Partnership and any other person that becomes a subsidiary of Choice Properties (with certain exceptions). In the case of default by Choice Properties, the Indenture Trustee will be entitled to seek redress from the Guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of Choice Properties. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties’ assets being primarily held in its various subsidiaries.

CPH Master LP guarantees certain debt assumed by purchasers in connection with past dispositions of properties made by CREIT before the acquisition. These guarantees will remain until the debt is modified, refinanced or extinguished. Credit risks arise in the event that the purchasers default on repayment of their debt. These credit risks are mitigated by the recourse which the Trust has under these guarantees, in which case the Trust would have a claim against the underlying property. The estimated amount of debt as at year end 2018 subject to such guarantees, and therefore the maximum exposure to credit risk, was \$38 million with an estimated weighted average remaining term of 4.5 years.

Notes to the Consolidated Financial Statements

Note 37. Related Party Transactions

The Company's majority shareholder is Mr. W. Galen Weston, who beneficially owns, directly and indirectly through private companies which he controls, including Wittington, a total of 81,465,025 of GWL's common shares, representing approximately 53.1% (2017 – 63.2%) of GWL's outstanding common shares.

The Company's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed in this note.

In 2018, the Company made rental payments to Wittington in the amount of \$4 million (2017 – \$4 million). As at year end 2018 and 2017, there were no rental payments outstanding.

In 2018, inventory purchases from Associated British Foods plc, a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company, amounted to \$44 million (2017 – \$39 million). As at year end 2018, \$3 million (2017 – \$6 million) was included in trade payables and other liabilities relating to these inventory purchases.

Joint Venture In 2014, a joint venture, formed between Choice Properties and Wittington, completed the acquisition of property from Loblaw. The joint venture intends to develop the acquired site into a mixed-used property, anchored by a Loblaw food store. As at year end 2018, the joint venture did not have any operating activity. Choice Properties uses the equity method of accounting to record its 40% interest in the joint venture, which is included in other assets.

Operating Lease Choice Properties entered into a ten-year lease for office space with Wittington that commenced in 2014. Lease payments will total \$3 million over the term of the lease. Effective January 1, 2018, Choice Properties entered into a sub-lease for additional office space with a subsidiary of the Company, with a term effective until the end of the existing lease in 2024. Over the term of the sub-lease, lease payments will total \$1 million.

Post-Employment Benefit Plans The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in note 29.

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

Compensation of Key Management Personnel The Company's key management personnel is comprised of certain members of the executive team of GWL, Loblaw, Weston Foods and Wittington, as well as members of the Boards of GWL, Loblaw 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.

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

(\$ millions)	2018	2017
Salaries, director fees and other short term employee benefits	\$ 8	\$ 9
Share-based compensation	12	13
Total compensation	\$ 20	\$ 22

Note 38. Segment Information

The Company has three reportable operating segments: Weston Foods, Loblaw and Choice Properties.

In 2018, the Company and Loblaw completed a reorganization under which Loblaw spun out its approximate 61.6% effective interest in Choice Properties to the Company (see note 5). Following the reorganization, the Company owned an approximate 65.4% effective interest in Choice Properties directly and Choice Properties became a reportable operating segment of the Company.

The accounting policies of the reportable operating segments are the same as those described in the Company's summary of significant accounting policies (see note 2). The Company measures each reportable operating segment's performance based on adjusted EBITDA⁽ⁱⁱⁱ⁾ and adjusted operating income⁽ⁱⁱⁱ⁾. Neither reportable operating segment is reliant on any single external customer.

