

2020 Annual Report



Report to Shareholders



Fellow Shareholders,

At this time last year, we celebrated a milestone in our transformation at George Weston Limited as we completed our first full year of direct ownership in Choice Properties. With three strategic, complementary businesses in Retail, Real Estate and Consumer Goods, we were confident in the long-term opportunities for our group of companies and the essential role that they play in their communities.

We had no idea just how sharply the term “essential” would come into focus as the current COVID-19 pandemic unfolded. Today, we look back with a strong sense of pride and purpose as each of our businesses rose to the challenges of the past year while supporting their employees, customers, and tenants.

Loblaw helped millions of Canadians stay fed and well while keeping both customers and colleagues safe through enhanced safety practices. At the same time, Loblaw harnessed new technologies to meet a step-change in e-commerce demand and brought healthcare to patients in their homes via virtual platforms.

Choice Properties quickly rolled out additional security, sanitation and social distancing measures to ensure the safety of tenants at its properties, many of which house the essential bakeries, warehouses, supermarkets, and pharmacies that we continued to operate across the group.

Weston Foods kept bakery shelves stocked in stores and quick service restaurants as demand spiked. Assortments were adjusted in real time to reduce line changes, drive efficiency, and get customers the products they needed most.



All of these measures were in response to challenges presented by the pandemic, and their success was the direct result of the remarkable people who worked across our group under extraordinary circumstances over the last year. We extend our heartfelt thanks to each and every one of them.

As we reflect upon 2020, and turn our attention to the future, the current pandemic will no doubt continue to shape how our businesses operate. But with every challenge we have overcome during the past year, we have further revealed the many strengths that underpin our group.

Loblaw's core business is strong, and its growth strategies have been accelerated through a threefold increase in e-commerce, the launch of PC Health, and the rapid uptake of PC Money account. Choice Properties continues to be positioned to deliver income stability and long-term growth while further improving the quality of its portfolio. Weston Foods remains focused on a return to top line growth driven by strategic areas such as artisan and donuts, and supported by on-going operational improvements.

Since well before the current pandemic, we have always believed in the importance of owning market leading businesses that serve their communities. 2020 simply reinforced our conviction that in doing so we will create value over the long term.

Sincerely,

[signed]

Galen G. Weston

Chairman and Chief Executive Officer

Toronto, Canada

March 1, 2021

[signed]

Richard Dufresne

President and Chief Financial Officer

The success of our businesses is a direct result of our remarkable colleagues who work across the group of companies.

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 91 to 167 of this Annual Report. The Company's audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2020 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 14, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

The Company operates through its three reportable operating segments, Loblaw Companies Limited ("Loblaw"), Choice Properties Real Estate Investment Trust ("Choice Properties") and Weston Foods. Other and Intersegment includes eliminations, intersegment adjustments related to the consolidation and cash and short-term investments held by the Company. All other company level activities that are not allocated to the reportable operating segments, such as net interest expense, corporate activities and administrative costs are included in Other and Intersegment.

In this MD&A, "Consolidated" refers to the consolidated results of GWL including its subsidiaries, while "GWL Corporate" refers to the non-consolidated financial results and metrics of GWL, such as dividends paid by GWL to its shareholders or cash flows received by GWL from its operating businesses. GWL Corporate is a subset of Other and Intersegment.

This MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking statements. For additional information related to forward-looking statements, material assumptions and material risks associated with them, see Section 8, "Enterprise Risks and Risk Management", Section 13, "Outlook" and Section 15, "Forward-Looking Statements" of this MD&A.

The information in this MD&A is current to March 1, 2021, unless otherwise noted.

Unless otherwise indicated, the Company's results include an extra week of operations (the "53rd week") in the fourth quarter and full year 2020 results when compared to 2019 as a result of the Company's reporting calendar.

Table of Contents

4	At a Glance
5	Our Business
8	Key Performance Indicators Operating Segments
12	Loblaw
14	Choice Properties
16	Weston Foods
19	Financial Results
74	Outlook
75	Non-GAAP Financial Measures
87	Forward-Looking Statements
88	Additional Information

FOOTNOTE LEGEND

- 1 See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.
- 2 GWL Corporate refers to the non-consolidated financial results and metrics of GWL. GWL Corporate is a subset of Other and Intersegment.
- 3 To be read in conjunction with "Forward-Looking Statements" beginning on page 87.
- 4 Certain comparative figures have been restated to conform with current year presentation.
- 5 For financial definitions and ratios refer to Glossary beginning on page 170.

At a Glance

Key financial highlights

As at or for the year ended December 31, 2020
(\$ millions except where otherwise indicated)

Consolidated⁽¹⁾

REVENUE

\$54,705

+9.2%
vs. 2019

OPERATING INCOME

\$2,888

-2.4%
vs. 2019

ADJUSTED EBITDA⁽¹⁾

\$5,607

+2.3%
vs. 2019

ADJUSTED EBITDA MARGIN⁽¹⁾ (%)

10.2%

-70bps
vs. 2019

NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS

\$919

+364.1%
vs. 2019

ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS⁽¹⁾

\$1,055

-5.6%
vs. 2019

DILUTED NET EARNINGS PER COMMON SHARE (\$)

\$5.96

+373.0%
vs. 2019

ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE⁽¹⁾ (\$)

\$6.85

-5.4%
vs. 2019

GWL Corporate⁽²⁾

CASH FLOW FROM OPERATING BUSINESSES⁽¹⁾

\$603

+11.9%
vs. 2019

GWL CORPORATE FREE CASH FLOW⁽¹⁾

\$811

+97.3%
vs. 2019

ANNUALIZED DIVIDENDS DECLARED PER SHARE (\$)

\$2.20

+4.8%
vs. 2019

ADJUSTED RETURN ON CAPITAL⁽¹⁾ (%)

10.8%

+50bps
vs. 2019

¹ See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.

² GWL Corporate refers to the non-consolidated financial results and metrics of GWL. GWL Corporate is a subset of Other and Intersegment.

Our Business

Our history as a family business

In 1882, a young Toronto bread salesman and former baker's apprentice named George Weston went into business for himself when he bought a bread route from his employer. By the turn of the century, Weston's Bread was known throughout the city and George Weston had become Canada's biggest baker.

In 1924, George's eldest son, Garfield Weston, followed in his father's footsteps and became president of George Weston Limited. In spite of war and the depression, Garfield transformed his father's Toronto bakery into a commercial food empire with holdings on several continents.

In 1953, George Weston Limited expanded its grocery business, acquiring majority control of Loblaw's Inc. In 1956, Loblaw Companies Limited was incorporated, and over the next two decades, Loblaw continued to expand its operations throughout Canada and the United States.

In the early 1970s, a third generation took charge as W. Galen Weston successfully consolidated the large conglomerate, reinventing Loblaw in the process and transforming it into Canada's largest grocery chain and GWL's largest asset.

In 2006, Galen G. Weston assumed responsibility for Loblaw and guided Loblaw through a period of transformation and growth in response to a rapidly changing business environment, including the creation and initial public offering of Choice Properties Real Estate Investment Trust in 2013 and the acquisition of Shoppers Drug Mart shortly thereafter. In 2017, Galen G. Weston was appointed CEO of George Weston Limited.

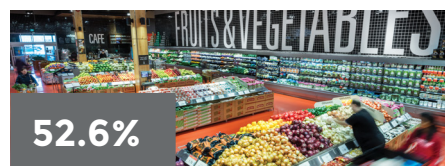
In 2018, as part of GWL's transformation initiative and long-term commitment to create shareholder value, the Company completed a reorganization where Loblaw spun out its majority interest in Choice Properties to GWL. GWL's acquisition of a majority ownership of Choice Properties was a critical milestone in the recent history of the Company. With the addition of Choice Properties to the portfolio, the Company became more balanced, with three strong and well-positioned businesses in retail, real estate and consumer goods.

What we do

GWL is a Canadian public company, founded in 1882 and listed on the Toronto Stock Exchange (TSX:WN) since January 1928. The Company owns three businesses across: (i) retail, (ii) real estate and (iii) consumer goods.

WESTON

GEORGE WESTON LIMITED



LOBLAW

Loblaw (TSX: L) is Canada's food and pharmacy leader and the nation's largest retailer. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise and financial services, through its grocery banners, Shoppers Drug Mart, Joe Fresh and President's Choice Bank.



CHOICE PROPERTIES

Choice Properties REIT (TSX: CHP.UN) is a leading real estate investment trust that aims to create long-term value by owning, managing and developing high-quality assets. The Choice Properties portfolio is comprised of retail properties, primarily leased to necessity-based tenants, and industrial, office and residential assets, concentrated in attractive markets and includes an impressive pipeline of development opportunities.



WESTON FOODS

Weston Foods is a leading North American bakery whose purpose is *Elevating Everyday Moments*. The business is an innovative and trusted leader in the industry. Weston Foods serves North American customers in a number of channels, including retail and foodservice; making bread, rolls, cupcakes, donuts, cookies, cakes, pies, cones and wafers, artisan baked goods and more.

George Weston has a 139-year history of value investing, generating attractive returns through its ownership of market leading businesses.

Our Operating and Value Creation Strategy

George Weston Limited's mission is to build generational value with an actively managed portfolio of market-leading businesses in retail, real estate and consumer goods through expertise in strategy, mergers and acquisitions, capital allocation and talent development.

Over the years, the Company has successfully executed strategic transactions and has tightly managed its leverage and capital structure.

The Company is a leader in each of its operating segments, retail, real estate and consumer goods, with market-leading brands in retail, coveted locations in real estate and high-quality products in consumer goods.

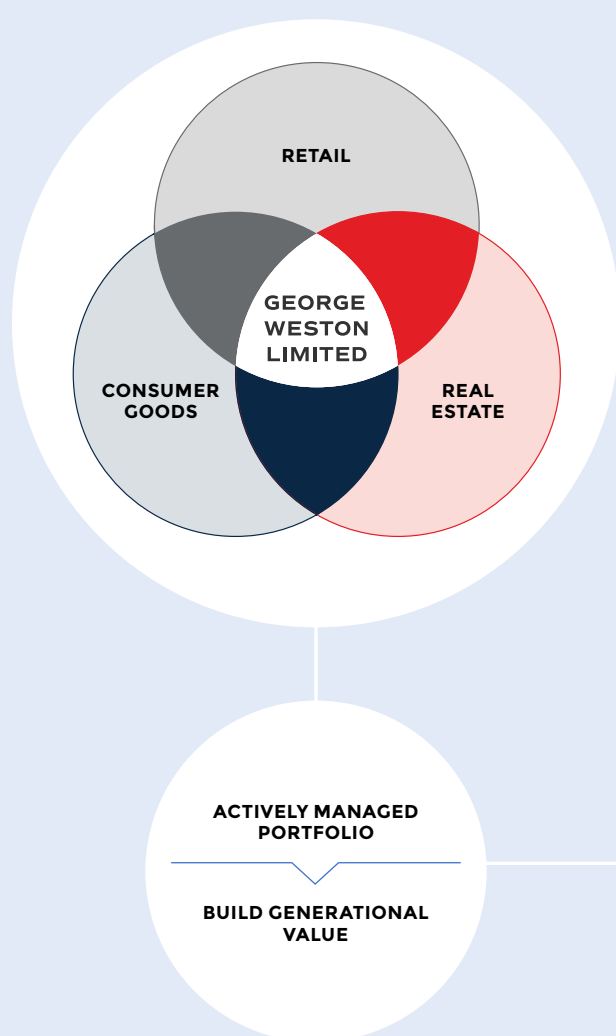
The Company is committed to supporting its portfolio of companies, providing expertise and decision support. This includes support in areas such as strategy, talent development, capital allocation and mergers and acquisitions.

The Company brings a unique perspective to the operating business level, having a viewpoint that spans across the retail, real estate and consumer goods categories, enabling the identification of opportunities and the sharing of best practices.

By accumulating capital from its existing businesses and prudently leveraging its debt capacity, the Company supports investments in strategic transactions that create value at its portfolio companies. The Company also considers strategic initiatives where it can leverage its existing capabilities and expertise to create long-term value for shareholders.

The Company has a track record of providing stability and maintaining a long-term outlook. The Company seeks to deploy its capital optimally, including returning capital to shareholders through dividends and re-investing capital in its portfolio of companies, where it can further enhance earnings capability.

Our Operating and Value Creation Strategy



Built on what we have in common

Together, these four concepts unite our operating companies and are core to our identity:



CORE VALUES

Our actions are shaped by a set of CORE Values, which express a shared commitment to Care, Ownership, Respect and Excellence across the group of companies.



ETHICS & COMPLIANCE

Throughout our interactions, our decisions are grounded in a strong sense of Ethics & Compliance.



BLUE CULTURE

Represents how our values come to life every day in our interactions with our businesses, each other and our customers.



SOCIAL RESPONSIBILITY

As a generational investor, long-term trends, whether social, demographic, or environmental matter and underpin the importance we place on Social Responsibility.

Impacting

Through active management and by leveraging our culture and values we seek to positively impact:



SHAREHOLDERS

We create value for our shareholders by enhancing the value of our market-leading businesses, through supporting operational excellence, investing in strategic transactions and through distributions in the form of dividends.



TALENT

Our talent is central to achieving our long-term goals. We see our investment in growing, as well as recruiting exceptional leaders, as a strategic imperative and are proud to offer challenging and rewarding careers.



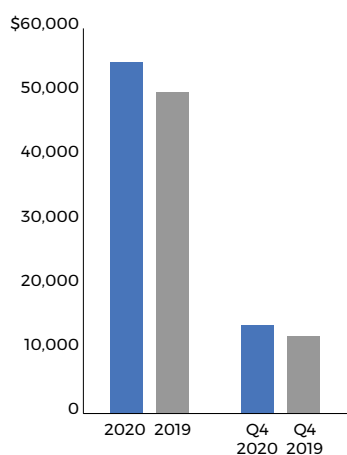
COMMUNITIES

Consistent with our heritage and values, we are focused on improving the quality of life in the communities where we live and work.

Key Performance Indicators

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

REVENUE

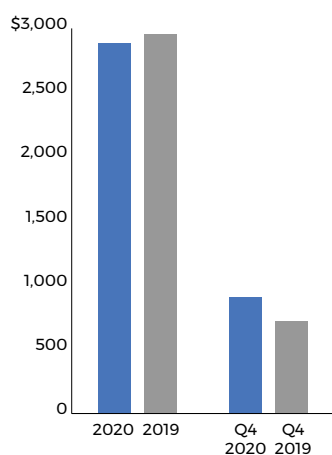


2020	54,705	
2019	50,109	+9.2%
Q4 2020	13,806	
Q4 2019	12,107	+14.0%

Performance in 2020

Revenue growth of \$4,596 million driven by Loblaw, offset by declines in Weston Foods and Choice Properties.

OPERATING INCOME

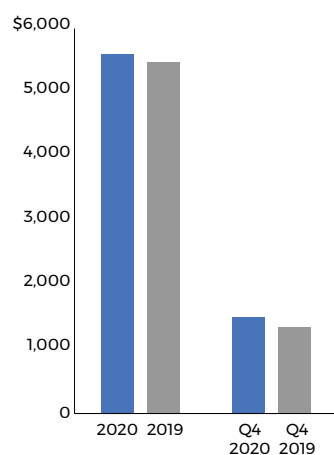


2020	2,888	-2.4%
2019	2,958	
Q4 2020	906	+26.2%
Q4 2019	718	

Performance in 2020

Operating income decreased by \$70 million. The decrease was mainly attributable to the unfavourable year-over-year net impact of adjusting items, partially offset by an improvement in the underlying operating performance of Loblaw.

ADJUSTED EBITDA⁽¹⁾



2020	5,607	+2.3%
2019	5,483	
Q4 2020	1,501	+11.1%
Q4 2019	1,351	

Performance in 2020

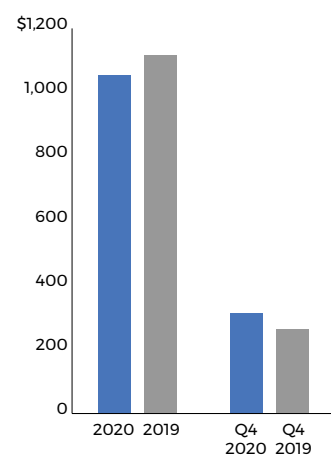
Adjusted EBITDA⁽¹⁾ increased by \$124 million, driven by an improvement in the underlying operating performance of Loblaw, partially offset by declines in Choice Properties and Weston Foods. The three operating segments were negatively impacted by COVID-19 related costs.

ADJUSTED EBITDA MARGIN⁽¹⁾ (%)

10.2% -70bps
vs. 2019
2020

10.9% -30bps
vs. Q4 2019
Q4 2020

ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS⁽¹⁾



2020	1,055	-5.6%
2019	1,117	
Q4 2020	312	+19.1%
Q4 2019	262	

Performance in 2020

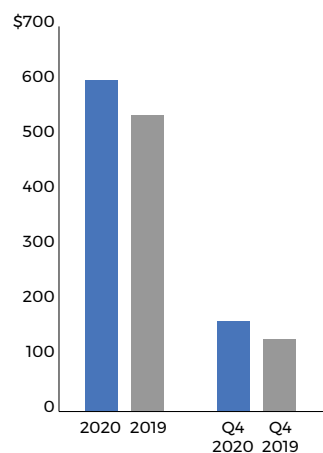
Adjusted net earnings available to common shareholders⁽¹⁾ decreased by \$62 million, driven by the declines in the underlying operating performance of Choice Properties and Weston Foods, higher adjusted net interest expense and other financing charges⁽¹⁾ and higher income tax expense, partially offset by an improvement in the underlying operating performance of Loblaw.

ADJUSTED DILUTED NET EARNINGS PER SHARE⁽¹⁾ (\$)

\$6.85 -5.4%
vs. 2019
2020

\$2.03 +20.1%
vs. Q4 2019
Q4 2020

1 See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.

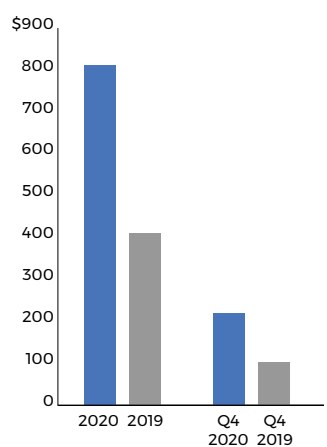
GWL CORPORATE⁽²⁾ CASH FLOW FROM OPERATING BUSINESSES⁽¹⁾

2020	603	+11.9%
2019	539	
Q4 2020	165	+26.0%
Q4 2019 ⁽⁴⁾	131	

Performance in 2020

GWL Corporate⁽²⁾ cash flow from operating businesses⁽¹⁾ increased primarily due to the timing of the receipt of the fourth quarter 2020 Loblaw dividend.

See page 11 of this MD&A for a calculation of this metric.

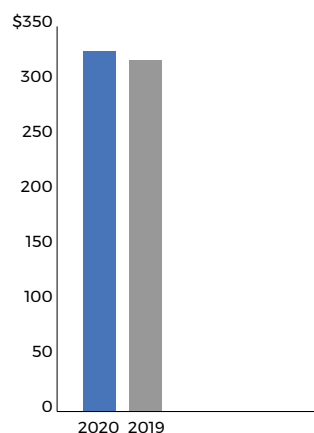
GWL CORPORATE⁽²⁾ FREE CASH FLOW⁽¹⁾

2020	811	+97.3%
2019	411	
Q4 2020	220	+115.7%
Q4 2019 ⁽⁴⁾	102	

Performance in 2020

GWL Corporate⁽²⁾ free cash flow⁽¹⁾ increased primarily due to proceeds from participation in Loblaw's Normal Course Issuer Bid and the timing of the receipt of the fourth quarter 2020 Loblaw dividend.

See page 11 of this MD&A for a calculation of this metric.

GWL CORPORATE⁽²⁾ DIVIDENDS PAID

2020	328	+2.8%
2019	319	

Performance in 2020

GWL Corporate⁽²⁾ dividends paid in the year increased as a result of an increase in the dividend per common share of 4.8% in the fourth quarter of 2020.

See page 11 of this MD&A for a history of GWL's dividend increases.

GWL CORPORATE⁽²⁾ NET DEBT

\$43
2020
\$429
2019
-90.0%
vs. 2019

Performance in 2020

GWL Corporate⁽²⁾ net debt decreased primarily driven by higher cash and short-term investments and lower total debt.

See section 3.2 "Liquidity", of this MD&A for a calculation of this metric.

1 See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.

2 GWL Corporate refers to the non-consolidated financial results and metrics of GWL. GWL Corporate is a subset of Other and Intersegment.

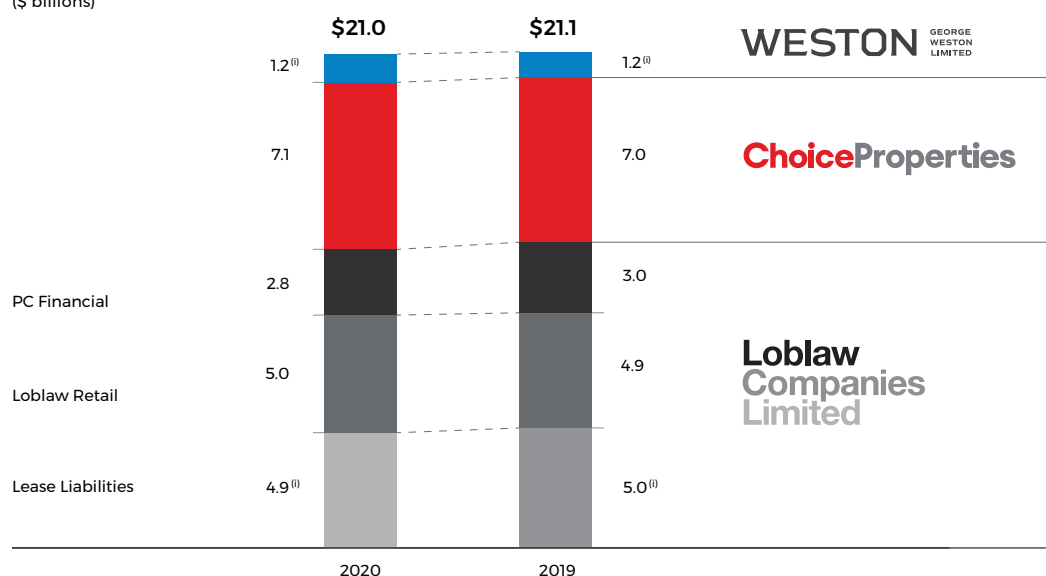
Total Debt

The Company manages its debt on a segmented basis to ensure that each of its businesses is employing leverage that is appropriate. The following chart presents total consolidated debt by reportable operating segment as at December 31, 2020 and 2019. There is no recourse to the Company for debt incurred by its operating segments.

The consolidated debt for the group as at December 31, 2020 was \$21.0 billion. Indebtedness of Loblaw and Choice Properties is fully serviced by their respective operating cash flows. Indebtedness of GWL Corporate⁽ⁱ⁾ is comprised of a \$602 million net liability associated with an equity forward sale agreement for 9.6 million Loblaw common shares and \$450 million of senior unsecured debentures. For details about the equity forward sale agreement, see section 3.3 “Components of Total Debt”, of this MD&A.

TOTAL DEBT

As at December 31
(\$ billions)



(i) In 2020, the Company recognized lease liabilities of \$5.0 billion (2019 – \$5.1 billion) on its consolidated balance sheet, of which \$4.9 billion (2019 – \$5.0 billion) was attributable to Loblaw and \$0.1 billion (2019 – \$0.1 billion) was attributable to Weston Foods. Lease liabilities are recognized primarily for leases of real estate, vehicles and equipment.

GWL Corporate Free Cash Flow⁽¹⁾

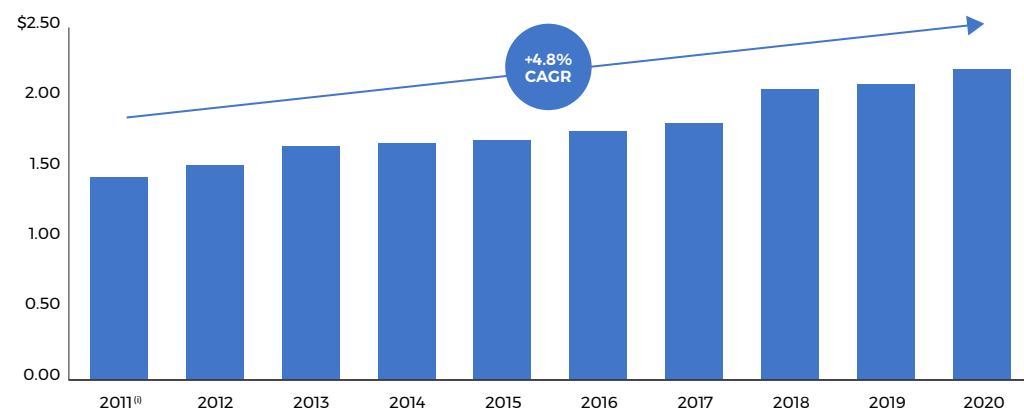
GWL Corporate free cash flow⁽¹⁾ is generated from the dividends received from Loblaw, distributions received from Choice Properties, net cash flow contributions from Weston Foods and proceeds from participation in Loblaw's Normal Course Issuer Bid, less corporate expenses, interest and income taxes paid.

For the quarters and years ended December 31 (\$ millions)	Quarters ended		Years ended	
	2020	2019 ⁽⁴⁾	2020	2019
Weston Foods adjusted EBITDA ⁽¹⁾	79	56	200	223
Weston Foods capital expenditures	(53)	(70)	(162)	(194)
Distributions from Choice Properties	81	82	326	325
Dividends from Loblaw	61	-	296	233
Weston Foods income taxes recovered (paid)	-	-	14	(7)
Other	(3)	63	(71)	(41)
GWL Corporate cash flow from operating businesses⁽¹⁾	165	131	603	539
Proceeds from participation in Loblaw's Normal Course Issuer Bid	75	-	336	-
GWL Corporate and financing costs ⁽¹⁾	(20)	(25)	(119)	(109)
Income taxes paid	-	(4)	(9)	(19)
GWL Corporate free cash flow⁽¹⁾	220	102	811	411

(i) Included in Other and Intersegment, GWL Corporate⁽²⁾ includes all other company level activities that are not allocated to the reportable operating segments, such as net interest expense, corporate activities and administrative costs. Also included are dividends paid on preferred shares.

Dividends

GWL declared an annualized dividend of \$2.20 per common share in 2020. The Company's objective is to increase the dividend per common share over time while retaining appropriate free cash flow to finance future growth. Since 2011, the dividend per common share has increased at a 4.8% CAGR.



(i) Does not include the special one-time common share dividend of \$7.75 per common share which was paid on January 25, 2011.

Loblaw

Loblaw (TSX: L) provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise and financial services.

Strategy

Loblaw is well positioned to meet changing consumer trends brought about by the pandemic. The management team at Loblaw is committed to growing the core businesses of food and drug retail and everyday banking by leveraging its industry-leading assets and driving value through its process and efficiency and data insights programs. Loblaw's strategy positions it well to capitalize on the accelerating pace of change in global food retail and wellness by focusing on three strategic growth initiatives: Everyday Digital Retail; Payments & Rewards; and Connected Healthcare.

Loblaw is a recognized leader in Corporate Social Responsibility ("CSR"). Loblaw's long-standing commitment to CSR and its strong Environmental, Social and Governance ("ESG") practices are based on its goal of creating long-term value, including, sustainable solutions to material ESG risks and opportunities, establishment of measurable targets, transparent disclosure, proactive stakeholder engagement and robust governance practices.

Key highlights for the year

Loblaw delivered positive results with strong same-store and e-commerce sales growth in a year heavily impacted by COVID-19, which included costs incurred to ensure the safety and security of customers and colleagues. Loblaw continued to deliver value in categories that mean the most to its customers through promotional activity.

LOBLAW OFFERINGS

Divisions:

Discount
Market
Shoppers Drug Mart
PC Financial
Joe Fresh

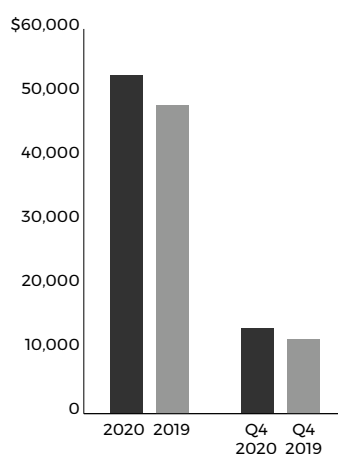
Brands:

President's Choice
No Name
Life Brand
PC Optimum
PC Money

Key performance indicators

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

REVENUE

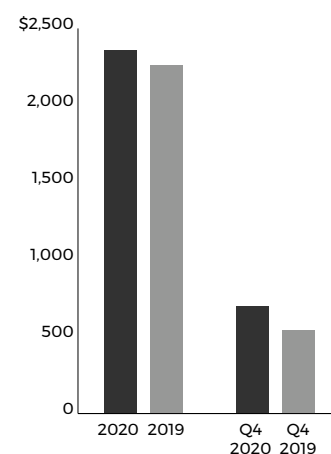


2020	52,714	+9.7%
2019	48,037	
Q4 2020	13,286	+14.6%
Q4 2019	11,590	

Performance in 2020

Revenue increased primarily due to growth in retail sales as a result of positive same-store sales growth and a net increase in Retail square footage.

OPERATING INCOME



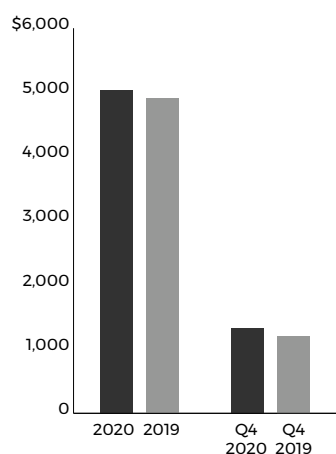
2020	2,357	+4.2%
2019	2,262	
Q4 2020	700	+29.9%
Q4 2019	539	

Performance in 2020

Operating income increased by \$95 million compared to 2019. The increase was driven by improvements in retail, which included the favourable impacts of the consolidation of franchises and the 53rd week, partially offset by a decrease in financial services. The results also included the unfavourable impact of COVID-19 related costs.



ADJUSTED EBITDA⁽¹⁾



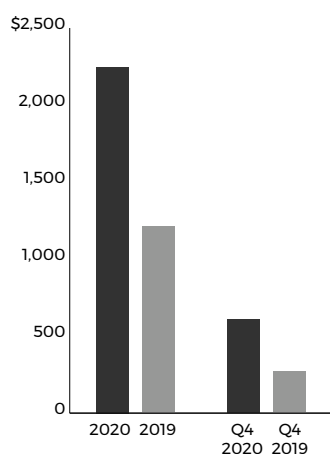
2020	5,033	+2.6%
2019	4,904	
Q4 2020	1,330	+10.6%
Q4 2019	1,203	

Performance in 2020

Adjusted EBITDA⁽¹⁾ increased by \$129 million compared to 2019, primarily due to an increase in retail, which included the favourable impacts of the consolidation of franchises and the 53rd week of 2020, partially offset by a decrease in financial services. The results also included the unfavourable impact of COVID-19 related costs.

Adjusted EBITDA margin⁽¹⁾ decreased, driven by a decrease in retail adjusted gross profit percentage⁽¹⁾ resulting from the unfavourable impact of COVID-19 related changes to sales mix and competitive pricing, partially offset by an improvement in selling, general and administrative expenses ("SG&A") as a percentage of sales due to higher sales volumes, process and efficiency gains, partially offset by COVID-19 related costs and incremental e-commerce labour costs.

FREE CASH FLOW⁽¹⁾⁽ⁱ⁾



2020	2,247	+85.7%
2019	1,210	
Q4 2020	606	+122.8%
Q4 2019	272	

Performance in 2020

Free cash flow⁽¹⁾⁽ⁱ⁾ was higher due to decreased credit card receivables from reduced customer spending as a result of COVID-19 and higher payment rates compared to the prior year, lower income taxes paid and higher cash earnings, partially offset by an increase in lease payments.

CAPITAL EXPENDITURES

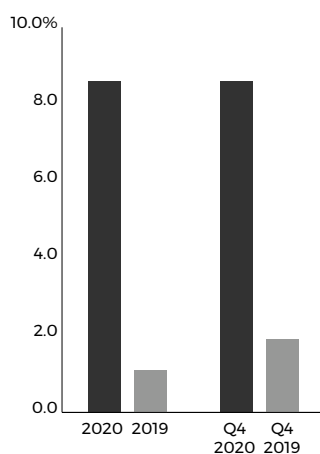
1.2 billion +1.5%
2020 vs. 2019

ADJUSTED EBITDA MARGIN⁽¹⁾ (%)

9.6% -60bps
2020 vs. 2019

10.0% -40bps
Q4 2020 vs. Q4 2019

FOOD RETAIL SAME-STORE SALES GROWTH⁽¹⁾ (%)

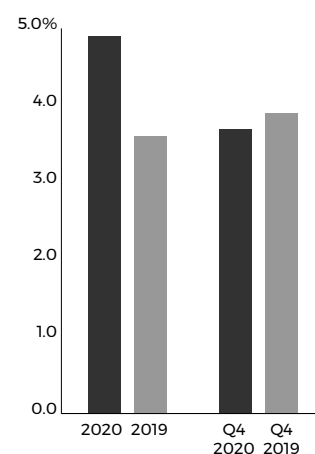


2020	8.6%	+750bps
2019	1.1%	
Q4 2020	8.6%	+670bps
Q4 2019	1.9%	

Performance in 2020

Food retail same-store sales grew by 8.6%, positively impacted by COVID-19. Food retail basket size increased and traffic decreased.

DRUG RETAIL SAME-STORE SALES GROWTH⁽¹⁾ (%)



2020	4.9%	+130bps
2019	3.6%	
Q4 2020	3.7%	-20bps
Q4 2019	3.9%	

Performance in 2020

Drug retail same-store sales grew by 4.9%, which included the impact of COVID-19. Pharmacy same-store sales grew with an increase in the number and average value of prescriptions. Front store sales also grew.

RETAIL DEBT TO RETAIL ADJUSTED EBITDA⁽¹⁾⁽ⁱ⁾

2.8x -0.2x
2020 vs. 2019

1 See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.

(i) For more information on these measures, see the 2020 Annual Report filed by Loblaw, which is available on sedar.com or at loblaw.ca.

Choice Properties

Choice Properties REIT (TSX: CHP.UN) is a leading Real Estate Investment Trust that creates enduring value through the ownership, operation and development of high-quality commercial and residential properties.

Strategy

Choice Properties aims to create long-term value by owning, managing and developing high-quality assets. Choice Properties' high-quality and diversified portfolio provides reliable cash flows and includes an impressive pipeline of future development opportunities. Choice Properties seeks to maximize long-term value by taking a disciplined and sustainable approach to property operations and financial management, and by unlocking value through development activities. Choice Properties' goals are to provide net asset value appreciation, stable net operating income ("NOI") growth and capital preservation, all with a long-term focus.

Key highlights for the year

Choice Properties took thoughtful actions to mitigate the effects of the pandemic on its business operations and continued to focus on the best interests of employees, tenants and other stakeholders throughout 2020. Despite the challenges presented by COVID-19, Choice Properties' operating results were strong, reflecting the stability of its income producing portfolio and its necessity-based tenants, including grocery stores and pharmacies. Choice Properties continued to improve its portfolio through its development program and capital recycling initiatives, and by strengthening its balance sheet through debt refinancings.

OCCUPANCY RATE

97.1% -60bps
vs. 2019

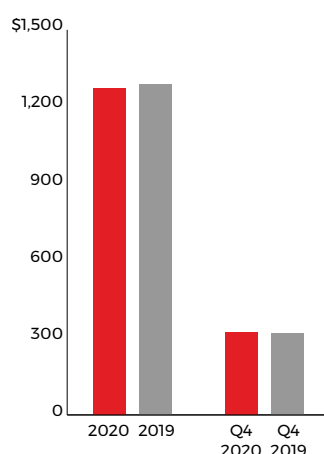
TOP 10 TENANTS

1. Loblaw
2. Canadian Tire
3. TJX Companies
4. Dollarama
5. GoodLife
6. Staples
7. Liquor Control Board of Ontario
8. Weston Foods
9. TD Canada Trust
10. Lowe's

Key performance indicators

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

REVENUE

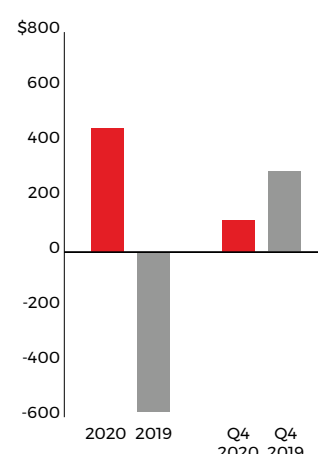


2020	1,271	-1.4%
2019	1,289	
Q4 2020	322	+1.3%
Q4 2019	318	

Performance in 2020

Revenue decreased driven by foregone revenue from the disposition of properties, including those sold as part of the portfolio transaction in the third quarter of 2019, partially offset by additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.

NET INCOME (LOSS)



2020	451	+177.6%
2019	(581)	
Q4 2020	117	-60.2%
Q4 2019	294	

Performance in 2020

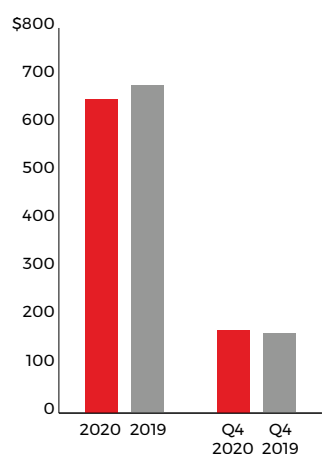
Choice Properties' financial results are impacted by adjustments to the fair value of its Exchangeable Units. Exchangeable Units are recorded at their fair value based on the market trading price of Choice Properties' Trust Units ("Trust Units"), which results in a negative impact to the financial results when the Trust Unit price rises and a positive impact when the Trust Unit price declines.

Net income increased compared to 2019 due to a favourable fair value adjustment for the Exchangeable Units as the Trust Unit price decreased during the year, partially offset by declines related to unfavourable changes in the fair value of investment properties and an increase in bad debt expense.

(i) For more information on these measures, see the 2020 Annual Report filed by Choice Properties, which is available on sedar.com or at choicereit.ca.



FUNDS FROM OPERATIONS⁽¹⁾

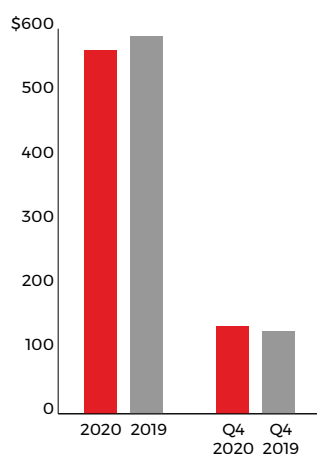


2020	652	-4.1%
2019	680	
Q4 2020	172	+3.6%
Q4 2019	166	

Performance in 2020

FFO⁽¹⁾ decreased by \$28 million compared to 2019 primarily due to a reduction in net operating income attributable to an increase in bad debt expense, partially offset by lower borrowing costs from the use of proceeds from deleveraging activities and capital recycling.

ADJUSTED FUNDS FROM OPERATIONS⁽¹⁾

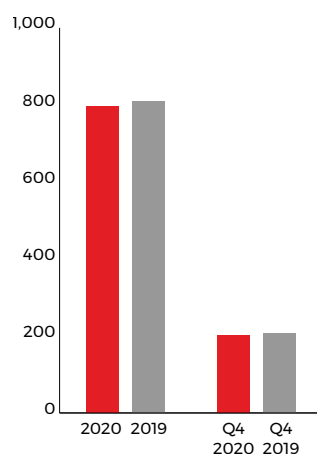


2020	567	-3.6%
2019	588	
Q4 2020	136	+5.4%
Q4 2019	129	

Performance in 2020

AFFO⁽¹⁾ declined mainly due to an overall reduction in funds from operations, increased property capital and internal leasing costs, partially offset by a decline in straight-line rent.

SAME-ASSET NOI, CASH BASIS⁽¹⁾

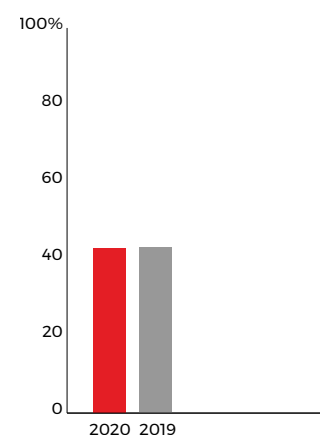


2020	796	-1.6%
2019	809	
Q4 2020	201	-2.3%
Q4 2019	206	

Performance in 2020

Same-asset NOI, cash basis⁽¹⁾, decreased compared to 2019 mainly due to an increase in bad debt expense, partially offset by the contribution from contractual rent steps in the retail segment.