(\$ millions)	2018					2017 ⁽ⁱⁱ⁾				
	Weston Foods	Loblaw	Choice Properties	Other and Intersegment ⁽ⁱ⁾	Total	Weston Foods	Loblaw ^(v)	Choice Properties ^(v)	Other and Intersegment ^(iv)	Total
Revenue	\$ 2,122	\$ 46,693	\$ 1,148	\$ (1,395)	\$ 48,568	\$ 2,243	\$ 46,587	\$ 830	\$ (1,371)	\$ 48,289
Operating income	\$ 73	\$ 1,915	\$ 593	\$ 4	\$ 2,585	\$ 91	\$ 2,041	\$ 756	\$ (327)	\$ 2,561
Net interest expense and other financing charges	88	564	(57)	353	948	13	374	351	(215)	523
Earnings before income tax	\$ (15)	\$ 1,351	\$ 650	\$ (349)	\$ 1,637	\$ 78	\$ 1,667	\$ 405	\$ (112)	\$ 2,038
Operating income	\$ 73	\$ 1,915	\$ 593	\$ 4	\$ 2,585	\$ 91	\$ 2,041	\$ 756	\$ (327)	\$ 2,561
Depreciation and amortization	130	1,497	1	118	1,746	117	1,454	1	113	1,685
Adjusting items ⁽ⁱⁱⁱ⁾	16	108	230	(157)	197	48	18	(160)	185	91
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	\$ 219	\$ 3,520	\$ 824	\$ (35)	\$ 4,528	\$ 256	\$ 3,513	\$ 597	\$ (29)	\$ 4,337
Depreciation and amortization ^(iv)	121	976	1	118	1,216	107	930	1	113	1,151
Adjusted operating income⁽ⁱⁱⁱ⁾	\$ 98	\$ 2,544	\$ 823	\$ (153)	\$ 3,312	\$ 149	\$ 2,583	\$ 596	\$ (142)	\$ 3,186

Notes to the Consolidated Financial Statements

(i) Other and intersegment includes the following items:

(unaudited) (\$ millions)	2018			2017 ^{(iii)(v)}		
	Revenue	Adjusted Operating Income ⁽ⁱⁱⁱ⁾	Net Interest Expense and Other Financing Charges	Revenue	Adjusted Operating Income ⁽ⁱⁱⁱ⁾	Net Interest Expense and Other Financing Charges
Before Other and Intersegment	\$ 49,963	\$ 3,465	\$ 595	\$ 49,660	\$ 3,328	\$ 738
Choice Properties Intersegment Consolidation and Elimination						
Elimination of rental revenue	(555)	—	—	(529)	—	—
Elimination of cost recovery	(181)	—	—	(183)	—	—
Elimination of lease surrender	(10)	(10)	—	(6)	(6)	—
Intercompany charges	—	(4)	—	—	(7)	—
Weston Foods' net gain on sales leaseback of property to Choice Properties	—	(10)	—	—	—	—
Loblaw's net gain on sales leaseback of property to Choice Properties	—	(6)	—	—	(7)	—
Recognition of depreciation on Choice Properties' investment properties classified as fixed assets by the Company and measured at cost	—	(118)	—	—	(113)	—
Fair value adjustment on Choice Properties' Class B LP Units	—	—	594	—	—	38
Fair value adjustment on Trust Unit liability	—	—	(41)	—	—	(10)
Unit distribution on Exchangeable Units paid by Choice Properties to GWL and Loblaw	—	—	(271)	—	—	(232)
Unit distribution on Trust Units paid by Choice Properties, excluding amounts paid to GWL and Loblaw	—	—	126	—	—	34
Interest on debt due from Choice Properties to Loblaw and accretion income earned on intercompany Class C Units	—	—	(55)	—	—	(45)
Other	(1)	(5)	—	—	(9)	—
Other						
Intercompany sales	(648)	—	—	(653)	—	—
Total Consolidated	\$ 48,568	\$ 3,312	\$ 948	\$ 48,289	\$ 3,186	\$ 523

(ii) Certain comparative figures have been restated (see note 2).

(iii) Excludes certain items and is used internally by management when analyzing segment underlying operating performance.

(iv) Excludes \$521 million (2017 – \$524 million) of amortization of intangible assets acquired with Shoppers Drug Mart, recorded by Loblaw, and \$9 million (2017 – \$10 million) of accelerated depreciation recorded by Weston Foods, included in restructuring and other charges.

(v) Certain comparative figures have been restated to to present Continuing Operations at Loblaw as a result of Loblaw's spin-out of Choice Properties (see note 5).

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017 ⁽ⁱ⁾
Total Assets		
Weston Foods	\$ 3,008	\$ 2,645
Loblaw	30,228	34,230
Choice Properties	15,518	9,924
Other ⁽ⁱⁱ⁾	298	927
Intersegment	(5,238)	(9,186)
Consolidated	\$ 43,814	\$ 38,540

- (i) Certain comparative figures have been restated as a result of the implementation of IFRS 15 “Revenue from Contracts with Customers”, a change in accounting policy and to present continuing operations at Loblaw as a result of Loblaw’s spin-out of Choice Properties (see notes 2 and 5).
- (ii) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company.