DEBT TO TOTAL ASSETS⁽¹⁾ (%)



2020	42.7%	-40bps
2019	43.1%	

Performance in 2020

Debt to total assets⁽¹⁾ declined due to debt repayment and reduced leverage by using proceeds from property dispositions and the equity offering from May 2019.

NORMALIZED DEBT TO EBITDAFV⁽¹⁾

7.6x
2020

+0.1x
vs. 2019

DEBT SERVICE COVERAGE⁽¹⁾

3.2x
2020

+0.2x
vs. 2019

1 See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.

(i) For more information on these measures, see the 2020 Annual Report filed by Choice Properties, which is available on sedar.com or at choicereit.ca.

Weston Foods

Weston Foods is a North American bakery whose purpose is *Elevating Everyday Moments*. The business is an innovative and trusted leader in the industry.

Weston Foods serves North American customers in a number of channels, including foodservice and retail, making bread, rolls, cupcakes, donuts, cookies, cakes, pies, cones and wafers, artisan baked goods and more. Some of Weston Foods' brands include Wonder, Ace Bakery, Country Harvest and D'Italiano.

The business has approximately 6,000 employees spread across 33 bakery facilities in Canada and the United States. Weston Foods is committed to delivering top quality and high-value baked goods and bakery solutions to its customers across North America.

Strategy

Weston Foods' ambition is to be a premier North American bakery by offering superior products and services to its consumers and customers in an increasingly competitive environment.

Weston Foods aims to create value for its consumers and customers with superior taste, quality and experiences, by providing enhanced service levels, leveraging its leading brands and engaging in strategic innovation.

Weston Foods is committed to achieving solid financial results by growing sales and delivering operational efficiencies and cost leverage. Achieving these goals requires an engaged and talented workforce, a competitive integrated supply chain, executing with excellence and implementing new systems to support agile ways of working.

This strategic framework is being pursued while also respecting Weston Foods' core values and working towards the overarching purpose of *Elevating Everyday Moments*.

WESTON FOODS BRANDS

Wonder Bread
D'Italiano
Gadoua
Country Harvest
Ace Bakery
Casa Mendosa

Key highlights for the year

Weston Foods remained focused on a return to top line growth, operational improvements and organizational capabilities in 2020. The business performed well in the first quarter, building on the strong momentum it generated in the second half of 2019. The COVID-19 pandemic began to impact the business in early 2020, however management took swift and deliberate actions to stabilize the pandemic's impact on its people, operations and financial performance. Sales were negatively impacted in certain retail categories and foodservice channels as a result of closures to in-store bakeries and bakery display cases, and government mandated closures of non-essential businesses including dine-in restaurants. In addition to the decline in sales, Weston Foods incurred incremental COVID-19 costs relating to temporary pay premiums and pay protection safeguards and increased health and safety measures to protect its colleagues. Despite the on-going COVID-19 impacts, Weston Foods' achieved sequential quarterly improvement in its financial and operational results beginning in the third quarter of 2020.

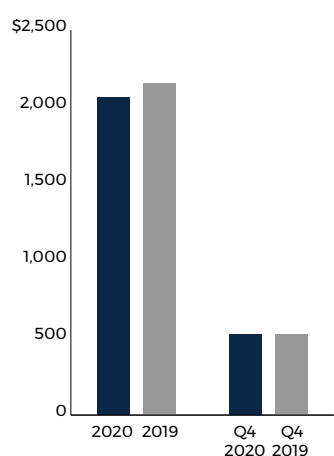
During 2020, Weston Foods completed its transformation program and invested in organizational improvements for longer term growth, including deploying its enterprise resource planning system across significant aspects of its Canadian and corporate operations.

Weston Foods remains confident in its strategy, focused on growing its core business, selectively investing in key categories and markets, increased customer engagement, and strengthening key operational processes.

Key performance indicators

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

SALES

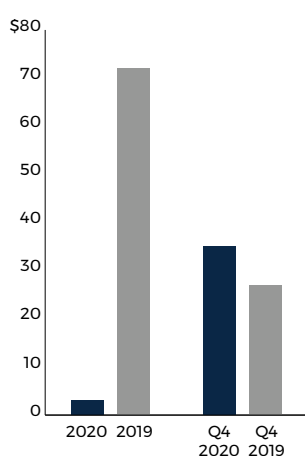


2020	2,062	-4.3%
2019	2,155	
Q4 2020	523	+0.2%
Q4 2019	522	

Performance in 2020

Sales were impacted by a decline in volumes in certain retail categories and food-service channels as a result of the COVID-19 pandemic.

OPERATING INCOME

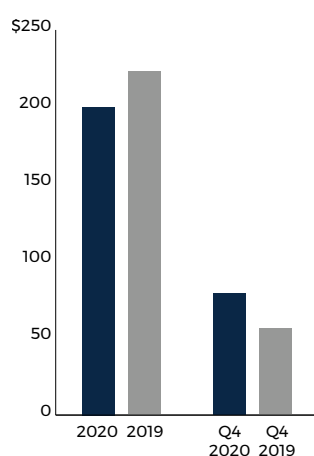


2020	3	-95.8%
2019	72	
Q4 2020	35	+29.6%
Q4 2019	27	

Performance in 2020

Operating income decreased by \$69 million compared to 2019 primarily due to the unfavourable year-over-year impact of restructuring and other related costs, and the decline in operating performance driven by the decline in sales and COVID-19 related costs.

ADJUSTED EBITDA⁽¹⁾



2020	200	-10.3%
2019	223	
Q4 2020	79	+41.1%
Q4 2019	56	

Performance in 2020

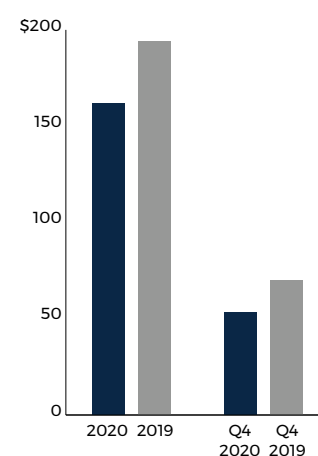
Adjusted EBITDA⁽¹⁾ decreased by \$23 million compared to 2019 driven by the decline in sales and COVID-19 related costs, partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program and cost savings.

ADJUSTED EBITDA MARGIN⁽¹⁾ (%)

9.7% -60bps
2020 vs. 2019

15.1% +440bps
Q4 2020 vs. Q4 2019

CAPITAL EXPENDITURES

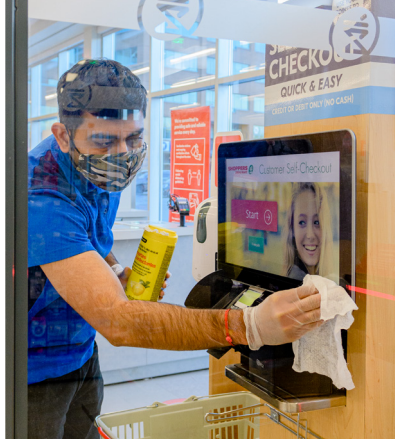


2020	162	-16.5%
2019	194	
Q4 2020	53	-24.3%
Q4 2019	70	

Performance in 2020

Capital expenditures in 2020 included spending on innovation and growth, information technology and maintenance.

¹ See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.



Some images in this report were photographed before the start of the pandemic. Any new imagery has been secured using COVID-19 protocols.

Financial Highlights⁽⁵⁾

As at or for the years ended December 31 (\$ millions except where otherwise indicated)	2020 (53 weeks)	2019 (52 weeks)	% Change
CONSOLIDATED OPERATING RESULTS			
Revenue	\$ 54,705	\$ 50,109	9.2%
Operating income	2,888	2,958	(2.4)%
Adjusted EBITDA ⁽ⁱ⁾	5,607	5,483	2.3%
Depreciation and amortization ⁽ⁱⁱ⁾	2,427	2,318	4.7%
Net interest expense and other financing charges	831	1,704	(51.2)%
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	1,117	1,071	4.3%
Income taxes	475	431	10.2%
Adjusted income taxes ⁽ⁱ⁾	679	653	4.0%
Net earnings	1,582	823	92.2%
Net earnings attributable to shareholders of the Company ⁽ⁱⁱⁱ⁾	963	242	297.9%
Net earnings available to common shareholders of the Company	919	198	364.1%
Adjusted net earnings available to common shareholders of the Company ⁽ⁱ⁾	1,055	1,117	(5.6)%
CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS			
Cash and cash equivalents, short-term investments and security deposits	\$ 3,231	\$ 2,139	51.1%
Cash flows from operating activities	5,521	4,555	21.2%
Capital investments	1,658	1,596	3.9%
Free cash flow ⁽ⁱ⁾	2,128	1,342	58.6%
Total debt including lease liabilities	21,000	21,131	(0.6)%
Total equity attributable to shareholders of the Company	7,811	7,609	2.7%
Total equity	13,418	13,175	1.8%
CONSOLIDATED PER COMMON SHARE (\$)			
Diluted net earnings per common share	\$ 5.96	\$ 1.26	373.0%
Adjusted diluted net earnings per common share ⁽ⁱ⁾	6.85	7.24	(5.4)%
CONSOLIDATED FINANCIAL MEASURES AND RATIOS			
Adjusted EBITDA margin ⁽ⁱ⁾ (%)	10.2%	10.9%	
Adjusted return on average equity attributable to common shareholders of the Company ⁽ⁱ⁾ (%)	15.3%	16.1%	
Adjusted return on capital ⁽ⁱ⁾ (%)	10.8%	10.3%	
REPORTABLE OPERATING SEGMENTS			
Loblaw			
Revenue	\$ 52,714	\$ 48,037	9.7%
Operating income	2,357	2,262	4.2%
Adjusted EBITDA ⁽ⁱ⁾	5,033	4,904	2.6%
Adjusted EBITDA margin ⁽ⁱ⁾ (%)	9.6%	10.2%	
Depreciation and amortization ⁽ⁱⁱ⁾	2,596	2,524	2.9%
Choice Properties			
Revenue	\$ 1,271	\$ 1,289	(1.4)%
Net income	451	(581)	(177.6)%
Funds from operations ⁽ⁱ⁾	652	680	(4.1)%
Weston Foods			
Sales	\$ 2,062	\$ 2,155	(4.3)%
Operating income	3	72	(95.8)%
Adjusted EBITDA ⁽ⁱ⁾	200	223	(10.3)%
Adjusted EBITDA margin ⁽ⁱ⁾ (%)	9.7%	10.3%	
Depreciation and amortization ⁽ⁱⁱ⁾	175	147	19.0%

(i) See Section 14, "Non-GAAP Financial Measures", of the Company's 2020 Management's Discussion and Analysis.

(ii) Depreciation and amortization includes \$509 million (2019 - \$508 million) of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation, recorded by Loblaw and \$30 million (2019 - \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

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

Management's Discussion and Analysis

1.	Overall Financial Performance	21
1.1	Consolidated Results of Operations	21
1.2	Selected Annual Information	27
1.3	Consolidated Other Business Matters	29
2.	Results of Reportable Operating Segments	31
2.1	Loblaw Operating Results	31
2.2	Choice Properties Operating Results	33
2.3	Weston Foods Operating Results	34
3.	Liquidity and Capital Resources	35
3.1	Cash Flows	35
3.2	Liquidity	36
3.3	Components of Total Debt	38
3.4	Financial Condition	41
3.5	Credit Ratings	41
3.6	Share Capital	42
3.7	Off-Balance Sheet Arrangements	44
3.8	Contractual Obligations	45
4.	Quarterly Results of Operations	46
4.1	Quarterly Financial Information	46
4.2	Fourth Quarter Results	48
5.	Fourth Quarter Results of Reportable Operating Segments	55
5.1	Loblaw Fourth Quarter Operating Results	55
5.2	Choice Properties Fourth Quarter Operating Results	57
5.3	Weston Foods Fourth Quarter Operating Results	57
6.	Disclosure Controls and Procedures	58
7.	Internal Control Over Financial Reporting	58
8.	Enterprise Risks and Risk Management	59
8.1	COVID-19 Risks and Risk Management	60
8.2	Operating Risks and Risk Management	61
8.3	Financial Risks and Risk Management	69
9.	Related Party Transactions	71
10.	Critical Accounting Estimates and Judgments	72
11.	Accounting Standards Implemented	74
12.	Future Accounting Standard	74
13.	Outlook	74
14.	Non-GAAP Financial Measures	75
14.1	Non-GAAP Financial Measures Policy Change Commencing Fiscal 2021	85
15.	Forward-Looking Statements	87
16.	Additional Information	88

1. Overall Financial Performance

1.1 Consolidated Results of Operations

Unless otherwise indicated, the Company's results include an extra week of operations (the "53rd week") in the full year 2020 results when compared to 2019 as a result of the Company's reporting calendar.

The Company's results reflect:

- the impact of COVID-19. Also refer to Section 1.3 "Consolidated Other Business Matters", Section 2, "Results of Reportable Operating Segments" and Section 8, "Enterprise Risks and Risk Management", of this MD&A for more information; and
- the year-over-year impact of the fair value adjustment of the Trust Unit liability as a result of the significant changes in Choice Properties' unit price, recorded in net interest expense and other financing charges. The Company's results are impacted by market price fluctuations of Choice Properties' Trust Units on the basis that the Trust Units held by unitholders, other than the Company, are redeemable for cash at the option of the holder and are presented as a liability on the Company's consolidated balance sheet. The Company's financial results are negatively impacted when the Trust Unit price rises and positively impacted when the Trust Unit price declines.

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Revenue	\$ 54,705	\$ 50,109	\$ 4,596	9.2%
Operating income	\$ 2,888	\$ 2,958	\$ (70)	(2.4)%
Adjusted EBITDA ⁽¹⁾	\$ 5,607	\$ 5,483	\$ 124	2.3%
Adjusted EBITDA margin ⁽¹⁾	10.2%	10.9%		
Depreciation and amortization⁽ⁱ⁾	\$ 2,427	\$ 2,318	\$ 109	4.7%
Net interest expense and other financing charges	\$ 831	\$ 1,704	\$ (873)	(51.2)%
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 1,117	\$ 1,071	\$ 46	4.3%
Income taxes	\$ 475	\$ 431	\$ 44	10.2%
Adjusted income taxes ⁽¹⁾	\$ 679	\$ 653	\$ 26	4.0%
Adjusted effective tax rate ⁽¹⁾	26.1%	25.0%		
Net earnings attributable to shareholders of the Company	\$ 963	\$ 242	\$ 721	297.9%
Net earnings available to common shareholders of the Company	\$ 919	\$ 198	\$ 721	364.1%
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 1,055	\$ 1,117	\$ (62)	(5.6)%
Diluted net earnings per common share (\$)	\$ 5.96	\$ 1.26	\$ 4.70	373.0%
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 6.85	\$ 7.24	\$ (0.39)	(5.4)%

- (i) Depreciation and amortization includes \$509 million (2019 – \$508 million) of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation, recorded by Loblaw and \$30 million (2019 – \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

Management's Discussion and Analysis

The following table provides the approximate impact of the 53rd week on the consolidated results of the Company in the fourth quarter of 2020:

	53rd week 2020			
(\$ millions except where otherwise indicated)	Loblaws	Weston Foods	Other and Intersegment	Total
Revenue	\$ 878	\$ 29	\$ (10)	\$ 897
Adjusted EBITDA ⁽¹⁾	\$ 67	\$ 4	\$ –	\$ 71
Adjusted EBITDA margin ⁽¹⁾	7.6%	13.8%		
Depreciation and amortization	\$ –	\$ –	\$ –	\$ –
Operating income	\$ 67	\$ 4	\$ –	\$ 71
Net earnings available to common shareholders of the Company	\$ 18	\$ 3	\$ –	\$ 21
Diluted net earnings per common share (\$)	\$ 0.12	\$ 0.02	\$ –	\$ 0.14

NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY

Net earnings available to common shareholders of the Company in 2020 were \$919 million (\$5.96 per common share) compared to \$198 million (\$1.26 per common share) in 2019. The increase of \$721 million (\$4.70 per common share) was due to the favourable year-over-year net impact of adjusting items totaling \$783 million (\$5.09 per common share), partially offset by a decline in the Company's consolidated underlying operating performance of \$62 million (\$0.39 per common share) described below.

- The favourable year-over-year net impact of adjusting items totaling \$783 million (\$5.09 per common share) was primarily due to:
 - the favourable year-over-year impact of the fair value adjustment of the Trust Unit liability of \$789 million (\$5.14 per common share) as a result of the significant decrease in Choice Properties' unit price during 2020; and
 - the favourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$101 million (\$0.66 per common share);
 partially offset by,
 - the unfavourable year-over-year impact of the fair value adjustment on investment properties of \$69 million (\$0.45 per common share); and
 - the unfavourable year-over-year impact of restructuring and other related costs of \$16 million (\$0.10 per common share).
- The decline in the Company's consolidated underlying operating performance of \$62 million (\$0.39 per common share) was due to:
 - the unfavourable underlying operating performance of Choice Properties and Weston Foods driven by the impact of COVID-19 and related costs;
 - an increase in adjusted net interest expense and other financing charges⁽¹⁾;
 - the increase in adjusted income tax expense⁽¹⁾ due to the unfavourable year-over-year impact of the non-taxable portion of the gain from Choice Properties' transactions, as described in Section 1.3 "Consolidated Other Business Matters", and the impact of certain non-deductible tax items; and
 - an increase in depreciation and amortization;
 partially offset by,
 - the favourable underlying operating performance of Loblaw including the impact of COVID-19 and related costs;
 - certain one-time gains recorded on consolidation in Other and Intersegment related to Choice Properties' transactions in the third quarter of 2020, as described in Section 1.3 "Consolidated Other Business Matters"; and
 - the positive contribution from the year-over-year increase in the Company's ownership interest in Loblaw, as a result of Loblaw share repurchases.

Adjusted net earnings available to common shareholders of the Company⁽¹⁾ in 2020 were \$1,055 million (\$6.85 per common share), a decrease of \$62 million (\$0.39 per common share), or 5.6%, compared to 2019, due to the decline in the Company's consolidated underlying operating performance described above. Excluding the impact of the 53rd week of \$21 million (\$0.14 per common share), adjusted net earnings available to common shareholders of the Company⁽¹⁾ decreased by \$83 million (\$0.53 per common share), or 7.4%, compared to the same period in 2019.

REVENUE

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Loblaw	\$ 52,714	\$ 48,037	\$ 4,677	9.7%
Choice Properties	\$ 1,271	\$ 1,289	\$ (18)	(1.4)%
Weston Foods	\$ 2,062	\$ 2,155	\$ (93)	(4.3)%
Other and Intersegment	\$ (1,342)	\$ (1,372)		
Consolidated	\$ 54,705	\$ 50,109	\$ 4,596	9.2%

The Company's 2020 consolidated revenue was \$54,705 million, an increase of \$4,596 million, or 9.2%, compared to 2019. The increase in revenue was impacted by each of the Company's reportable operating segments as follows:

- Positively by 9.3% due to revenue growth of 9.7% at Loblaw, primarily driven by retail sales partially offset by a decrease in financial services revenue. Retail sales increased by \$4,760 million, or 10.1%, compared to 2019. Excluding the consolidation of franchises, retail sales increased by \$4,248 million, or 9.3%, which included the impact of the 53rd week of \$845 million. The increase was driven by positive same-store sales growth and a net increase in retail square footage. Food retail same-store sales growth was 8.6%. Food retail same-store sales growth was positively impacted by COVID-19. Food retail basket size increased and traffic decreased in 2020. Loblaw's food retail average article price was higher by 3.9% (2019 - 2.5%), which reflects the year-over-year growth in food retail revenue over the average number of articles sold in Loblaw's stores. The increase in average article price was due to sales mix. Drug retail same-store sales growth was 4.9%.
- Negatively by a nominal amount due to a decline in revenue of 1.4% at Choice Properties. The decrease of \$18 million was mainly due to foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019, partially offset by additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.
- Negatively by 0.2% due to a decline in sales of 4.3% at Weston Foods. Sales included the favourable impacts of the 53rd week of approximately 1.3% and foreign currency translation of approximately 0.4%. Excluding the favourable impacts of the 53rd week and foreign currency translation, sales decreased by 6.0%. Sales were impacted by a decrease in volumes in certain retail categories and foodservice channels as a result of the COVID-19 pandemic and the unfavourable impact of product rationalization. The combined impact of pricing and changes in sales mix had a nominal impact on sales when compared to the same period in 2019.