(\$ millions)	2018	2017 ⁽ⁱ⁾
Additions to Fixed Assets and Intangible Assets		
Weston Foods	\$ 212	\$ 215
Loblaw	1,070	1,026
Choice Properties	311	233
Consolidated	\$ 1,593	\$ 1,474

- (i) Certain comparative figures have been restated to present continuing operations at Loblaw as a result of Loblaw’s spin-out of Choice Properties (see note 5).

The Company operates primarily in Canada and the United States.

(\$ millions)	2018	2017 ⁽ⁱ⁾
Revenue (excluding intersegment)		
Canada	\$ 47,415	\$ 47,065
United States	1,153	1,224
Consolidated	\$ 48,568	\$ 48,289

(\$ millions)	As at	
	Dec. 31, 2018	Dec. 31, 2017
Fixed Assets and Goodwill and Intangible Assets		
Canada	\$ 23,936	\$ 23,652
United States	904	782
Consolidated	\$ 24,840	\$ 24,434

- (i) Certain comparative figures have been restated as a result of the implementation of IFRS 15 “Revenue from Contracts with Customers” (see notes 2).

Three Year Summary

CONSOLIDATED INFORMATION⁽ⁱ⁾

As at or for the years ended December 31

(\$ millions except where otherwise indicated)

	2018 (52 weeks)	2017 ⁽ⁱⁱ⁾ (52 weeks)	2016 (52 weeks)
Operating Results			
Sales	48,568	48,289	47,999
Operating income	2,585	2,561	2,255
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	4,528	4,337	4,140
Depreciation and amortization ^(iv)	1,746	1,685	1,654
Net interest expense and other financing charges	948	523	700
Adjusted net interest expense and other financing charges ⁽ⁱⁱⁱ⁾	762	555	568
Income taxes	639	449	465
Adjusted income taxes ⁽ⁱⁱⁱ⁾	680	712	678
Net earnings	998	1,589	1,090
Net earnings attributable to shareholders of the Company	574	766	550
Net earnings available to common shareholders of the Company	530	722	506
Adjusted net earnings available to common shareholders of the Company ⁽ⁱⁱⁱ⁾	908	903	838
Financial Position			
Fixed assets	12,101	11,689	11,534
Goodwill and intangible assets	12,739	12,745	13,239
Total assets	43,814	38,540	37,946
Cash and cash equivalents, short term investments and security deposits	1,889	3,233	2,660
Total debt	16,445	13,066	12,804
Total equity attributable to shareholders of the Company	8,040	7,934	7,764
Total equity	14,204	14,795	14,790
Cash Flows			
Cash flows from operating activities	2,719	3,425	3,760
Capital investments	1,593	1,474	1,465
Free cash flow ⁽ⁱⁱⁱ⁾	134	1,395	1,725
Per Common Share (\$)			
Diluted net earnings	3.99	5.58	3.90
Adjusted diluted net earnings ⁽ⁱⁱⁱ⁾	6.85	6.99	6.49
Financial Measures and Ratios			
Adjusted EBITDA margin (%) ⁽ⁱⁱⁱ⁾	9.3	9.0	8.6
Adjusted return on average equity attributable to common shareholders of the company (%) ⁽ⁱⁱⁱ⁾	12.7	12.9	12.1
Adjusted return on capital (%) ⁽ⁱⁱⁱ⁾	12.0	13.0	12.1

(i) For financial definitions and ratios refer to the Glossary beginning on page 174.

(ii) Certain comparative figures have been restated as a result of the implementation of IFRS 15 "Revenue from Contracts with Customers" and a change in accounting policy (see note 2).

(iii) See non-GAAP financial measures beginning on page 68.

(iv) Includes \$521 million (2017 – \$524 million; 2016 – \$535 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$9 million (2017 – \$10 million; 2016 – \$14 million) of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

Three Year Summary

SEGMENT INFORMATION⁽ⁱ⁾

As at or for the years ended December 31

(\$ millions except where otherwise indicated)

		2018	2017 ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾	2016 ⁽ⁱⁱⁱ⁾
		(52 weeks)	(52 weeks)	(52 weeks)
OPERATING RESULTS				
Revenue	Weston Foods	2,122	2,243	2,268
	Loblaw	46,693	46,587	46,295
	Choice Properties	1,148	830	784
	Other & Intersegment	(1,395)	(1,371)	(1,348)
	Consolidated	48,568	48,289	47,999
Operating income	Weston Foods	73	91	173
	Loblaw	1,915	2,041	1,667
	Choice Properties	593	756	677
	Other & Intersegment	4	(327)	(262)
	Consolidated	2,585	2,561	2,255
Adjusted EBITDA^(iv)	Weston Foods	219	256	296
	Loblaw	3,520	3,513	3,325
	Choice Properties	824	597	678
	Other & Intersegment	(35)	(29)	(159)
	Consolidated	4,528	4,337	4,140
Adjusted EBITDA Margin (%)^(iv)	Weston Foods	10.3	11.4	13.1
	Loblaw	7.5	7.5	7.2
	Consolidated	9.3	9.0	8.6
Depreciation and Amortization^(v)	Weston Foods	130	117	111
	Loblaw	1,497	1,454	1,435
	Choice Properties	1	1	1
	Other & Intersegment	118	113	107
	Consolidated	1,746	1,685	1,654
FINANCIAL POSITION				
Total Assets	Weston Foods	3,008	2,645	2,670
	Loblaw	30,228	34,230	33,746
	Choice Properties	15,518	9,924	9,435
	Other ^(vi)	298	927	1,004
	Intersegment	(5,238)	(9,186)	(8,909)
	Consolidated	43,814	38,540	37,946
CASH FLOWS				
Fixed Asset Purchases and Intangible Asset Additions	Weston Foods	212	215	241
	Loblaw	1,070	1,026	996
	Choice Properties	383	274	377
	Other & Intersegment	(72)	(41)	(149)
	Consolidated	1,593	1,474	1,465

(i) For financial definitions and ratios refer to the Glossary beginning on page 174.

(ii) Certain comparative figures have been restated as a result of the implementation of IFRS 15 "Revenue from Contracts with Customers" and a change in accounting policy (see note 2).

(iii) Certain comparative figures have been restated to to present Continuing Operations at Loblaw as a result of Loblaw's spin-out of Choice Properties (see note 5).

(iv) See non-GAAP financial measures beginning on page 68.

(v) Includes \$521 million (2017 – \$524 million; 2016 – \$535 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$9 million (2017 – \$10 million; 2016 – \$14 million) of accelerated depreciation and amortization recorded by Weston Foods, related to restructuring and other charges.

(vi) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company and GWL's direct investment in Choice Properties.

Glossary

Term	Definition
Adjusted diluted net earnings per common share	Adjusted net earnings available to common shareholders of the Company including the effect of all dilutive instruments divided by the weighted average number of common shares outstanding during the period adjusted for the impact of dilutive items (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Adjusted EBITDA	Adjusted operating income before depreciation and amortization (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Adjusted EBITDA margin	Adjusted EBITDA divided by sales (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Adjusted income taxes	Income taxes adjusted for the tax impact of items included in adjusted operating income less adjusted net interest and other financing charges (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Adjusted income tax rate	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 18, “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 18, “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 18, “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 18, “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 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Adjusted return on average equity attributable to common shareholders of the Company	Adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 18, “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 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Basic net earnings per common share	Net earnings available to common shareholders of the Company divided by the weighted average number of common shares outstanding during the period.
Capital	Total debt, plus total equity attributable to shareholders of the Company, less cash and cash equivalents, short term investments and amounts held in escrow.
Capital under management	Total debt plus total equity attributable to shareholders of the Company.
Capital investment	Fixed asset purchases and intangible asset additions.
Choice Properties’ Funds from Operations	Choice Properties’ net income (loss) adjusted for items that are not necessarily reflective of Choice Properties’ underlying operating performance capital (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Choice Properties’ Funds From Operations per unit - diluted	Choice Properties’ Funds from Operations available to unit holders adjusted for the impact of dilutive items divided by the weighted average number of average unit outstanding during the period adjusted for the impact of dilutive items.
Choice Properties’ Net Operating income for same properties, excluding development activities	Choice Properties’ net operating income for same properties, adjusting for the impact of recent property acquisition and disposition transactions.