OPERATING INCOME

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Loblaw	\$ 2,357	\$ 2,262	\$ 95	4.2%
Choice Properties	\$ 622	\$ 890	\$ (268)	(30.1)%
Weston Foods	\$ 3	\$ 72	\$ (69)	(95.8)%
Other and Intersegment	\$ (94)	\$ (266)		
Consolidated	\$ 2,888	\$ 2,958	\$ (70)	(2.4)%

The Company's 2020 operating income was \$2,888 million compared to \$2,958 million in 2019, a decrease of \$70 million, or 2.4%. The decrease of \$70 million was mainly attributable to the unfavourable year-over-year net impact of adjusting items totaling \$107 million, partially offset by the improvement in underlying operating performance of \$37 million, which included the favourable impact of the 53rd week of \$71 million, as described below:

- the unfavourable year-over-year net impact of adjusting items totaling \$107 million was primarily due to:
 - the unfavourable year-over-year impact of the fair value adjustment of investment properties of \$85 million;
 - the unfavourable year-over-year impact of Loblaw's fair value adjustment on non-operating properties of \$16 million;
 - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of \$15 million; and
 - the unfavourable year-over-year impact of restructuring and other related costs of \$13 million;
 partially offset by,
 - the favourable year-over-year impact of asset impairments, net of recoveries of \$14 million; and
 - the favourable impact of prior year pension annuities and buy-outs of \$10 million.

Management's Discussion and Analysis

- the improvement in underlying operating performance of \$37 million was due to:
 - certain one-time gains recorded on consolidation in Other and Intersegment related to Choice Properties' transactions in the third quarter of 2020, as described in Section 1.3 "Consolidated Other Business Matters"; and
 - the favourable underlying operating performance of Loblaw retail which included the favourable impact of the 53rd week, partially offset by a decline in the underlying operating performance of Loblaw financial services; partially offset by,
 - the unfavourable underlying operating performance of Weston Foods and Choice Properties primarily as a result of the impact of COVID-19 and related costs; and
 - an increase in depreciation and amortization.

ADJUSTED EBITDA⁽¹⁾

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Loblaw	\$ 5,033	\$ 4,904	\$ 129	2.6%
Choice Properties	\$ 879	\$ 914	\$ (35)	(3.8)%
Weston Foods	\$ 200	\$ 223	\$ (23)	(10.3)%
Other and Intersegment	\$ (505)	\$ (558)		
Consolidated	\$ 5,607	\$ 5,483	\$ 124	2.3 %

The Company's 2020 adjusted EBITDA⁽¹⁾ was \$5,607 million compared to \$5,483 million in 2019, an increase of \$124 million, or 2.3%. The increase in adjusted EBITDA⁽¹⁾, excluding the impact of certain one-time gains recorded on consolidation in Other and Intersegment related to Choice Properties' transactions, as described in Section 1.3 "Consolidated Other Business Matters", was impacted by each of the Company's reportable operating segments as follows:

- Positively by 2.4% due to an increase of 2.6% in adjusted EBITDA⁽¹⁾ at Loblaw driven by the increase in Loblaw retail, which included the impact of the 53rd week of \$67 million, partially offset by a decrease in financial services. The increase in Loblaw retail adjusted EBITDA⁽¹⁾ was driven by an increase in retail gross profit, partially offset by an increase in retail selling, general and administrative expenses ("SG&A").
- Negatively by 0.6% due to a decrease of 3.8% in adjusted EBITDA⁽¹⁾ at Choice Properties, primarily driven by foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019, an increase in expected credit loss provisions across the portfolio, partially offset by additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.
- Negatively by 0.4% due to a decrease of 10.3% in adjusted EBITDA⁽¹⁾ at Weston Foods. Excluding the impact of the 53rd week of \$4 million, adjusted EBITDA⁽¹⁾ decreased by \$27 million, or 12.1%. The decrease was driven by the decline in sales, an increase in COVID-19 related expenses and higher input costs, partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program, cost savings initiatives and a decrease in performance related compensation accruals.

DEPRECIATION AND AMORTIZATION

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Loblaw	\$ 2,596	\$ 2,524	\$ 72	2.9%
Choice Properties	\$ 3	\$ 1	\$ 2	200.0%
Weston Foods	\$ 175	\$ 147	\$ 28	19.0%
Other and Intersegment	\$ (347)	\$ (354)		
Consolidated	\$ 2,427	\$ 2,318	\$ 109	4.7%

Depreciation and amortization in 2020 was \$2,427 million, an increase of \$109 million compared to 2019. Depreciation and amortization in 2020 included \$509 million (2019 – \$508 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) recorded by Loblaw and \$30 million (2019 – \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs. Excluding these amounts, depreciation and amortization increased by \$87 million driven by:

- an increase in depreciation from the consolidation of Loblaw franchises;
- an increase in Loblaw’s information technology (“IT”) assets; and
- an increase in depreciation and amortization due to capital investments at Weston Foods.

NET INTEREST EXPENSE AND OTHER FINANCING CHARGES

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Net interest expense and other financing charges	\$ 831	\$ 1,704	\$ (873)	(51.2)%
Add: Fair value adjustment of the Trust Unit liability	239	(550)	789	143.5%
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	47	(69)	116	168.1%
Choice Properties issuance costs	–	(14)	14	100.0%
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 1,117	\$ 1,071	\$ 46	4.3%

Net interest expense and other financing charges in 2020 were \$831 million, a decrease of \$873 million compared to 2019. The decrease was primarily due to the favourable year-over-year net impact of adjusting items totaling \$919 million, itemized in the table above, partially offset by an increase in adjusted net interest expense and other financing charges⁽¹⁾ of \$46 million. Included in the adjusting items was the favourable year-over-year fair value adjustment of the Trust Unit liability of \$789 million, as a result of the decrease in Choice Properties’ unit price during 2020.

Adjusted net interest expense and other financing charges⁽¹⁾ in 2020 increased by \$46 million, which included the impact of the 53rd week of \$6 million. Excluding the impact of the 53rd week, adjusted net interest expense and other financing charges⁽¹⁾ increased by \$40 million primarily driven by:

- higher interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on the Choice Properties’ transactions, as discussed in Section 1.3 “Consolidated Other Business Matters”;
 - higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions from newly issued Trust Units in the second quarter of 2019 and third quarter of 2020; and
 - higher interest expense in Loblaw financial services due to increased holdings in the liquid asset portfolio;
- partially offset by,
- a decrease in interest expense in the Choice Properties segment primarily due to lower overall debt levels compared to the prior year and the completion of refinancing activity over the last year at lower interest rates; and
 - a decrease in interest expense in the Loblaw segment from lease liabilities.

Management's Discussion and Analysis

INCOME TAXES

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Income taxes	\$ 475	\$ 431	\$ 44	10.2%
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽ⁱ⁾	197	189	8	4.2%
Remeasurement of deferred tax balances	7	15	(8)	(53.3)%
Statutory corporate income tax rate change	2	10	(8)	(80.0)%
Outside basis difference in certain Loblaw shares	(2)	—	(2)	(100.0)%
Reserve release related to 2014 tax audit	—	8	(8)	(100.0)%
Adjusted income taxes ⁽¹⁾	\$ 679	\$ 653	\$ 26	4.0%
Effective tax rate applicable to earnings before taxes	23.1%	34.4%		
Adjusted effective tax rate applicable to adjusted earnings before taxes ⁽¹⁾	26.1%	25.0%		

(i) See the adjusted EBITDA⁽¹⁾ table and the adjusted net interest expense and other financing charges⁽¹⁾ table included in Section 14, "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 2020 was 23.1%, compared to 34.4% in 2019. The decrease was primarily attributable to an increase in the non-taxable fair value adjustment of the Trust Unit liability, partially offset by the reduced impact in 2020 of the non-taxable portion of the gain from the sale of properties by Choice Properties, an increase in tax expense related to temporary differences in respect of GWL's investment in certain Loblaw shares as a result of GWL's participation in Loblaw's Normal Course Issuer Bid ("NCIB") program, the remeasurement of certain deferred tax balances and the impact of certain other non-deductible items.

The adjusted effective tax rate⁽¹⁾ in 2020 was 26.1%, compared to 25.0% in 2019. The increase was primarily attributable to the unfavourable year-over-year impact of the non-taxable portion of the gain from Choice Properties' transactions, as described in Section 1.3 "Consolidated Other Business Matters", and the impact of certain other non-deductible items.

Loblaw has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, Loblaw filed a Notice of Appeal with the Federal Court of Appeal. During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of Loblaw and reversed the decision of the Tax Court. During the fourth quarter, on October 29, 2020, the Supreme Court granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. Loblaw has not reversed any portion of the \$367 million of charges recorded during the third quarter of 2018, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes.

1.2 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, 2020, 2019 and 2018. 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)	2020 (53 weeks)	2019 (52 weeks)	2018 (52 weeks)
Revenue	\$ 54,705	\$ 50,109	\$ 48,568
Operating income	\$ 2,888	\$ 2,958	\$ 2,585
Adjusted EBITDA ⁽¹⁾	\$ 5,607	\$ 5,483	\$ 4,528
Adjusted EBITDA margin ⁽¹⁾	10.2%	10.9%	9.3%
Depreciation and amortization ⁽ⁱ⁾	\$ 2,427	\$ 2,318	\$ 1,746
Net interest expense and other financing charges	\$ 831	\$ 1,704	\$ 948
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 1,117	\$ 1,071	\$ 762
Income taxes	\$ 475	\$ 431	\$ 639
Adjusted income taxes ⁽¹⁾	\$ 679	\$ 653	\$ 680
Adjusted effective tax rate ⁽¹⁾	26.1%	25.0%	26.7%
Net earnings	\$ 1,582	\$ 823	\$ 998
Net earnings attributable to shareholders of the Company	\$ 963	\$ 242	\$ 574
Net earnings available to common shareholders of the Company	\$ 919	\$ 198	\$ 530
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 1,055	\$ 1,117	\$ 908
Net earnings per common share (\$) - diluted	\$ 5.96	\$ 1.26	\$ 3.99
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 6.85	\$ 7.24	\$ 6.85
Dividends declared per share (\$):			
Common shares	\$ 2.125	\$ 2.090	\$ 1.950
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
Total Assets and Long-Term Financial Liabilities			
Total assets	\$ 48,075	\$ 47,813	\$ 43,814
Total long-term debt	\$ 14,443	\$ 14,554	\$ 15,318
Financial liabilities	666	435	–
Lease liabilities	5,005	5,107	–
Trust Unit liability	3,600	3,601	2,658
Total long-term financial liabilities	\$ 23,714	\$ 23,697	\$ 17,976

(i) Depreciation and amortization includes \$509 million (2019 – \$508 million; 2018 – \$521 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$30 million (2019 – \$9 million; 2018 – \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

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

- Loblaw's retail sales have continued to grow despite the pressure of a competitive retail market and an uncertain economic and regulatory environment over the last three years. In 2018, Loblaw experienced food price inflation while drug retail prices were negatively impacted by the effects of incremental healthcare reform. Sales in 2018 were also impacted by the disposition of gas bar operations in the third quarter of 2017. In 2019, food retail prices were inflationary. Drug retail prices were deflationary until the second quarter of 2019 when they returned to being inflationary. Retail sales over the past three years were also impacted by the consolidation of franchisees. In 2020, the COVID-19 pandemic had a significant impact on our colleagues, customers, suppliers and other stakeholders. This included the impact of the 53rd week of \$878 million. Loblaw experienced sales volatility and changes in sales mix as the pandemic impacted consumer behaviour throughout the year. Loblaw's financial services revenue was negatively impacted by the COVID-19 pandemic from lower credit card related revenues from lower customer spending and lower sales attributable to the partial closure of *The Mobile Shop*

Management's Discussion and Analysis

kiosks during the second quarter of 2020. Loblaw's financial services segment also launched the *PC Money* account in the third quarter of 2020. In both 2019 and 2018, financial services sales continued to grow, mainly driven by growth in the credit card portfolio and *The Mobile Shop*.

- Choice Properties revenue grew in 2018 and 2019 driven mainly through the addition of new properties as a result of the Canadian Real Estate Investment Trust ("CREIT") acquisition, an increase in base rents and recovery of property operating costs from existing properties and additional revenue generated from properties acquired in 2018 and 2019 and from tenant openings in newly developed leasable space. Choice Properties revenue decreased in 2020 primarily due to the forgone revenue from a disposition of a portfolio of properties in the third quarter of 2019, partially offset by additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.
- Weston Foods sales were negatively impacted by volume declines in 2020, 2019 and 2018. The COVID-19 pandemic had a significant impact on the volume of sales in 2020. Foreign currency translation had a positive impact on sales in 2020 and 2019 but an unfavourable impact on sales in 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 three years were impacted by certain adjusting items as described in Section 14, "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 the underlying operating performance of Loblaw's retail, including positive same-store sales growth in both food retail and drug retail in 2020, 2019 and 2018; cost savings and operating efficiencies from Process and Efficiency initiatives and investments in and benefits from strategic initiatives; fluctuations in the performance of Loblaw's financial services including the continued investments in strategic initiatives. In 2020, the results also included the impact of the COVID-19 related costs. The changes in underlying operating performance included increases in depreciation and amortization in 2020, 2019 and 2018;
- changes in the underlying operating performance of Choice Properties, including the unfavourable underlying operating performance in 2020 primarily due to COVID-19 related expected credit losses, and the favourable underlying operating performance in 2018 and 2019, including the acquisition of CREIT in the second quarter of 2018 and the contribution from completed developments;
- changes in the underlying operating performance at Weston Foods. In 2020, the underlying operating performance in Weston Foods declined due to decrease in sales primarily driven by the impact of COVID-19, increase in COVID-19 related expenses, and higher input costs partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program, cost savings initiatives and a decrease in performance related compensation accruals. In 2019, after excluding the prior year impact of a net gain related to the sale leaseback of properties, the underlying operating performance of Weston Foods increased driven by productivity improvements and the net benefits realized from the transformation program, partially offset by higher input and distribution costs and an increase in performance related compensation accruals. In 2018, underlying operating performance of Weston Foods declined 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. The changes in underlying operating performance included increases in depreciation and amortization in 2020, 2019, and 2018;
- higher adjusted net interest expense and other financing charges⁽¹⁾ in 2020 in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on Choice Properties' dispositions and higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions. Higher adjusted net interest expense and other financing charges⁽¹⁾ in 2019 in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions, higher interest expense resulting from the issuance of new debt and debt acquired related to the acquisition of CREIT; partially offset by the repayment of 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, primarily due to the growth in the credit card portfolio. 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 Guaranteed Investment Certificates ("GICs"), and at Choice Properties due to the issuance of new debt and the debt acquired related to the acquisition of CREIT; and
- an increase in GWL's ownership interest in Loblaw in 2020, 2019 and 2018 as a result of share repurchases. GWL's ownership of Loblaw was approximately 52.6% as at the end of 2020 (2019 – approximately 52.2% and 2018 – approximately 50.4%).

Over the last three years, the adjusting items included:

- Loblaw's charge related to Glenhuron;
- the change in fair value adjustment of the Trust Unit liability;
- the change in fair value adjustment on investment properties;
- the change in fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares;
- acquisition transactions costs and other related costs;
- Loblaw's spin-out of Choice Properties;
- the remeasurement of deferred tax balances;
- outside basis difference in certain Loblaw shares;
- asset impairments, net of recoveries;
- restructuring and other related costs;
- the change in fair value adjustment of derivatives;
- the wind-down of *PC Financial* banking services;
- the impact of healthcare reform on inventory balances;
- inventory loss, net of recoveries;
- statutory corporate income tax rate change;
- certain prior period items;
- pension annuities and buy-outs;
- Loblaw Card Program;
- the gain on sale of non-operating properties;
- amortization of intangible assets acquired with Shoppers Drug Mart; and
- the change in foreign currency translation and other company level activities.

In 2020, total assets of \$48,075 million increased by 0.5% as compared to 2019. The increase was primarily driven by the increase in cash and cash equivalents and short-term investments, partially offset by a decrease in intangible assets driven by higher depreciation and amortization and decline in credit card receivables as a result of lower customer spending due to COVID-19. Total long-term financial liabilities of \$23,714 million increased by 0.1% compared to 2019 driven by an increase in financial liabilities recorded due to the consolidation impacts of Choice Properties' dispositions in 2020.

In 2019, total assets of \$47,813 million increased by 9.1% as compared to 2018. The increase was primarily driven by the increase in right-of-use assets due to the implementation of IFRS 16. Total long-term financial liabilities of \$23,697 million increased by 31.8% compared to 2018 driven by the increase in lease liabilities due to the implementation of IFRS 16.

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, 2020, 276,280,248 Units were held by unitholders other than the Company (2019 – 259,631,454, 2018 – 231,346,144) and the Company held an approximate 61.8% (2019 – 62.9%, 2018 – 65.4%) effective ownership interest in Choice Properties.

1.3 Consolidated Other Business Matters

COVID-19 RELATED COSTS In 2020, the Company incurred significant COVID-19 costs related to temporary pay premiums, pay protection safeguards, additional security, customer convenience and increased health and safety measures, totaling approximately \$490 million. The Company incurred COVID-19 related costs of approximately \$50 million in the fourth quarter of 2020 primarily related to safety and security measures to protect colleagues, customers, tenants and other stakeholders. The estimated COVID-19 related costs incurred by each of the Company's reportable operating segments were as follows:

(unaudited) (\$ millions)	Quarter Ended	Year Ended
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2020 (53 weeks)
Loblaw	\$ 45	\$ 445
Choice Properties ⁽ⁱ⁾	3	21
Weston Foods	2	24
Consolidated	\$ 50	\$ 490

- (i) Choice Properties recorded a provision of \$3 million and \$21 million in the fourth quarter and year-to-date of 2020, respectively, for certain past due amounts, reflecting increased collectability risk and potential abatements.

Refer to Section 8, "Enterprise Risks and Risk Management" of this MD&A for more information.

Management's Discussion and Analysis

CONSOLIDATION IMPACTS ON CHOICE PROPERTIES' TRANSACTIONS Choice Properties completed various property acquisitions and dispositions and financing activities in 2019 and 2020, improving the strength of its portfolio and reducing leverage. As a result of certain of these transactions, the Company recorded the consolidation impact in Other and Intersegment as set out below:

(unaudited) (\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	Dec. 31, 2020 (53 weeks)	Dec. 31, 2019 (52 weeks)
Choice Properties' Ground Lease	\$ –	\$ –	\$ 15	\$ –
Transaction between Choice Properties and Wittington	–	–	10	–
Operating income	\$ –	\$ –	\$ 25	\$ –
Choice Properties' Transactions	\$ 11	\$ 7	\$ 31	\$ 7
Net interest expense and other financing charges	\$ 11	\$ 7	\$ 31	\$ 7

CHOICE PROPERTIES' GROUND LEASE In the third quarter of 2020, Choice Properties entered into a 99-year ground lease for a parcel of land on a property with an equity accounted joint venture in which Choice Properties has a 50% ownership interest. Under IFRS 16 "Leases", this arrangement was accounted for as a disposition by Choice Properties to the equity accounted joint venture. On consolidation, the Company recorded the property including the parcel of land in fixed assets as own-use property because Loblaw continues to be a tenant on the property. The approximate fair value of the parcel of land on the property was \$22 million. As a result of the disposition, the Company recorded a lease receivable of \$22 million, a disposition of the property at a cost of \$7 million, and a gain of \$15 million in operating income.

TRANSACTION BETWEEN CHOICE PROPERTIES AND WITTINGTON On July 31, 2020, Choice Properties acquired two real estate assets from Wittington Properties Limited, a related party and subsidiary of Wittington Investments, Limited ("Wittington"), at market terms and conditions, for an aggregate purchase price of \$209 million, excluding transaction costs, which was satisfied in full by the issuance of 16.5 million Trust Units of Choice Properties. As a result of the transaction, the Company recorded gains of \$10 million in operating income. See Section 9, "Related Party Transactions" for further details of the transaction.