Glossary

Term	Definition
Control brand	A brand and associated trademark that is owned by Loblaw for use in connection with its own products and services.
Conversion	A store that changes from one Loblaw banner to another Loblaw 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.
Free cash flow	Cash flows from operating activities less interest paid, fixed asset purchases and intangible asset additions (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Major expansion/contraction	Expansion/contraction of a store that results in an increase/decrease in square footage that is greater than 25% of the square footage of the store prior to the expansion/contraction.
Minor expansion	Expansion of a store that results in an increase in square footage that is less than or equal to 25% of the square footage of the store prior to the expansion.
Net earnings attributable to shareholders of the Company	Net earnings less non-controlling interests.
Net earnings available to common shareholders of the Company	Net earnings attributable to shareholders of the Company less preferred dividends.
New store	A newly constructed store, acquisition, conversion or major expansion.
Operating income	Net earnings before net interest expense and other financing charges and income taxes.
Renovation	A capital investment in a store resulting in no significant change to the store square footage.
Retail debt to adjusted EBITDA	Retail segment total debt divided by Retail segment adjusted EBITDA.
Retail gross profit	Loblaw retail sales less cost of merchandise inventories sold.
Retail sales	Combined sales of stores owned by Loblaw’s corporate stores, franchisees and associate-owned drug stores.
Retail square footage	Retail square footage includes Loblaw’s corporate stores, franchised stores and associate-owned drug stores.
Rolling year adjusted return on capital	Tax-effected rolling year (most recent four quarters) adjusted operating income divided by average capital (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Rolling year adjusted return on average equity attributable to common shareholders of the Company	Rolling year (most recent four quarters) adjusted net earnings available to common shareholders of the Company divided by average total equity attributable to common shareholders of the Company (see Section 18, “Non-GAAP Financial Measures”, of the Company’s Management’s Discussion and Analysis).
Same-store sales	Retail sales from the same location for stores in operation in that location in both periods excluding sales from a store that has undergone a major expansion/contraction in the period.
Total equity attributable to common shareholders 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.
Weighted average common shares outstanding	The number of common shares outstanding determined by relating the portion of time within the period the common shares were outstanding to the total time in that period.
Year	The Company’s year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31, usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2018 and December 31, 2017 contained 52 weeks.

Corporate Directory

Board of Directors

Galen G. Weston, B.A., M.B.A.

Chairman and Chief Executive Officer of the Corporation; Executive Chairman, Loblaw Companies Limited; Chairman, President's Choice Bank; Director, Wittington Investments, Limited; former Chairman, Choice Properties Real Estate Investment Trust.

Alannah Weston⁽⁴⁾

Deputy Chairman, former Creative Director, Selfridges Group Limited; Chair, Selfridges Group Foundation; Director, Wittington Investments, Limited; former Board member, Reta Lila Weston Trust and Reta Lila Howard Foundation; former Trustee, Blue Marine Foundation.

Andrew Ferrier^(1,4)

Executive Chairman of Canz Capital Limited; Director, Bunge Limited; former Chief Executive Officer of Fonterra Co-operative Group Limited; former President and Chief Executive Officer, GSW Inc.

Isabelle Marcoux, B.A., LL.B.^(4*)

Chair, Board of Directors, Transcontinental Inc.; Director, Rogers Communications Inc. and Power Corporation of Canada; Director of the Montreal Children's Hospital Foundation; Chair of the Major Donors' Circle and Co-Chair of the 2016 campaign of Centraide of Greater Montreal.

Sarabjit (Sabi) S. Marwah⁽²⁾

Senator with the Senate of Canada; former Vice-Chairman and Chief Operating Officer of The Bank of Nova Scotia; Director, Cineplex Inc. and TELUS Corporation; Trustee and Chair, Hospital for Sick Children; former member of the Board of Directors, Toronto International Film Festival.

Gordon M. Nixon, C.M., O.Ont.^(1,2)

Corporate Director; Chair, BCE Inc. and Director, BlackRock, Inc.; former President and Chief Executive Officer, Royal Bank of Canada; Advisory Board, KingSett Canadian Real Estate Income Fund L.P.; Director, MaRS Discovery District; Trustee, Art Gallery of Ontario.

J. Robert S. Prichard, O.C., O.Ont., LL.B., M.B.A., LL.M., LL.D.^(2*,3)

Non-Executive Chair, Torys LLP; Chair, Bank of Montreal; Director, Onex Corporation; President Emeritus, University of Toronto; Trustee, Hospital for Sick Children; former Chair, President and Chief Executive Officer, Metrolinx.

Robert Sawyer^(1,4)

Corporate Director; Director, Walter Group; former Director and President and Chief Executive Officer, RONA Inc.; former Chief Operating Officer of Metro Inc.

Christi Strauss^(1,4)

Corporate Director; former President and Chief Executive Officer, Cereal Partners Worldwide, a General Mills joint venture with Nestlé; Director of two not-for-profit organizations, Social Venture Partners Minnesota and Health Builders.