CHOICE PROPERTIES' TRANSACTIONS In 2020, Choice Properties disposed or partially disposed of 17 properties (2019 – 31 properties) to third parties for aggregate consideration of \$233 million (2019 – \$435 million). On consolidation, these transactions were not recognized as a sale of assets as under the terms of the leases, the Company did not relinquish control of the properties for purposes of IFRS 16 "Leases" and IFRS 15 "Revenue from Contracts with Customers". The proceeds from the transactions were recognized as financial liabilities totaling \$233 million (2019 – \$435 million) on the Company's consolidated balance sheets. As at December 31, 2020, the Company recognized \$666 million (2019 – \$435 million) in financial liabilities. The corresponding interest expense of \$11 million in the fourth quarter of 2020 (2019 – \$7 million) and \$31 million year-to-date (2019 – \$7 million) was recorded in the consolidated statements of earnings.

For tax purposes, these transactions were treated as a sale, and the income tax expense reflects the benefit from the non-taxable portion of the gain from the sale of properties by Choice Properties.

2. Results of Reportable Operating Segments

The following discussion provides details of 2020 results of operations of each of the Company's reportable operating segments.

2.1 Loblaw Operating Results

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Revenue	\$ 52,714	\$ 48,037	\$ 4,677	9.7%
Operating income	\$ 2,357	\$ 2,262	\$ 95	4.2%
Adjusted EBITDA ⁽ⁱ⁾	\$ 5,033	\$ 4,904	\$ 129	2.6%
Adjusted EBITDA margin ⁽ⁱ⁾	9.6%	10.2%		
Depreciation and amortization ⁽ⁱ⁾	\$ 2,596	\$ 2,524	\$ 72	2.9%

(i) Depreciation and amortization includes \$509 million (2019 – \$508 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

Unless otherwise indicated, Loblaw's operating results include the 53rd week, the consolidation of franchises, and impacts of COVID-19.

REVENUE Loblaw revenue in 2020 was \$52,714 million, an increase of \$4,677 million, or 9.7%, compared to 2019, primarily driven by retail sales partially offset by a decrease in financial services revenue.

Retail sales were \$51,859 million, an increase of \$4,760 million, or 10.1%, compared to 2019, which included the impact of the 53rd week of \$878 million. Food retail sales were \$37,596 million (2019 – \$33,756 million) and drug retail sales were \$14,263 million (2019 – \$13,343 million).

Excluding the consolidation of franchises, retail sales increased by \$4,248 million, or 9.3%, which included the impact of the 53rd week of \$845 million, driven by the following factors:

- food retail same-store sales growth was 8.6%. Food retail same-store sales growth was positively impacted by COVID-19. On a comparable week basis, food retail basket size increased and traffic decreased in 2020;
- Loblaw's food retail average article price was higher by 3.9% (2019 – 2.5%), which reflects the year-over-year growth in food retail revenue over the average number of articles sold in Loblaw's stores. The increase in average article price was due to sales mix; and
- drug retail same-store sales growth was 4.9%, including pharmacy same-store sales growth of 5.3% and front store same-store sales growth of 4.5%.

In 2020, 19 food and drug stores were opened, and 9 food and drug stores were closed, resulting in a net increase in retail square footage of 0.2 million square feet, or 0.3%.

Financial services revenue decreased by \$99 million, or 8.3%, compared to 2019, primarily driven by lower interest income, lower credit card related revenues from lower customer spending due to COVID-19 and lower sales attributable to the partial closure of *The Mobile Shop* kiosks due to COVID-19 in the second quarter of 2020.

OPERATING INCOME Loblaw operating income in 2020 was \$2,357 million, an increase of \$95 million, or 4.2%, compared to 2019, which included the impact of the 53rd week of \$67 million. The increase included the improvements in underlying operating performance of \$58 million and the favourable year-over-year net impact of adjusting items totaling \$37 million, as described below:

- the improvement in underlying operating performance of \$58 million was primarily due to retail, including the favourable contribution from consolidation of franchises of \$36 million and the favourable impact of the 53rd week of \$67 million. This was partially offset by a decline in underlying operating performance of financial services.
- the favourable year-over-year net impact of adjusting items totaling \$37 million was primarily due to:
 - the favourable year-over-year impact of asset impairments, net of recoveries of \$58 million;
 - the favourable year-over-year impact of restructuring and other related costs of \$16 million; and
 - the favourable impact of prior year pension annuities and buy-outs of \$10 million;

Management's Discussion and Analysis

- partially offset by,
 - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of \$22 million;
 - the unfavourable year-over-year impact of Loblaw's fair value adjustment on non-operating properties of \$16 million;
 - the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$5 million; and
 - the unfavourable year-over-year impact of a net gain on sale of non-operating properties of \$3 million.

ADJUSTED EBITDA⁽¹⁾ Loblaw adjusted EBITDA⁽¹⁾ in 2020 was \$5,033 million, an increase of \$129 million, or 2.6%, compared to 2019, which included the favourable impact of the 53rd week of \$67 million. The increase was primarily due to the increase in retail, partially offset by a decline in financial services.

Retail adjusted EBITDA⁽¹⁾ increased by \$182 million, including the favourable impact of the consolidation of franchises of \$61 million, and was driven by an increase in retail gross profit, partially offset by an increase in retail SG&A.

- Retail gross profit percentage of 29.5% decreased by 20 basis points compared to 2019. Excluding the consolidation of franchises, retail gross profit percentage was 27.0%, a decrease of 60 basis points compared to the same period in 2019. Food and drug retail margins were negatively impacted as a result of COVID-19 related changes in sales mix and competitive pricing.
- Excluding the consolidation of franchises, retail SG&A increased by \$713 million and SG&A as a percentage of sales was 17.6%, a decrease of 10 basis points compared to the same period in 2019, driven by sales leverage from higher sales volume and process and efficiency gains, partially offset by COVID-19 related costs and incremental e-commerce labour costs as a result of higher online sales.

Financial services adjusted EBITDA⁽¹⁾ decreased by \$53 million compared to 2019, primarily driven by lower revenue, as described above and higher credit losses from the increase in expected credit losses attributable to the recessionary environment, partially offset by loyalty program costs and lower customer acquisition costs.

Loblaw adjusted EBITDA⁽¹⁾ included no impact (2019 – gains of \$7 million) related to the sale and leaseback of properties to Choice Properties.

DEPRECIATION AND AMORTIZATION Loblaw's depreciation and amortization in 2020 was \$2,596 million, an increase of \$72 million compared to 2019. The increase in depreciation and amortization was primarily driven by the consolidation of franchises and an increase in IT assets.

Depreciation and amortization in 2020 included \$509 million (2019 – \$508 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart.

LOBLAW OTHER BUSINESS MATTERS

Process and Efficiency In 2020, Loblaw recorded approximately \$58 million of restructuring and other related costs, primarily related to Process and Efficiency initiatives. Included in the restructuring charges were approximately \$40 million of charges related to the closure of the two distribution centres in Laval and Ottawa. Loblaw is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Volumes from the distribution centres in Laval and Ottawa will be transferred to Cornwall. Loblaw expects to incur additional restructuring costs throughout 2021 and through to 2022 related to these closures.

Consolidation of Franchises Loblaw has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2020, Loblaw consolidated all of its remaining franchisees for accounting purposes under a simplified franchise agreement implemented in 2015 ("Franchise Agreement").

The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

(\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 ⁽⁴⁾ (12 weeks)	Dec. 31, 2020 (53 weeks)	Dec. 31, 2019 ⁽⁴⁾ (52 weeks)
Number of Consolidated Franchise stores, beginning of period	526	444	470	400
Add: Net Number of Consolidated Franchise stores in the period	–	26	56	70
Number of Consolidated Franchise stores, end of period ⁽ⁱ⁾	526	470	526	470
Sales	\$ 439	\$ 318	\$ 1,866	\$ 1,354
Operating income	45	11	111	75
Adjusted EBITDA ⁽¹⁾	69	32	215	154
Depreciation and amortization	24	21	104	79
Net earnings attributable to non-controlling interests	46	9	84	50

(i) The number of franchise stores disclosed elsewhere includes certain stores under buying arrangements which will not be subject to the Franchise Agreement.

Operating income that is 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.

2.2 Choice Properties Operating Results

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (52 weeks)	2019 (52 weeks)	\$ Change	% Change
Revenue	\$ 1,271	\$ 1,289	\$ (18)	(1.4)%
Net interest expense and other financing charges ⁽ⁱ⁾	\$ 173	\$ 1,472	\$ (1,299)	(88.2)%
Net income (loss)	\$ 451	\$ (581)	\$ 1,032	177.6%
Funds from Operations ⁽¹⁾⁽ⁱⁱ⁾	\$ 652	\$ 680	\$ (28)	(4.1)%

(i) Net interest expense and other financing charges includes a fair value adjustment on Exchangeable Units.

(ii) Funds from operations is calculated in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019.

REVENUE Revenue was \$1,271 million in 2020, a decrease of \$18 million, or 1.4%, compared to 2019 and included \$724 million (2019 – \$750 million) generated from tenants within Loblaw retail. The decrease in revenue was primarily driven by:

- foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019;
- partially offset by,
- additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.

NET INTEREST EXPENSE AND OTHER FINANCING CHARGES Net interest expense and other financing charges in 2020 were \$173 million compared to \$1,472 million in 2019. The decrease of \$1,299 million was primarily driven by the favourable year-over-year impact of the fair value adjustment on the Class B LP units ("Exchangeable Units") of \$1,286 million as a result of the decrease in the unit price of Choice Properties in 2020, and reduced interest and financing charges as a result of a reduction in indebtedness.

Management's Discussion and Analysis

NET INCOME (LOSS) Net income in 2020 was \$451 million, compared to a net loss of \$581 million in 2019. The increase of \$1,032 million was primarily driven by:

- the favourable impact of lower net interest expense and other financing charges described above; and
 - a favourable change in other fair value adjustments;
- partially offset by,
- the unfavourable year-over-year impact of the fair value adjustment on investment properties;
 - an increase in expected credit loss provisions across the portfolio; and
 - a decrease in revenue as described above.

FUNDS FROM OPERATIONS⁽ⁱ⁾ Funds from Operations⁽ⁱ⁾ in 2020 was \$652 million, a decrease of \$28 million compared to 2019, primarily driven by an increase in expected credit loss provisions partially offset by lower borrowing costs as a result of a reduction in indebtedness.

CHOICE PROPERTIES OTHER BUSINESS MATTERS

Investment Property Transactions Subsequent to the end of 2020, Choice Properties completed the disposition of its 50% equity accounted joint venture interest in land held for development for aggregate proceeds of \$66 million, net of transaction and estimated closing costs.

2.3 Weston Foods Operating Results

(\$ millions except where otherwise indicated) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change	% Change
Sales	\$ 2,062	\$ 2,155	\$ (93)	(4.3)%
Operating income	\$ 3	\$ 72	\$ (69)	(95.8)%
Adjusted EBITDA ⁽ⁱ⁾	\$ 200	\$ 223	\$ (23)	(10.3)%
Adjusted EBITDA margin ⁽ⁱ⁾	9.7%	10.3%		
Depreciation and amortization ⁽ⁱ⁾	\$ 175	\$ 147	\$ 28	19.0%

(i) Depreciation and amortization in 2020 includes \$30 million (2019 – \$9 million) year-to-date of accelerated depreciation related to restructuring and other related costs.

Unless otherwise indicated, Weston Foods' operating results include the 53rd week and the impacts of COVID-19.

SALES Weston Foods sales in 2020 were \$2,062 million, a decrease of \$93 million, or 4.3%, compared to 2019. Sales included the favourable impact of the 53rd week and foreign currency translation of approximately 1.3% and 0.4%, respectively. Excluding the favourable impacts of the 53rd week and foreign currency translation, sales decreased by 6.0%. Sales were impacted by a decrease in volumes in certain retail categories and foodservice channels as a result of the COVID-19 pandemic and the unfavourable impact of product rationalization. The combined impact of pricing and changes in sales mix had a nominal impact on sales when compared to the same period in 2019.

OPERATING INCOME Weston Foods operating income in 2020 was \$3 million compared to \$72 million in 2019, a decrease of \$69 million. The decrease was due to the decline in underlying operating performance of \$30 million driven by the decline in sales and COVID-19 related costs, and the unfavourable year-over-year impact of restructuring and other related costs of \$39 million. Weston Foods incurred \$24 million of COVID-19 related costs to support colleagues in its bakeries and distribution centres with temporary pay premiums, pay protection safeguards and by increasing health and safety measures at its facilities.

ADJUSTED EBITDA⁽ⁱ⁾ Weston Foods adjusted EBITDA⁽ⁱ⁾ in 2020 was \$200 million compared to \$223 million in 2019, a decrease of \$23 million, or 10.3%. Excluding the favourable impact of the 53rd week of \$4 million, adjusted EBITDA⁽ⁱ⁾ decreased by \$27 million, or 12.1%. The decrease was driven by the decline in sales, an increase in COVID-19 related expenses and higher input costs, partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program, cost savings initiatives and a decrease in performance related compensation accruals.

Weston Foods adjusted EBITDA margin⁽ⁱ⁾ decreased to 9.7% compared to 10.3% in 2019. The decline in adjusted EBITDA margin⁽ⁱ⁾ was driven by the factors described above.

DEPRECIATION AND AMORTIZATION Weston Foods depreciation and amortization in 2020 was \$175 million, an increase of \$28 million compared to 2019. Depreciation and amortization included \$30 million (2019 – \$9 million) of accelerated depreciation related to Weston Foods' transformation program. Excluding this amount, depreciation and amortization increased by \$7 million due to capital investments.

WESTON FOODS OTHER BUSINESS MATTERS

Restructuring and other related costs 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 2020 and year-to-date, Weston Foods recorded restructuring and other related costs of \$13 million (2019 – net gain of \$4 million) and \$50 million (2019 – \$11 million), respectively, which were primarily related to Weston Foods' transformation program.

Transaction between Weston Foods and Choice Properties In the fourth quarter of 2020, Weston Foods disposed of a portfolio of six industrial properties to Choice Properties at an aggregate price of \$79 million, excluding transaction costs, which was satisfied in full through the issuance of 5,824,742 Class B LP Units of Choice Properties. These properties were leased back by Weston Foods.

3. Liquidity and Capital Resources

3.1 Cash Flows

(\$ millions) For the years ended as indicated	2020 (53 weeks)	2019 (52 weeks)	\$ Change
Cash and cash equivalents, beginning of year	\$ 1,834	\$ 1,521	\$ 313
Cash flows from operating activities	\$ 5,521	\$ 4,555	\$ 966
Cash flows used in investing activities	\$ (1,738)	\$ (1,492)	\$ (246)
Cash flows used in financing activities	\$ (3,035)	\$ (2,750)	\$ (285)
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ (1)	\$ –	\$ (1)
Cash and cash equivalents, end of year	\$ 2,581	\$ 1,834	\$ 747

CASH FLOWS FROM OPERATING ACTIVITIES Cash flows from operating activities were \$5,521 million in 2020, an increase of \$966 million compared to 2019. The increase in cash flows from operating activities was primarily due to a decrease in credit card receivables as a result of reduced customer spending due to COVID-19 and higher payment rates compared to prior year, lower income taxes paid and higher cash earnings.

CASH FLOWS USED IN INVESTING ACTIVITIES Cash flows used in investing activities were \$1,738 million in 2020, an increase of \$246 million compared to 2019. The increase in cash flows used in investing activities was primarily driven by an increase in short-term investments driven by higher cash earnings and preservation of liquidity, partially offset by higher proceeds from the sale of assets.

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

(\$ millions) For the years ended as indicated	2020 (53 weeks)	2019 ⁽⁴⁾ (52 weeks)
Loblaw	\$ 1,224	\$ 1,206
Choice Properties	263	163
Weston Foods	162	194
Other	9	8
Total capital investments	\$ 1,658	\$ 1,571

CASH FLOWS USED IN FINANCING ACTIVITIES Cash flows used in financing activities were \$3,035 million in 2020, an increase of \$285 million compared to 2019. The increase in cash flows used in financing activities was primarily driven by higher issuances of Choice Properties' units in the prior year, higher proceeds received from Choice Properties' investment property dispositions in the prior year, higher repurchases of the Company's common shares under its NCIB and timing of the fourth quarter of 2020 Loblaw dividend payment, partially offset by lower repurchases of Loblaw common shares from minority shareholders under its NCIB and lower net repayments of long-term debt.

Management's Discussion and Analysis

The Company's significant long-term debt transactions are set out in Section 3.3, "Components of Total Debt".

FREE CASH FLOW⁽¹⁾

(\$ millions) For the years ended as indicated	2020 (53 weeks)	2019 ⁽⁴⁾ (52 weeks)	\$ Change
Cash flows from operating activities	\$ 5,521	\$ 4,555	\$ 966
Less: Interest paid	883	891	(8)
Capital Investments ⁽ⁱ⁾	1,658	1,571	87
Lease payments, net	852	726	126
Free cash flow ⁽¹⁾	\$ 2,128	\$ 1,367	\$ 761

- (i) During 2020, additions to fixed assets in Loblaw includes prepayments that were made in 2019 and transferred from other assets in 2020 of \$66 million. During 2019, additions to fixed assets in Loblaw includes prepayments that were made in 2018 and transferred from other assets in 2019 of \$13 million.

The increase in free cash flow⁽¹⁾ in 2020 was \$761 million compared to 2019. The increase in free cash flow⁽¹⁾ was primarily due to a decrease in credit card receivables as a result of reduced customer spending due to COVID-19, lower income taxes paid and higher cash earnings, partially offset by an increase in lease payments.

3.2 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. President's Choice Bank ("PC Bank") expects to obtain long-term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*[®] ("*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 3.1 "Cash Flows", of this MD&A.

TOTAL DEBT The following table presents total debt, as monitored by management:

(\$ millions)	As at					Dec. 31, 2019				
	Dec. 31, 2020					Dec. 31, 2019				
	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total
Bank indebtedness	\$ 86	\$ –	\$ –	\$ –	\$ 86	\$ 18	\$ –	\$ –	\$ –	\$ 18
Demand deposits from customer	24	–	–	–	24	–	–	–	–	–
Short-term debt	575	–	–	760	1,335	775	–	–	714	1,489
Long-term debt due within one year	597	327	–	–	924	1,127	715	–	–	1,842
Long-term debt	6,449	6,155	–	915	13,519	5,971	5,826	–	915	12,712
Certain other liabilities ⁽ⁱ⁾	71	666	–	–	737	65	435	–	–	500
Fair value of financial derivatives related to the above debt	–	–	–	(630)	(630)	–	–	–	(537)	(537)
Total debt excluding lease liabilities	\$ 7,802	\$ 7,148	\$ –	\$ 1,045	\$ 15,995	\$ 7,956	\$ 6,976	\$ –	\$ 1,092	\$ 16,024
Lease liabilities due within one year ⁽ⁱⁱ⁾	\$ 1,379	\$ 1	\$ 15	\$ (596)	\$ 799	\$ 1,419	\$ 1	\$ 13	\$ (576)	\$ 857
Lease liabilities ⁽ⁱⁱⁱ⁾	\$ 7,522	\$ 3	\$ 130	\$ (3,449)	\$ 4,206	\$ 7,691	\$ 6	\$ 60	\$ (3,507)	\$ 4,250
Total debt including total lease liabilities	\$ 16,703	\$ 7,152	\$ 145	\$ (3,000)	\$ 21,000	\$ 17,066	\$ 6,983	\$ 73	\$ (2,991)	\$ 21,131

(i) Includes financial liabilities of \$666 million (2019 – \$435 million) recorded primarily as a result of Choice Properties' transactions as described in Section 1.3 "Consolidated Other Business Matters".

(ii) Lease liabilities due within one year of \$3 million (2019 – \$4 million) and lease liabilities of \$8 million (2019 – \$12 million) relating to GWL Corporate are included under Other and Intersegment.

Management targets credit metrics consistent with those of an investment grade profile. GWL Corporate holds cash and cash equivalents and short-term investments and as a result monitors its leverage on a net debt basis. GWL Corporate has total debt including lease liabilities of \$1,056 million (2019 – \$1,108 million) and cash and cash equivalents and short-term investments of \$1,013 million (2019 – \$679 million), resulting in a net debt position of \$43 million (2019 – \$429 million).

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. Loblaw retail segment debt to adjusted EBITDA⁽¹⁾ ratio decreased compared to 2019 primarily due to an improvement in adjusted EBITDA⁽¹⁾ and decrease in retail debt. Retail debt to retail adjusted EBITDA⁽¹⁾ was positively impacted by the 53rd week.
- PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory requirements as defined by the Office of the Superintendent of Financial Institutions ("OSFI").

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.

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 2020 and throughout the year, the Company, Loblaw and Choice Properties were in compliance with their respective covenants.

As at year end 2020 and throughout the year, PC Bank and Choice Properties met all applicable regulatory requirements.

SHORT FORM BASE SHELF PROSPECTUS In 2019, 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 over a 25-month period.