Barbara Stymiest, F.C.A., F.C.P.A.^(1*,2,3*)

Corporate Director; Director, Blackberry Limited; Director, Sun Life Financial Inc.; Director, President's Choice Bank; former Member, Group Executive, Royal Bank of Canada; former Chief Executive Officer, TMX Group Inc., Chair, Canadian Institute for Advanced Research; Vice Chair, University Health Network; Chair, Advisory Council for the Ivey Institute for Leadership.

(1) Audit Committee

(2) Governance, Human Resource, Nominating and Compensation Committee

(3) Pension Committee

(4) Risk and Compliance Committee

* Chair of the Committee

Corporate Officers

W. Galen Weston, O.C.

Chairman Emeritus

Galen G. Weston

Chairman and Chief Executive Officer

Richard Dufresne

President and Chief Financial Officer

Gordon A.M. Currie

Executive Vice President, Chief Legal Officer

Rashid Wasti

Executive Vice President, Chief Talent Officer

Allan Bifield

Deputy Chief Financial Officer

Khush Dadyburjor

Chief Strategy Officer

Andrew Bunston

Vice President, Legal and Secretary

Nadeem Mansour

Vice President, Internal Audit Services

Lina Taglieri

Group Controller

Wendy Mizuno

Group Head, Pension and Benefits

John Williams

Group Treasurer

Peter Effer

Group Head, Tax

Shareholder and Corporate Information

Executive Office

George Weston Limited
22 St. Clair Avenue East
Toronto, Canada M4T 2S7
Tel: 416.922.2500
Fax: 416.922.4395
www.weston.ca

Stock Exchange Listing and Symbols

The Company's common and preferred shares are listed on the Toronto Stock Exchange and trade under the symbols: "WN", "WN.PR.A", "WN.PR.C", "WN.PR.D" and "WN.PR.E".

Common Shares

At year end 2018, there were 153,370,108 common shares issued and outstanding.

The average 2018 daily trading volume of the Company's common shares was 192,317.

Preferred Shares

As at year end 2018, there were 9,400,000 preferred shares Series I, 8,000,000 preferred shares Series III, 8,000,000 preferred shares Series IV and 8,000,000 preferred shares Series V issued and outstanding.

The average 2018 daily trading volume of the Company's preferred shares was:

Series I:	4,094
Series III:	3,549
Series IV:	5,250
Series V:	2,379

Preferred Dividend Dates

The declaration and payment of quarterly preferred dividends are made subject to approval by the Board of Directors. The record and payment dates for 2019 are:

Series I

Record Date	Payment Date
Feb. 28	March 15
May 31	June 15
Aug. 31	Sept. 15
Nov. 30	Dec. 15

Series III, Series IV and Series V

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Common Dividend Policy

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 which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth.

Common Dividend Dates

The declaration and payment of quarterly common dividends are made subject to approval by the Board of Directors. The anticipated record and payment dates for 2019 are:

Record Date	Payment Date
March 15	April 1
June 15	July 1
Sept. 15	Oct. 1
Dec. 15	Jan. 1

Printing: TC Transcontinental Printing www.tcprinting.tc

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, adjusted for the 4 for 1 stock split (effective May 27, 1986) and the 3 for 1 stock split (effective May 8, 1998), is \$1.50 per share. The value on February 22, 1994 was \$13.17 per share.

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada M5J 2Y1

Toll Free Tel: 1.800.564.6253 (Canada and U.S.A.)
International Tel: 514.982.7555 (direct dial)
Fax: 416.263.9394
Toll Free Fax: 1.888.453.0330

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

Independent Auditors

KPMG LLP
Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada

Annual Meeting

The George Weston Limited Annual Meeting of Shareholders will be held on Tuesday, May 7, 2019, at 11:00 a.m. (EDT) at The Royal Conservatory, TELUS Centre for Performance and Learning, Koerner Hall, 273 Bloor Street West, Toronto, Ontario, Canada.

Trademarks

George Weston Limited, Loblaw Companies Limited and their respective subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited, Loblaw Companies Limited and their respective subsidiary companies. Trademarks where used in this report are in italics.

Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Mr. Roy MacDonald, Vice President, Investor Relations, at the Company's Executive Office or by e-mail at investor@weston.ca.

Additional financial information has been filed electronically with the Canadian securities regulatory authorities in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR). The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Centre section of the Company's website.

This Annual Report includes selected information on Loblaw Companies Limited, a public company with shares trading on the Toronto Stock Exchange.

Ce rapport est disponible en français.

This 2018 Annual Report was printed in Canada on Enviro print, which contains 100% post-consumer waste and is processed chlorine-free, using biogas energy.

Weston

www.weston.ca