Management's Discussion and Analysis

In 2019, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$1.25 billion of notes over a 25-month period.

3.3 Components of Total Debt

DEBENTURES The following table summarizes the debentures issued in the years ended as indicated:

(\$ millions)	Interest Rate	Maturity Date	2020	2019
			Principal Amount	Principal Amount
Loblaw Companies Limited notes	2.28%	May 7, 2030 ⁽ⁱ⁾	\$ 350	\$ –
Choice Properties senior unsecured debentures				
– Series M	3.53%	June 11, 2029	–	750
– Series N	2.98%	March 4, 2030	400	–
– Series O	3.83%	March 4, 2050	100	–
– Series P	2.85%	May 21, 2027	500	–
Total debentures issued			\$ 1,350	\$ 750

- (i) In connection with this issuance, during 2020, \$350 million of bond forward agreements were settled, resulting in a realized fair value loss of \$34 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the May 7, 2030 notes. This settlement also resulted in a net effective interest rate of 3.34% on the May 7, 2030 notes issued.

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

(\$ millions)	Interest Rate	Maturity Date	2020	2019
			Principal Amount	Principal Amount
Loblaw Companies Limited notes	5.22%	June 18, 2020	\$ 350	\$ –
Choice Properties senior unsecured debentures				
– Series 7	3.00%	September 20, 2019 ⁽ⁱ⁾	–	200
– Series 8	3.60%	April 20, 2020	300	–
– Series B-C	4.32%	January 15, 2021	100	–
– Series C	3.50%	February 8, 2021	250	–
– Series C-C	2.56%	November 30, 2019 ⁽ⁱ⁾	–	100
– Series E	2.30%	September 14, 2020	250	–
Choice Properties - Term Loan	Variable	May 4, 2022 ⁽ⁱⁱⁱ⁾	–	175
Choice Properties - Term Loan	Variable	May 4, 2023 ⁽ⁱⁱⁱ⁾	–	625
Total debentures and term loans repaid			\$ 1,250	\$ 1,100

- (i) Choice Properties senior unsecured debentures Series 7 and Series C-C were redeemed on June 27, 2019.
(ii) Choice Properties term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on June 11, 2019.
(iii) Choice Properties term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on June 11, 2019 and September 30, 2019.

COMMITTED CREDIT FACILITIES The components of the committed lines of credit available as at year end 2020 and 2019 were as follows:

(\$ millions)	Maturity Date	As at			
		Dec. 31, 2020		Dec. 31, 2019	
		Available Credit	Drawn	Available Credit	Drawn
Loblaw committed credit facility	October 7, 2023 ⁽ⁱ⁾	\$ 1,000	\$ –	\$ 1,000	\$ –
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	–	1,500	132
Total committed credit facilities		\$ 2,500	\$ –	\$ 2,500	\$ 132

- (i) In 2020, Loblaw amended its committed credit facility and extended the maturity date from June 10, 2021 to October 7, 2023.

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 a 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, 2020	Dec. 31, 2019
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i>	\$ 1,050	\$ 1,000
Securitized to Other Independent Securitization Trusts	575	775
Total securitized to independent securitization trusts	\$ 1,625	\$ 1,775

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 2020 and throughout the year.

During 2020, *Eagle* issued \$300 million (2019 – \$250 million) of senior and subordinated term notes with a maturity date of July 17, 2025 (2019 – July 17, 2024) at a weighted average interest rate of 1.34% (2019 – 2.28%). In connection with this issuance, \$200 million (2019 – \$250 million) of bond forward agreements were settled, resulting in a realized fair value loss of \$11 million (2019 – \$8 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.07% (2019 – 2.94%) on the *Eagle* notes issued.

During 2020, \$250 million of the senior and subordinated term notes at a weighted average interest rate of 2.23% previously issued by *Eagle*, matured and were repaid on September 17, 2020. As a result, there was a net change in the balances related to *Eagle* notes of \$50 million. There were no repayments of notes issued by *Eagle* in 2019.

INDEPENDENT FUNDING TRUSTS As at year end 2020, the independent funding trusts had drawn \$512 million (2019 – \$505 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 2020, Loblaw has agreed to provide a credit enhancement of \$64 million (2019 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2019 – not less than 10%) of the principal amount of the loans outstanding.

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

GUARANTEED INVESTMENT CERTIFICATES The following table summarizes PC Bank's GIC activity, before commissions, for the years ended as follows:

(\$ millions)	2020	2019
Balance, beginning of year	\$ 1,311	\$ 1,141
GICs issued	410	453
GICs matured	(536)	(283)
Balance, end of year	\$ 1,185	\$ 1,311

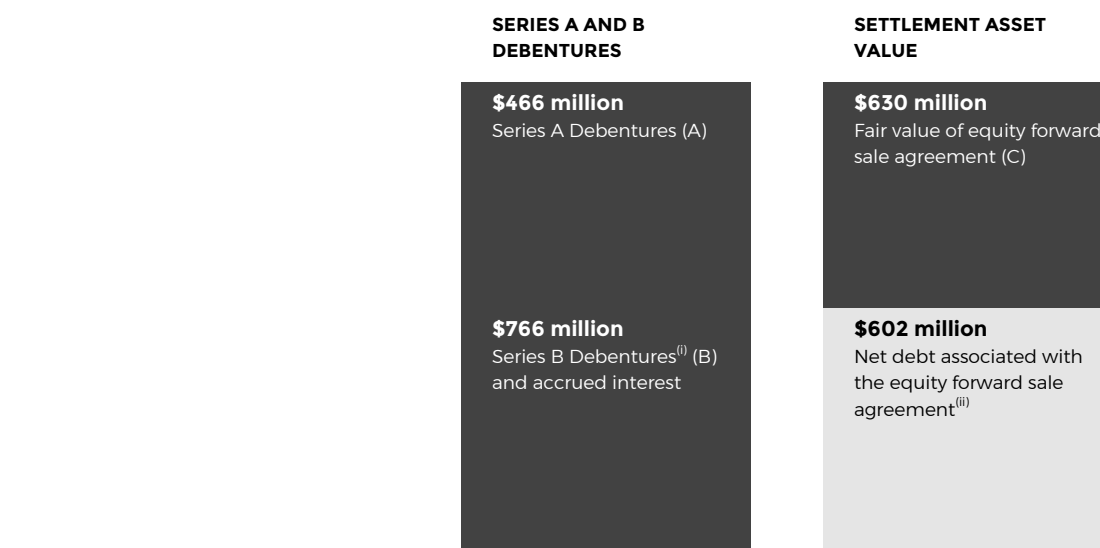
As at year end 2020, \$597 million in GICs were recorded as long-term debt due within one year (2019 – \$527 million).

Management's Discussion and Analysis

DEBT ASSOCIATED WITH EQUITY FORWARD SALE AGREEMENT In 2001, Weston Holdings Limited ("WHL") issued \$466 million of 7.00% Series A Debentures due 2031, which are serviced by the issuance of Series B Debentures. In addition, WHL entered into an equity forward sale agreement with the lender to sell 9.6 million Loblaw common shares at an initial forward sale price of \$48.50 which increases by the interest rates on Series A Debentures and Series B Debentures. As at December 31, 2020 the forward rate was \$128.30 (2019 - \$123.64) and Series B liability was \$766 million (2019 - \$714 million). The Series A Debentures ("A"), Series B Debentures and the accrued interest ("B"), and the fair value of the equity forward sale agreement ("C") should be considered together. At any time, the aggregate value of A, B, and C will be equivalent to the market value of the 9.6 million shares (see chart below). WHL is permitted to settle the transaction in whole or in part, at any time prior to 2031.

Interest charges on Series A Debentures and Series B Debentures are non-cash and accrued at an interest rate of 7% and bankers' acceptance plus 0.50%, respectively and are serviced by the issuance of Series B Debentures. The amount is offset by non-cash forward accretion income associated with the equity forward sale agreement. WHL recognizes a non-cash charge or income, representing the fair value adjustment of the forward sale agreement based on the changes in the value of the underlying 9.6 million Loblaw common shares. WHL has to pay a forward fee of \$22 million (2019 - \$20 million) to the lender comprised of servicing fees and estimated dividends associated with the underlying 9.6 million Loblaw common shares.

As at December 31, 2020



Recognized in financial statements

- (i) Included the accrued interest of Series A Debenture and Series B Debenture of \$6 million.
- (ii) Calculated as the bid price of Loblaw of \$62.77 multiplied by 9.6 million Loblaw common shares.

The following table summarizes the Company's (excluding Loblaw and Choice Properties) debt in Other and Intersegment:

(\$ millions)	Maturity Date	As at	
		Dec. 31, 2020	Dec. 31, 2019
Series A	2031	\$ 466	\$ 466
Series B	On demand	760	714
Fair value of financial derivatives related to the above debt	n/a	(630)	(537)
Debt associated with equity forward sale agreement		\$ 596	\$ 643
Debentures	2024 - 2033	450	450
Transaction costs and other	n/a	(1)	(1)
Other and Intersegment debt		\$ 1,045	\$ 1,092

Associate Guarantees Loblaw has arranged for its pharmacist owners of corporations licensed to operate retail drug stores at specific location using Loblaw's trademarks ("Associates") to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at year end 2020, Loblaw's maximum obligation in respect of such guarantees was \$580 million (2019 – \$580 million) with an aggregate amount of \$470 million (2019 – \$468 million) in available lines of credit allocated to the Associates by the various banks. As at year end 2020, the Associates had drawn an aggregate amount of \$86 million (2019 – \$18 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.

3.4 Financial Condition

	As at	
	Dec. 31, 2020	Dec. 31, 2019
Adjusted return on average equity attributable to common shareholders of the Company ⁽¹⁾	15.3%	16.1%
Adjusted return on capital ⁽¹⁾	10.8%	10.3%

The adjusted return on average equity attributable to common shareholders of the Company⁽¹⁾ decreased as at year end 2020 compared to 2019 primarily due to a decline in adjusted net earnings available to common shareholders of the Company⁽¹⁾.

The adjusted return on capital⁽¹⁾ increased as at year end 2020 compared to 2019, primarily due to a decrease in total debt and an increase in cash and cash equivalents. The adjusted return on capital⁽¹⁾ was positively impacted by the 53rd week.

3.5 Credit Ratings

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

During 2020, Dominion Bond Rating Service reaffirmed the credit ratings and trend of GWL, and Standard and Poor's reaffirmed the credit ratings and outlook of GWL.

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 (high)	Stable	BBB	Stable
Medium term notes	BBB (high)	Stable	BBB	n/a
Other notes and debentures	BBB (high)	Stable	BBB	n/a
Second Preferred shares, Series B	Pfd-3 (high)	Stable	P-3 (high)	n/a

During 2020, Dominion Bond Rating Service upgraded the credit ratings of Loblaw from BBB (mid) to BBB (high) with a stable trend, and Standard and Poor's reaffirmed the credit ratings and outlook of Loblaw.

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 (high)	Stable	BBB	Stable
Senior unsecured debentures	BBB (high)	Stable	BBB	n/a

During 2020, Dominion Bond Rating Service upgraded the credit ratings of Choice Properties from BBB (mid) to BBB (high) with a stable trend, and Standard and Poor's reaffirmed the credit ratings and outlook of Choice Properties.

Management's Discussion and Analysis

3.6 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, 2020:

(number of common shares)	Authorized	Outstanding
Common shares	Unlimited	152,374,416
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, 2020 and December 31, 2019:

	2020		2019	
(\$ millions except where otherwise indicated)	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	153,667,750	\$ 2,809	153,370,108	\$ 2,766
Issued for settlement of stock options	6,666	1	529,965	47
Purchased and cancelled	(1,300,000)	(24)	(232,323)	(4)
Issued and outstanding, end of year	152,374,416	\$ 2,786	153,667,750	\$ 2,809
Shares held in trusts, beginning of year	(88,832)	–	(120,305)	–
Purchased for future settlement of RSUs and PSUs	(229,000)	(4)	(60,000)	(1)
Released for settlement of RSUs and PSUs	63,307	–	91,473	1
Shares held in trusts, end of year	(254,525)	(4)	(88,832)	–
Issued and outstanding, net of shares held in trusts, end of year	152,119,891	\$ 2,782	153,578,918	\$ 2,809
Weighted average outstanding, net of shares held in trusts	153,406,800		153,537,411	

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 2019, the Board raised the quarterly common share dividend by \$0.010 to \$0.525 per share. In the fourth quarter of 2020, the Board raised the quarterly common share dividend by \$0.025 to \$0.550 per share. The Board declared dividends for the years ended as follows:

(\$)	2020	2019
Dividends declared per share ⁽ⁱ⁾ :		
Common share	\$ 2.125	\$ 2.090
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, 2021 and subsequently paid on January 4, 2021. Dividend declared on Preferred Shares, Series I was paid on December 15, 2020.

The following table summarizes the Company's cash dividends declared subsequent to year end 2020:

(\$)	
Dividends declared per share ⁽ⁱ⁾	
– Common share	\$ 0.550
– 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, 2021. Dividends declared on Preferred Shares, Series I are payable on March 15, 2021.

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.

NORMAL COURSE ISSUER BID PROGRAM The following table summarizes the Company's activity under its NCIB program for the years ended as follows:

(\$ millions except where otherwise indicated)	2020	2019
Purchased for future settlement of RSUs and PSUs (number of shares)	229,000	60,000
Purchased for current settlement of RSUs and DSUs (number of shares)	33,325	64,851
Purchased and cancelled (number of shares)	1,300,000	230,698
Cash consideration paid		
Purchased and held in trusts	\$ (21)	\$ (6)
Purchased and settled	(3)	(6)
Purchased and cancelled	(123)	(25)
Premium charged to retained earnings		
Purchased and held in trusts	\$ 17	\$ 4
Purchased and settled	–	1
Purchased and cancelled	99	21
Reduction in share capital	\$ 24	\$ 4

In the second quarter of 2020, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 7,683,528 of its common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares.

Management's Discussion and Analysis

Pursuant to an exemption order granted by the Ontario Securities Commission, on December 21, 2020, the Company purchased for cancellation 1,300,000 common shares from an entity controlled by Mr. W. Galen Weston ("Mr. Weston"), the then controlling shareholder of the Company. The common shares were purchased at a price approved by the Ontario Securities Commission and count towards the common shares the Company is entitled to purchase under its NCIB, for aggregate cash consideration of \$123 million.

As of December 31, 2020, 1,300,365 common shares were purchased under its current NCIB, including 1,300,000 common shares purchased from Mr. Weston.

3.7 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 3.3, "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, surety bond, securitization of PC Bank's credit card receivables and third-party financing made available to Loblaw's franchisees. As at year end 2020, the aggregate gross potential liability related to the Company's letters of credit was approximately \$626 million (2019 – \$646 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 2020, the guarantee on behalf of PC Bank to MasterCard® was U.S. dollars \$190 million (2019 – U.S. dollars \$190 million).

CPH Master Limited Partnership 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 Choice Properties has under these guarantees, in which case it would have a claim against the underlying property. The estimated amount of debt as at year end 2020 subject to such guarantees, and therefore the maximum exposure to credit risk, was \$36 million (2019 – \$37 million) with an estimated weighted average remaining term of 2.5 years (2019 – 3.5 years).

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 (2019 – \$12 million). Additionally, Loblaw has guaranteed lease obligations of a third-party distributor in the amount of \$3 million (2019 – \$2 million).

CASH COLLATERALIZATION As at year end 2020, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$52 million (2019 – \$45 million) and \$102 million (2019 – \$103 million), respectively. As at year end 2020, GWL and Loblaw had \$52 million (2019 – \$45 million) and a nominal amount (2019 – \$1 million) deposited with major financial institutions, respectively, and classified as security deposits on the consolidated balance sheets.

3.8 Contractual Obligations

The following table summarizes certain of the Company's significant contractual obligations and other obligations as at year end 2020:

SUMMARY OF CONTRACTUAL OBLIGATIONS

(\$ millions)	Payments due by year						Total
	2021	2022	2023	2024	2025	Thereafter	
Total debt ⁽ⁱ⁾	\$ 2,941	\$ 2,274	\$ 2,359	\$ 2,090	\$ 1,510	\$ 8,946	\$ 20,120
Foreign exchange forward contracts	399	28	—	—	—	—	427
Financial liabilities ⁽ⁱⁱ⁾	43	41	45	45	49	245	468
Lease payments	804	684	660	560	487	1,849	5,044
Contracts for purchases of real property and capital investment projects ⁽ⁱⁱⁱ⁾	248	115	87	50	—	2	502
Purchase obligations ^(iv)	464	171	109	61	51	10	866
Total contractual obligations	\$ 4,899	\$ 3,313	\$ 3,260	\$ 2,806	\$ 2,097	\$ 11,052	\$ 27,427

- (i) Includes short-term debt, bank indebtedness, demand deposits, 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, and an independent funding trust, as well as annual payment obligations for consolidated structured entities and mortgages. Variable interest payments are based on the forward rates as at year end 2020.
- (ii) Represents the contractual payments that Loblaw is committed to related to the Choice Properties' dispositions. See Section 1.3 "Other Business Matters", of this MD&A.
- (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 2020, 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.

Management's Discussion and Analysis

4. Quarterly Results of Operations

4.1 Quarterly Financial Information

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. The years ended December 31, 2020 and December 31, 2019 contained 53 weeks and 52 weeks, respectively. 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

(\$ millions except where otherwise indicated)	2020					2019				
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (13 weeks)	Total (audited) (53 weeks)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (audited) (52 weeks)
Revenue	\$ 12,333	\$ 12,357	\$ 16,209	\$ 13,806	\$ 54,705	\$ 11,173	\$ 11,603	\$ 15,226	\$ 12,107	\$ 50,109
Operating income	\$ 598	\$ 401	\$ 983	\$ 906	\$ 2,888	\$ 586	\$ 770	\$ 884	\$ 718	\$ 2,958
Adjusted EBITDA ⁽ⁱ⁾	\$ 1,304	\$ 1,087	\$ 1,715	\$ 1,501	\$ 5,607	\$ 1,158	\$ 1,313	\$ 1,661	\$ 1,351	\$ 5,483
Depreciation and amortization ⁽ⁱ⁾	\$ 560	\$ 566	\$ 729	\$ 572	\$ 2,427	\$ 535	\$ 534	\$ 701	\$ 548	\$ 2,318
Net earnings (loss)	\$ 743	\$ (172)	\$ 498	\$ 513	\$ 1,582	\$ (372)	\$ 353	\$ 264	\$ 578	\$ 823
Net earnings (loss) attributable to shareholders of the Company	\$ 592	\$ (245)	\$ 317	\$ 299	\$ 963	\$ (478)	\$ 194	\$ 83	\$ 443	\$ 242
Net earnings (loss) available to common shareholders of the Company	\$ 582	\$ (255)	\$ 303	\$ 289	\$ 919	\$ (488)	\$ 184	\$ 69	\$ 433	\$ 198
Net earnings (loss) per common share (\$) - basic	\$ 3.79	\$ (1.66)	\$ 1.98	\$ 1.89	\$ 5.99	\$ (3.18)	\$ 1.20	\$ 0.45	\$ 2.82	\$ 1.29
Net earnings (loss) per common share (\$) - diluted	\$ 3.78	\$ (1.66)	\$ 1.96	\$ 1.88	\$ 5.96	\$ (3.18)	\$ 1.19	\$ 0.44	\$ 2.81	\$ 1.26
Adjusted diluted net earnings per common share ⁽ⁱ⁾ (\$)	\$ 1.55	\$ 0.93	\$ 2.35	\$ 2.03	\$ 6.85	\$ 1.30	\$ 1.70	\$ 2.54	\$ 1.69	\$ 7.24
Loblaw's food retail same-store sales growth	9.6%	10.0%	6.9%	8.6%	8.6%	2.0%	0.6%	0.1%	1.9%	1.1%
Loblaw's drug retail same-store sales growth (decline)	10.7%	(1.1)%	6.1%	3.7%	4.9%	2.2%	4.0%	4.1%	3.9%	3.6%
Choice Properties' Funds From Operations per unit - diluted	\$ 0.244	\$ 0.201	\$ 0.238	\$ 0.239	\$ 0.922	\$ 0.252	\$ 0.248	\$ 0.250	\$ 0.237	\$ 0.987
Choice Properties' Net Operating Income (cash basis)	\$ 232	\$ 216	\$ 230	\$ 230	\$ 908	\$ 233	\$ 235	\$ 239	\$ 235	\$ 942
Weston Foods' sales growth (decline)	3.7%	(14.0)%	(7.2)%	0.2 %	(4.3)%	(0.2)%	2.4%	1.3%	3.0%	1.6%
Weston Foods' sales growth (decline) excluding impact of foreign currency translation	3.7%	(15.7)%	(7.7)%	1.0 %	(4.7)%	(3.1)%	0.2%	0.6%	3.2%	0.2%

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

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, the timing of holidays and the 53rd week in the fourth quarter of fiscal year 2020. The impact of Loblaw seasonality is greatest in the fourth quarter and least in the first quarter. The impact of Weston Foods seasonality is greatest in the third and fourth quarters and least in the first quarter.

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

- at Loblaw, revenue was unusually high due to COVID-19 in each quarter of 2020 compared to the same periods in 2019, macro-economic conditions impacting food and drug retail prices, and the consolidation of franchises. Over the past eight quarters, Loblaw's net retail square footage increased by 0.6 million square feet to 71.0 million square feet.
- Choice Properties revenue was impacted by an increase in base rents and recovery of property operating costs from existing properties and additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space, and foregone revenue from sold properties in 2019 and 2020.
- Weston Foods sales were impacted by changes in volume, product rationalization and the impact of pricing and changes in sales mix when compared to the same periods in the prior year; in the first and second quarter of 2019 sales were impacted by the loss of sales from key customers; and in the second, third and fourth quarters of 2020 sales decreased in certain retail categories and foodservice channels as a result of the COVID-19 pandemic.

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:

- Loblaw year-over-year quarterly underlying operating performance during 2020 reflected changes in the underlying operating performance of Loblaw retail due to COVID-19 with increased demand resulting in increased cost of inventories sold and increased SG&A as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers; the impact of Loblaw's store closure plan; cost savings and operating efficiencies from Process and Efficiency initiatives and benefits from strategic initiatives; and the favourable impact of the repurchases of Loblaw common shares for cancellation;
- Choice Properties year-over-year quarterly underlying operating performance during 2020 was impacted by COVID-19 starting in the second quarter of 2020 resulting in an increase in expected credit losses;
- Weston Foods year-over-year quarterly underlying operating performance during 2020 reflected the decline in sales starting in the second quarter of 2020 mainly due to the impact of COVID-19 and related costs, and higher input costs, partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program, cost savings initiatives and a decrease in performance related compensation accruals;
- certain one-time gains recorded on consolidation in Other and Intersegment related to Choice Properties' transactions in the third quarter of 2020, as described in Section 1.3 "Consolidated Other Business Matters";
- year-over-year quarterly adjusted net interest and other financing charges⁽¹⁾ increased during 2020 due to higher interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on the Choice Properties' transactions, as discussed in Section 1.3 "Consolidated Other Business Matters"; higher interest expense in the Choice Properties segment including Other and Intersegment adjustments related to higher distributions from newly issued Trust Units in the second quarter of 2019 and third quarter of 2020; and higher interest expense in Loblaw financial services due to an increased holding in liquid asset portfolio; partially offset by a decrease in interest expense in the Choice Properties segment primarily due to lower overall debt levels and the completion of refinancing activity over the last year at lower interest rates and reduction in interest expense at Loblaw from lease liabilities;
- year-over-year quarterly adjusted effective tax rate⁽¹⁾ was relatively flat in the first quarter of 2020 and increased in the second quarter primarily due to the impact of certain non-deductible items, in the third quarter of 2020 the adjusted effective tax rate⁽¹⁾ increased year-over-year due to the prior year impact of the non-taxable portion of the gain from the Choice Properties' portfolio transaction, and decreased in the fourth quarter of 2020 due to the impact of the non-taxable portion of the gain from the Choice Properties' transactions completed in the fourth quarter of 2020.

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 1.2, "Selected Annual Information" and Section 14, "Non-GAAP Financial Measures", of this MD&A.

Management's Discussion and Analysis

4.2 Fourth Quarter Results

Loblaw delivered positive results with strong same-store and e-commerce sales growth in a quarter heavily impacted by COVID-19. Costs remained elevated to ensure the safety and security of customers and colleagues. Loblaw continued to deliver value in categories that mean the most to its customers and focused on accelerating its three strategic growth areas of Everyday Digital Retail, Payments and Rewards, and Connected Healthcare Network.

Choice Properties generated solid results in the fourth quarter, reflecting stable earnings as it collected 98% of contractual rents. This strong performance was underpinned by improvements to the overall quality of the portfolio through effective capital recycling. In the fourth quarter, Choice Properties completed approximately \$550 million of transactions, including four acquisitions and five dispositions, and remained disciplined in its capital spending on development initiatives. Choice Properties remains confident that this deliberate approach to financial and asset management will enable it to continue to manage the risks and uncertainties associated with the COVID-19 pandemic and position it for long-term growth.

Weston Foods' sales and earnings improved in the fourth quarter compared to the third quarter despite the negative impact of COVID-19. The reintroduction of government-mandated closures of non-essential businesses, stay-at-home orders and mandatory social distancing restrictions in several regions led to lower volumes, with the negative impact being more significant in the second half of the quarter. These pressures were offset in part by the on-going cost savings and productivity improvements and the benefits realized from Weston Foods' transformation program, as well as better sales performance in certain retail categories and foodservice channels. As a result, Weston Foods remains well-positioned to achieve long-term growth through its strategic framework while delivering superior products and services to its customers and consumers.

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.

Unless otherwise indicated, the Company's results include the 53rd week in the fourth quarter of 2020 when compared to the fourth quarter of 2019 as a result of the Company's reporting calendar.

The Company's results reflect the impact of COVID-19 and the year-over-year impact of the fair value adjustment of Trust Unit liability.

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Revenue	\$ 13,806	\$ 12,107	\$ 1,699	14.0%
Operating income	\$ 906	\$ 718	\$ 188	26.2%
Adjusted EBITDA ⁽¹⁾	\$ 1,501	\$ 1,351	\$ 150	11.1%
Adjusted EBITDA margin ⁽¹⁾	10.9%	11.2%		
Depreciation and amortization⁽ⁱ⁾	\$ 572	\$ 548	\$ 24	4.4%
Net interest expense and other financing charges	\$ 245	\$ 7	\$ 238	3,400.0%
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 286	\$ 277	\$ 9	3.2%
Income taxes	\$ 148	\$ 133	\$ 15	11.3%
Adjusted income taxes ⁽¹⁾	\$ 185	\$ 171	\$ 14	8.2%
Adjusted effective tax rate ⁽¹⁾	24.1%	26.5%		
Net earnings attributable to shareholders of the Company	\$ 299	\$ 443	\$ (144)	(32.5)%
Net earnings available to common shareholders of the Company	\$ 289	\$ 433	\$ (144)	(33.3)%
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 312	\$ 262	\$ 50	19.1%
Diluted net earnings per common share (\$)	\$ 1.88	\$ 2.81	\$ (0.93)	(33.1)%
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 2.03	\$ 1.69	\$ 0.34	20.1%
Dividends declared per share (\$):				
Common shares	\$ 0.550	\$ 0.525		
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 \$117 million (2019 – \$116 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$8 million (2019 – \$3 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY

In the fourth quarter of 2020, the Company recorded net earnings available to common shareholders of the Company of \$289 million (\$1.88 per common share), a decrease of \$144 million (\$0.93 per common share) compared to the fourth quarter of 2019. The decrease was due to the unfavourable year-over-year net impact of adjusting items totaling \$194 million (\$1.27 per common share), partially offset by an improvement of \$50 million (\$0.34 per common share) in the consolidated underlying operating performance of the Company described below.

- The unfavourable year-over-year net impact of adjusting items totaling \$194 million (\$1.27 per common share) was due to:
 - the unfavourable year-over-year impact of the fair value adjustment of the Trust Unit liability of \$223 million (\$1.44 per common share) as a result of the increase in Choice Properties' unit price in the fourth quarter of 2020; and
 - the unfavourable year-over-year impact of asset impairments, net of recoveries of \$9 million (\$0.08 per common share);

Management's Discussion and Analysis

partially offset by,

- the favourable year-over-year impact of the fair value adjustment on investment properties of \$38 million (\$0.25 per common share).

- The improvement in the Company's consolidated underlying operating performance of \$50 million (\$0.34 per common share) was due to:
 - the favourable underlying operating performance of Loblaw including the impact of COVID-19 and related costs;
 - the favourable underlying operating performance of Weston Foods including the impact of COVID-19 and related costs; and
 - the decrease in the adjusted effective tax rate⁽¹⁾ mainly due to the favourable impact of the non-taxable portion of the gain from the Choice Properties' transactions completed in the fourth quarter of 2020 and the year-over-year impact of certain non-deductible tax items;
 partially offset by,
 - an increase in adjusted net interest expense and other financing charges⁽¹⁾; and
 - an increase in depreciation and amortization.

Adjusted net earnings available to common shareholders of the Company⁽¹⁾ in the fourth quarter of 2020 were \$312 million (\$2.03 per common share), an increase of \$50 million (\$0.34 per common share), or 19.1%, compared to the fourth quarter of 2019 due to the improvement in the Company's consolidated underlying operating performance described above. Excluding the impact of the 53rd week of \$21 million (\$0.14 per common share), adjusted net earnings available to common shareholders of the Company⁽¹⁾ increased by \$29 million (\$0.20 per common share), or 11.1%, compared to the same period in 2019.

REVENUE

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Loblaw	\$ 13,286	\$ 11,590	\$ 1,696	14.6%
Choice Properties	\$ 322	\$ 318	\$ 4	1.3%
Weston Foods	\$ 523	\$ 522	\$ 1	0.2%
Intersegment	\$ (325)	\$ (323)		
Consolidated	\$ 13,806	\$ 12,107	\$ 1,699	14.0%

Revenue in the fourth quarter of 2020 was \$13,806 million, an increase of \$1,699 million, or 14.0%, compared to the fourth quarter of 2019. The increase in revenue in the fourth quarter of 2020 was impacted by each of the Company's reportable operating segments as follows:

- Positively by 14.0% due to revenue growth of 14.6% at Loblaw. The increase was primarily driven by retail sales, partially offset by a decrease in financial services revenue. Retail sales increased by \$1,722 million, or 15.2%, compared to the fourth quarter of 2019. Excluding the consolidation of franchises, retail sales increased by \$1,601 million, or 14.6%, which included the impact of the 53rd week of \$845 million. The increase was primarily due to positive same-store sales growth and a net increase in retail square footage. Food retail same-store sales growth was 8.6% for the quarter. Food retail same-store sales growth was positively impacted by COVID-19. On a comparable week basis food retail basket size increased and traffic decreased in the quarter. Loblaw's food retail average article price was higher by 3.9% (2019 – 0.8%), which reflects the year-over-year growth in food retail revenue over the average number of articles sold in Loblaw's stores in the quarter. The increase in average article price was due to sales mix. Drug retail same-store sales growth was 3.7% for the quarter.
- Positively by a nominal amount due to growth in revenue of 1.3% at Choice Properties. The increase of \$4 million was primarily driven by development transfers and acquisitions, partially offset by the foregone revenue from sold properties.
- Positively by nominal amount due to growth in sales of 0.2% at Weston Foods. Sales included the positive impact of the 53rd week of approximately 5.6% and the negative impact of foreign currency translation of approximately 0.8%. Excluding the favourable impact of the 53rd week and the negative impact of foreign currency translation, sales decreased by 4.6%. Sales were impacted by a decrease in volumes in certain retail categories and foodservice channels as a result of the COVID-19 pandemic, the unfavourable impact of product rationalization and the combined negative impact of pricing and changes in sales mix.

OPERATING INCOME

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Loblaws	\$ 700	\$ 539	\$ 161	29.9%
Choice Properties	\$ 332	\$ 220	\$ 112	50.9%
Weston Foods	\$ 35	\$ 27	\$ 8	29.6%
Other and Intersegment	\$ (161)	\$ (68)		
Consolidated	\$ 906	\$ 718	\$ 188	26.2%

Operating income in the fourth quarter of 2020 was \$906 million compared to \$718 million in the fourth quarter of 2019, an increase of \$188 million, or 26.2%. The increase was mainly attributable to the improvement in underlying operating performance of \$132 million which included the favourable impact of the 53rd week of \$71 million, and the favourable year-over-year net impact of adjusting items totaling \$56 million described below:

- the improvement in underlying operating performance of \$132 million was due to:
 - the favourable underlying operating performance of Loblaw; and
 - the favourable underlying operating performance of Weston Foods.
- the favourable year-over-year net impact of adjusting items totaling \$56 million was primarily due to:
 - the favourable year-over-year impact of the fair value adjustment of investment properties of \$42 million;
 - the favourable year-over-year impact of asset impairments, net of recoveries of \$14 million; and
 - the favourable year-over-year impact of restructuring and other related costs of \$7 million;
 partially offset by,
 - the unfavourable year-over-year impact of Loblaw's fair value adjustment on non-operating properties of \$13 million.

ADJUSTED EBITDA⁽¹⁾

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Loblaws	\$ 1,330	\$ 1,203	\$ 127	10.6%
Choice Properties	\$ 226	\$ 225	\$ 1	0.4 %
Weston Foods	\$ 79	\$ 56	\$ 23	41.1%
Other and Intersegment	\$ (134)	\$ (133)		
Consolidated	\$ 1,501	\$ 1,351	\$ 150	11.1%

Adjusted EBITDA⁽¹⁾ in the fourth quarter of 2020 was \$1,501 million compared to \$1,351 million in the fourth quarter of 2019, an increase of \$150 million, or 11.1%. The increase in adjusted EBITDA⁽¹⁾ was impacted by each of the Company's reportable operating segments as follows:

- Positively by 9.4% due to an increase of 10.6% in adjusted EBITDA(1) at Loblaw, primarily driven by improvements in Loblaw retail, which included the impact of the 53rd week of \$67 million, partially offset by a decline in Loblaw financial services. The improvement in Loblaw retail adjusted EBITDA(1) was primarily driven by an increase in retail gross profit, partially offset by an increase in retail SG&A.
- Positively by a nominal amount due to an increase of 0.4% in adjusted EBITDA(1) at Choice Properties, primarily driven by development transfers and acquisitions, partially offset by the foregone revenue from sold properties and an increase in expected credit loss provisions related to tenant receivables.
- Positively by 1.7% due to an increase of 41.1% in adjusted EBITDA(1) at Weston Foods. Excluding the favourable impact of the 53rd week of \$4 million, adjusted EBITDA(1) increased by \$19 million, or 33.9%. The increase was driven by the net benefits realized from Weston Foods' transformation program, productivity improvements, cost savings initiatives, and a decrease in performance related compensation accruals, partially offset by the decline in sales as described above and an increase in COVID-19 related expenses.

Management's Discussion and Analysis

DEPRECIATION AND AMORTIZATION

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Loblaw	\$ 609	\$ 589	\$ 20	3.4%
Choice Properties	\$ 1	\$ —	\$ 1	100.0 %
Weston Foods	\$ 41	\$ 36	\$ 5	13.9%
Other and Intersegment	\$ (79)	\$ (77)		
Consolidated	\$ 572	\$ 548	\$ 24	4.4%

Depreciation and amortization in the fourth quarter of 2020 was \$572 million, an increase of \$24 million compared to the fourth quarter of 2019. Depreciation and amortization in the fourth quarter included \$117 million (2019 – \$116 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart recorded by Loblaw and \$8 million (2019 – \$3 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs. Excluding these amounts, depreciation and amortization increased in the fourth quarter by \$18 million driven by an increase in depreciation from the consolidation of Loblaw franchises and an increase in Loblaw's IT assets.

NET INTEREST EXPENSE AND OTHER FINANCING CHARGES

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Net interest expense and other financing charges	\$ 245	\$ 7	\$ 238	3,400.0%
Add: Fair value adjustment of the Trust Unit liability	(20)	203	(223)	(109.9)%
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	61	67	(6)	(9.0)%
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 286	\$ 277	\$ 9	3.2%

Net interest expense and other financing charges in the fourth quarter of 2020 were \$245 million, an increase of \$238 million compared to the fourth quarter of 2019. The increase was primarily due to the unfavourable year-over-year impact of adjusting items totaling \$229 million, itemized in the table above, and an increase in adjusted net interest expense and other financing charges⁽¹⁾ of \$9 million. Included in the adjusting items was the unfavourable year-over-year fair value adjustment of the Trust Unit liability of \$223 million, as a result of the increase in Choice Properties' unit price in the fourth quarter of 2020. The Company is exposed to market price fluctuations as a result of units held by unitholders other than the Company which are redeemable for cash at the option of the holder and are presented as a liability on the Company's consolidated balance sheet.

Adjusted net interest expense and other financing charges⁽¹⁾ increased by \$9 million which included the impact of the 53rd week of \$6 million. Excluding the impact of the 53rd week, adjusted net interest expense and other financing charges⁽¹⁾ increased by \$3 million primarily driven by:

- higher interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on the Choice Properties' transactions, as discussed in Section 1.3 "Consolidated Other Business Matters"; and
- higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions from newly issued Trust Units in the third quarter of 2020; partially offset by,
- a reduction in interest expense at Loblaw from lease liabilities and lower interest expense from Loblaw financial services.

INCOME TAXES

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Income taxes	\$ 148	\$ 133	\$ 15	11.3%
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽ⁱ⁾	33	38	(5)	(13.2)%
Remeasurement of deferred tax balances	(2)	—	(2)	(100.0)%
Outside basis difference in certain Loblaw shares	4	—	4	100.0%
Statutory corporate income tax rate change	2	—	2	100.0%
Adjusted income taxes ⁽¹⁾	\$ 185	\$ 171	\$ 14	8.2%
Effective tax rate applicable to earnings before taxes	22.4%	18.7%		
Adjusted effective tax rate applicable to adjusted earnings before taxes ⁽¹⁾	24.1%	26.5%		

(i) See the adjusted EBITDA⁽¹⁾ table and the adjusted net interest expense and other financing charges⁽¹⁾ table included in Section 14, "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 2020 was 22.4%, compared to 18.7% in the fourth quarter of 2019. The increase was primarily attributable to a decrease in the non-taxable fair value adjustment of the Trust Unit liability, partially offset by the impact of the non-taxable portion of the gain from the sale of properties by Choice Properties in the fourth quarter of 2020, as described in Section 1.3 "Consolidated Other Business Matters", and the impact of certain other non-deductible items.

The adjusted effective tax rate⁽¹⁾ for the fourth quarter of 2020 was 24.1%, compared to 26.5% in the fourth quarter of 2019. The decrease was primarily attributable to the impact of the non-taxable portion of the gain from Choice Properties' transactions, and the impact of certain other non-deductible items.

CASH FLOWS

(unaudited) (\$ millions)	Quarters Ended		
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	Change
Cash and cash equivalents, beginning of period	\$ 2,436	\$ 1,495	\$ 941
Cash flows from operating activities	\$ 1,574	\$ 1,272	\$ 302
Cash flows used in investing activities	\$ (649)	\$ (505)	\$ (144)
Cash flows used in financing activities	\$ (779)	\$ (427)	\$ (352)
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ (1)	\$ (1)	\$ —
Cash and cash equivalents, end of period	\$ 2,581	\$ 1,834	\$ 747

CASH FLOWS FROM OPERATING ACTIVITIES Cash flows from operating activities were \$1,574 million in the fourth quarter of 2020, an increase of \$302 million compared to the fourth quarter of 2019. The increase in cash flows from operating activities was primarily due to a decrease in credit card receivables as a result of higher payment rates compared to prior year and higher cash earnings.

Management's Discussion and Analysis

CASH FLOWS USED IN INVESTING ACTIVITIES Cash flows used in investing activities were \$649 million in the fourth quarter of 2020, an increase of \$144 million compared to the fourth quarter of 2019. The increase in cash flows used in investing activities was primarily due to an increase in short-term investments.

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, 2020 (13 weeks)	Dec. 31, 2019 ⁽⁴⁾ (12 weeks)
Loblaw	\$ 418	\$ 426
Choice Properties	161	55
Weston Foods	53	70
Other	3	5
Total capital investments	\$ 635	\$ 556

CASH FLOWS USED IN FINANCING ACTIVITIES Cash flows used in financing activities were \$779 million in the fourth quarter of 2020, an increase of \$352 million compared to the fourth quarter of 2019. The increase is primarily due to higher net repayments of debt in the current year, a decrease in short-term debt and higher repurchases of Loblaw common shares and the Company's common shares under their respective NCIB programs, partially offset by proceeds received from Choice Properties' transactions in the current year.

FREE CASH FLOW⁽¹⁾

(unaudited) (\$ millions)	Quarters Ended		
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 ⁽⁴⁾ (12 weeks)	Change
Cash flows from operating activities	\$ 1,574	\$ 1,272	\$ 302
Less: Interest paid	180	181	(1)
Capital Investments ⁽ⁱ⁾	635	556	79
Lease payments, net	192	131	61
Free cash flow ⁽¹⁾	\$ 567	\$ 404	\$ 163

(i) During 2019, additions to fixed assets in Loblaw includes prepayments that were made in 2018 and transferred from other assets in 2019 of \$3 million.

The year-over-year increase in free cash flow⁽¹⁾ in the fourth quarter of 2020 was \$163 million, primarily due to a decrease in credit card receivables as a result of higher payment rates compared to prior year and higher cash earnings.

5. Fourth Quarter Results of Reportable Operating Segments

The following discussion provides details of the 2020 fourth quarter results of operations of each of the Company's reportable operating segments.

5.1 Loblaw Fourth Quarter Operating Results

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Revenue	\$ 13,286	\$ 11,590	\$ 1,696	14.6%
Operating income	\$ 700	\$ 539	\$ 161	29.9%
Adjusted EBITDA ⁽ⁱ⁾	\$ 1,330	\$ 1,203	\$ 127	10.6%
Adjusted EBITDA margin ⁽ⁱ⁾	10.0%	10.4%		
Depreciation and amortization ⁽ⁱ⁾	\$ 609	\$ 589	\$ 20	3.4%

(i) Depreciation and amortization includes \$117 million (2019 – \$116 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

Unless otherwise indicated, Loblaw's operating results include the 53rd week, the consolidation of franchises, and impacts of COVID-19.

REVENUE Loblaw revenue in the fourth quarter of 2020 was \$13,286 million, an increase of \$1,696 million, or 14.6%, compared to the fourth quarter of 2019. The increase was primarily driven by retail sales, partially offset by a decrease in financial services revenue.

Retail sales increased by \$1,722 million, or 15.2%, compared to the fourth quarter of 2019, which included the impact of the 53rd week of \$878 million. Food retail sales were \$9,302 million (2019 – \$7,960 million) and drug retail sales were \$3,741 million (2019 – \$3,361 million).

Excluding the consolidation of franchises, retail sales increased by \$1,601 million, or 14.6%, which included the impact of the 53rd week of \$845 million, primarily driven by the following factors:

- food retail same-store sales growth was 8.6% for the quarter. Food retail same-store sales growth was positively impacted by COVID-19. On a comparable week basis food retail basket size increased and traffic decreased in the quarter;
- Loblaw's food retail average article price was higher by 3.9% (2019 – 0.8%), which reflects the year-over-year growth in food retail revenue over the average number of articles sold in Loblaw's stores in the quarter. The increase in average article price was due to sales mix; and
- drug retail same-store sales growth was 3.7% for the quarter. Pharmacy same-store sales growth was 5.0% and front store same-store sales growth was 2.8%.

In 2020, 19 food and drug stores were opened and 9 food and drug stores were closed, resulting in a net increase in retail square footage of 0.2 million square feet, or 0.3%.

Financial services revenue in the fourth quarter of 2020 decreased by \$17 million compared to the fourth quarter of 2019 mainly due to lower interest income from lower volume of credit card receivables, and lower credit card related fees primarily driven by lower customer spending. The decrease was partially offset by higher sales attributable to *The Mobile Shop*, and higher interchange income due to prior year impact of a reclassification between revenue and expense of \$19 million with no impact to earnings before income tax.

OPERATING INCOME Loblaw operating income in the fourth quarter of 2020 was \$700 million, an increase of \$161 million compared to the fourth quarter of 2019, which included the impact of the 53rd week of \$67 million. The increase included an improvement in underlying operating performance of \$108 million and the favourable year-over-year net impact of adjusting items totaling \$53 million, as described below:

- the improvement in underlying operating performance of \$108 million was primarily due to an improvement in retail which included the favourable contribution from the consolidation of franchises of \$34 million. The improvement in the underlying operating performance of retail was positively impacted by the 53rd week. This was partially offset by the performance from financial services. In the fourth quarter of 2020, Loblaw incurred approximately \$45 million in COVID-19 related costs in the quarter to ensure the safety and security of customers and colleagues.

Management's Discussion and Analysis

- the favourable year-over-year net impact of adjusting items totaling \$53 million was primarily due to the following:
 - the favourable year-over-year change in asset impairments, net of recoveries of \$58 million; and
 - the favourable year-over-year impact of restructuring and other related costs of \$14 million;partially offset by,
 - the unfavourable year-over-year impact of Loblaw's fair value adjustment on non-operating properties of \$13 million; and
 - the unfavourable impact of reversal of certain prior period items in 2019 of \$7 million.

ADJUSTED EBITDA⁽¹⁾ Loblaw adjusted EBITDA⁽¹⁾ in the fourth quarter of 2020 was \$1,330 million. When compared to the fourth quarter of 2019, this represented an increase of \$127 million, or 10.6%, which included the impact of the 53rd week of \$67 million. The increase was primarily due to the improved underlying operating performance in retail, partially offset by the decline in financial services.

Retail adjusted EBITDA⁽¹⁾ in the fourth quarter of 2020 increased by \$135 million, including the favourable impact of the consolidation of franchises of \$37 million and was driven by an increase in retail gross profit, partially offset by an increase in retail SG&A.

- Retail gross profit percentage of 29.4% decreased by 40 basis points compared to the fourth quarter of 2019. Excluding the consolidation of franchises, retail gross profit percentage was 26.9%, a decrease of 80 basis points compared to the fourth quarter of 2019. Food retail margins were negatively impacted as a result of COVID-19 related changes in sales mix and competitive pricing. Drug retail margins were negatively impacted as a result of COVID-19 related changes in front store sales mix. Excluding the 53rd week, retail gross profit percentage decreased by 70 basis points.
- Excluding the consolidation of franchises, retail SG&A increased by \$251 million and SG&A as a percentage of sales was 17.4%, a decrease of 20 basis points compared to the fourth quarter of 2019. The favourable decrease of 20 basis points was primarily related to sales leverage as well as process and efficiency gains, which were partially offset by COVID-19 related costs and incremental e-commerce labour costs as a result of increased online sales.

Financial services adjusted EBITDA⁽¹⁾ decreased by \$8 million compared to the fourth quarter of 2019, primarily driven by lower revenue as described above, partially offset by lower credit losses from the decrease in expected credit losses from an improving economic outlook and lower contractual charge-off, and lower customer acquisitions costs.

Loblaw adjusted EBITDA⁽¹⁾ was not impacted by any sale and leaseback of properties to Choice Properties in the fourth quarter of 2019 and 2020.

DEPRECIATION AND AMORTIZATION Loblaw's depreciation and amortization in the fourth quarter of 2020 was \$609 million, an increase of \$20 million compared to the fourth quarter of 2019. The increase in depreciation and amortization in the fourth quarter of 2020 was primarily driven by the consolidation of franchises and an increase in IT assets.

Depreciation and amortization in the fourth quarter of 2020 included \$117 million (2019 – \$116 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart.

LOBLAW OTHER BUSINESS MATTERS

For details see Section 2.1, "Loblaw Operating Results", of this MD&A.

5.2 Choice Properties Fourth Quarter Operating Results

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (12 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Revenue	\$ 322	\$ 318	\$ 4	1.3%
Net interest expense (income) and other financing charges ⁽ⁱ⁾	\$ 217	\$ (74)	\$ 291	393.2%
Net income	\$ 117	\$ 294	\$ (177)	(60.2)%
Funds from operations ⁽¹⁾⁽ⁱⁱ⁾	\$ 172	\$ 166	\$ 6	3.6%

(i) Net interest expense (income) and other financing charges includes a fair value adjustment on Exchangeable Units.

(ii) Funds from operations is calculated in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019.

REVENUE Revenue in the fourth quarter of 2020 was \$322 million, an increase of \$4 million, or 1.3%, compared to the fourth quarter of 2019, and included \$180 million (2019 – \$178 million) generated from tenants within Loblaw retail. The increase was primarily driven by development transfers and acquisitions, partially offset by the foregone revenue from sold properties.

NET INTEREST EXPENSE AND OTHER FINANCING CHARGES Net interest expense and other financing charges in the fourth quarter of 2020 were \$217 million compared to net interest income and other financing charges of \$74 million in the fourth quarter of 2019. The increase of \$291 million was primarily driven by the unfavourable year-over-year impact of the fair value adjustment on Exchangeable Units of \$294 million.

NET INCOME Net income in the fourth quarter of 2020 was \$117 million, a decrease of \$177 million compared to the fourth quarter of 2019. The decrease was primarily driven by:

- the unfavourable impact of higher net interest expense and other financing charges described above; and
 - an increase in expected credit loss provisions related to tenant receivables;
- partially offset by,
- the favourable year-over-year impact of the fair value adjustment on investment properties.

FUNDS FROM OPERATIONS⁽¹⁾ Funds from Operations⁽¹⁾ in the fourth quarter of 2020 was \$172 million, an increase of \$6 million compared to the fourth quarter of 2019, primarily driven by non-recurring activity in the prior year related to a reimbursement to Loblaw and lower borrowing and general and administrative costs, partially offset by an increase in expected credit loss provisions related to tenant receivables.

CHOICE PROPERTIES OTHER BUSINESS MATTERS

For details see Section 2.2 "Choice Properties Operating Results", of this MD&A.

5.3 Weston Foods Fourth Quarter Operating Results

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	\$ Change	% Change
Sales	\$ 523	\$ 522	\$ 1	0.2%
Operating income	\$ 35	\$ 27	\$ 8	29.6%
Adjusted EBITDA ⁽¹⁾	\$ 79	\$ 56	\$ 23	41.1%
Adjusted EBITDA margin ⁽¹⁾	15.1%	10.7%		
Depreciation and amortization ⁽ⁱ⁾	\$ 41	\$ 36	\$ 5	13.9%

(i) Depreciation and amortization includes \$8 million (2019 – \$3 million) of accelerated depreciation related to restructuring and other related costs.

Unless otherwise indicated, Weston Foods' operating results include the 53rd week and the impacts of COVID-19.

SALES Weston Foods sales in the fourth quarter of 2020 were \$523 million, an increase of \$1 million, or 0.2%, compared to the fourth quarter of 2019. Sales included the positive impact of the 53rd week of approximately 5.6%, and the negative impact of foreign exchange of approximately 0.8%. Excluding the favourable impact of the 53rd week and the negative impact of foreign currency translation, sales decreased by 4.6%. Sales were impacted by a decrease in volumes in certain retail categories and

Management's Discussion and Analysis

foodservice channels as a result of the COVID-19 pandemic, the unfavourable impact of product rationalization and the combined negative impact of pricing and changes in sales mix.

OPERATING INCOME Weston Foods operating income in the fourth quarter of 2020 was \$35 million, an increase of \$8 million, or 29.6%, compared to the fourth quarter of 2019, which included the positive impact of the 53rd week of \$4 million. The increase was due to the improvement in underlying operating performance of \$23 million and the unfavourable year-over-year net impact of adjusting items totaling \$15 million. The year-over-year net impact of adjusting items included the following:

- the unfavourable year-over-year impact of restructuring and other related costs of \$17 million; and
 - the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$2 million;
- partially offset by,
- the favourable year-over-year impact of inventory losses, net of recoveries, of \$4 million.

ADJUSTED EBITDA⁽¹⁾ Weston Foods adjusted EBITDA⁽¹⁾ in the fourth quarter of 2020 was \$79 million compared to \$56 million in the fourth quarter of 2019, an increase of \$23 million, or 41.1%. Excluding the favourable impact of the 53rd week of \$4 million, adjusted EBITDA⁽¹⁾ increased by \$19 million, or 33.9%. The increase was driven by the net benefits realized from Weston Foods' transformation program, productivity improvements, cost savings initiatives, and a decrease in performance related compensation accruals, partially offset by the decline in sales as described above and an increase in COVID-19 related expenses.

Weston Foods adjusted EBITDA margin⁽¹⁾ in the fourth quarter of 2020 increased to 15.1% compared to 10.7% in fourth quarter of 2019. The improvement in adjusted EBITDA margin⁽¹⁾ in the fourth quarter of 2020 was driven by the factors described above.

DEPRECIATION AND AMORTIZATION Weston Foods depreciation and amortization in the fourth quarter of 2020 was \$41 million, an increase of \$5 million compared to the fourth quarter of 2019. Depreciation and amortization included \$8 million (2019 – \$3 million) of accelerated depreciation related to Weston Foods' transformation program. Excluding this amount, depreciation and amortization was flat compared to the fourth quarter of 2019.

WESTON FOODS OTHER BUSINESS MATTERS

For details see Section 2.3, "Weston Foods Operating Results", of this MD&A.

6. 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 ("CEO") and Chief Financial Officer ("CFO") 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, 2020.

7. Internal Control Over Financial Reporting

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

As required by NI 52-109, the Chairman and CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2020.

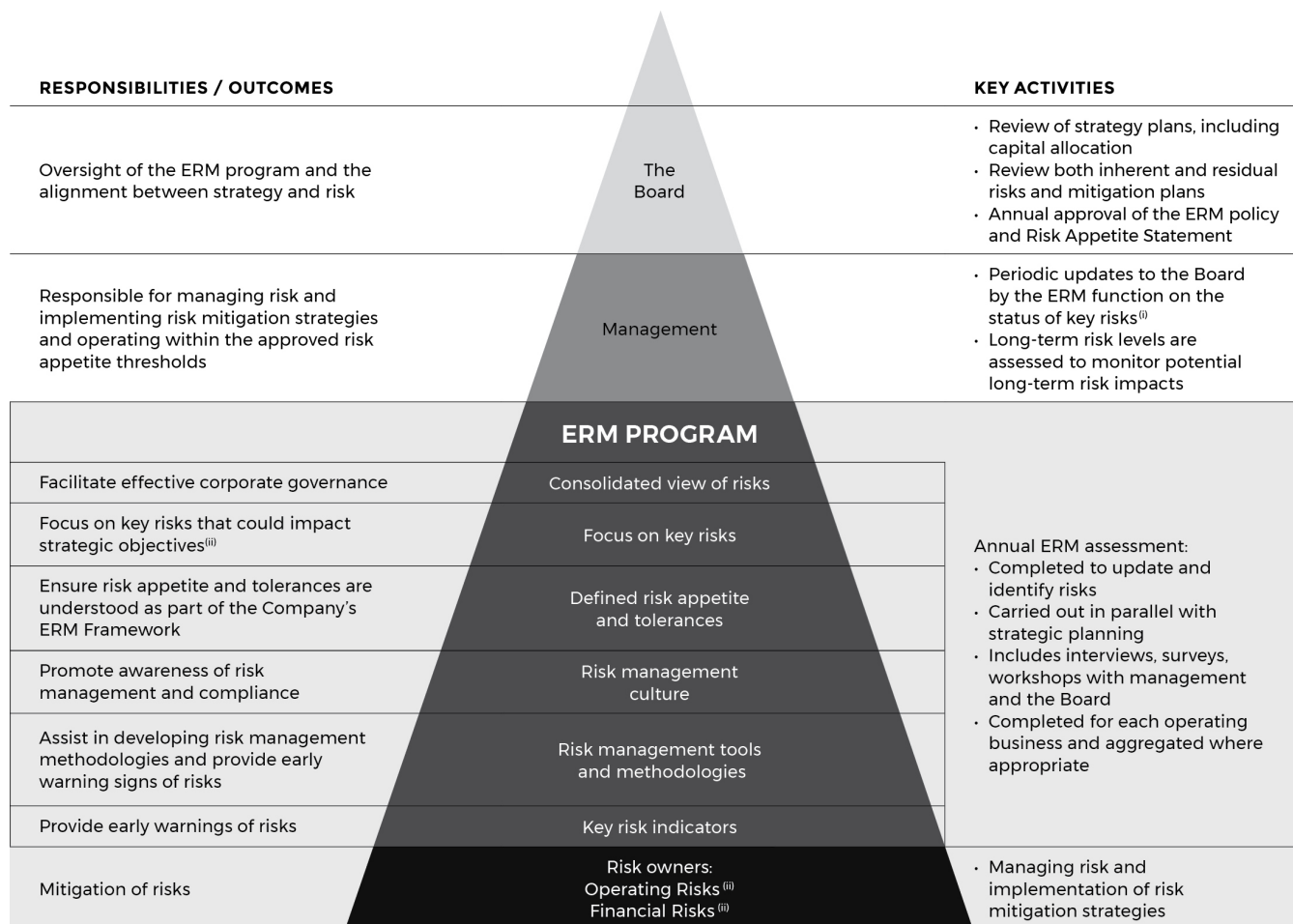
In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Projections of any evaluations of 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 2020 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

8. Enterprise Risks and Risk Management

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

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



- (i) Risks are assessed and evaluated based on the Company's vulnerability to the risk and the potential impact that the underlying risks would have on the Company's ability to execute on its strategies and achieve its objectives.
- (ii) Any of the key risks have the potential to negatively affect the Company and its financial performance. The Company has risk management strategies in place for key risks. However, there can be no assurance that the risks will be mitigated or will not materialize or that events or circumstances will not occur that could adversely affect the reputation, operations or financial condition or performance of the Company.

Management's Discussion and Analysis

8.1 COVID-19 Risks and Risk Management

On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic. Since the onset of the pandemic, the Company and its operating segments have taken and will continue to take actions to mitigate the effects of COVID-19 on day-to-day business operations, with the best interests of its employees, customers, tenants, suppliers and other stakeholders at the crux of every action taken.

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

Loblaw remains committed to keeping its grocery stores and pharmacies, including its Shoppers Drug Mart locations, open and stocked, all while ensuring appropriate measures are in place to protect the health and safety of its frontline colleagues and customers. A dedicated COVID-19 response team established by its management in the early stages of the pandemic is coordinating the Loblaw's crisis management response. Loblaw is also dedicated to promoting the health of the communities in which it operates and has played an important role in asymptomatic COVID-19 testing in Canada.

Choice Properties introduced protocols to protect its employees, tenants and guests including mandating that employees work from home to the full extent possible, increasing sanitation and health and safety measures at its properties and restricting access to its office building. Choice Properties implemented additional safety measures at all of its properties, including increased frequency in cleaning and disinfecting as well as physical distancing practices.

Weston Foods continues to take action to mitigate the effects of COVID-19 on its day-to-day business operations. Weston Foods remains committed to delivering quality products to its foodservice and retail customers. The COVID-19 pandemic has created volatility in consumer demand for certain categories of products in both the retail and foodservice channels, which requires Weston Foods to carefully manage production planning and may, if required, result in temporary facility closures.

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

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

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

8.2 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 Annual Information Form ("AIF") for the year ended December 31, 2020, which is hereby incorporated by reference:

Cybersecurity, Privacy and Data Breaches	Inventory Management
Electronic Commerce and Disruptive Technologies	Governance, Change Management, Process and Efficiency
Competitive Environment and Strategy	Employee Attraction, Development and Succession Planning
Healthcare Reform	Service Providers
IT Systems Implementations and Data Management	Economic Conditions
Distribution and Supply Chain	Franchisee Relationships
Labour Relations	Associate-owned Drug Store Network and Relationships with Associates
Food, Drug and Product and Services Safety	Regulatory Compliance
Legal Proceedings	Tenant Concentration
Property Valuation	Commodity Prices
Capitalization Rate Risk	Execution of Strategic Initiatives
Property Development and Construction	Consumer and Retail Customer Trends

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

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

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

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

The Company or its third party service providers may be unable to anticipate, timely identify or appropriately respond to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Company's security measures or 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 or *PC Money* Account holder or loyalty program member privacy or Confidential Information.

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

Management's Discussion and Analysis

ELECTRONIC COMMERCE AND DISRUPTIVE TECHNOLOGIES Loblaw's e-commerce strategy is a growing business initiative. Customers expect innovative concepts and a positive customer experience, including a user-friendly website, customer offerings that are integrated with 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 Loblaw 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 Company's business model to recognize and manage this shift in a timely manner could adversely affect Loblaw's operations or financial performance.

A large portion of Choice Properties' existing real estate portfolio is comprised of necessity-based retail tenants. Shifting consumer preferences toward e-commerce may result in a decrease in the demand for physical space by retail tenants. The failure of Choice Properties to adapt to changes in the retail landscape, including finding new tenants to replace any lost income stream from existing tenants that reduce the amount of physical space they rent from Choice Properties, could adversely affect Choice Properties' operations or financial performance.

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 its strategic growth areas of Everyday Digital Retail, Payments and Rewards and Connected Healthcare, which are all subject to competitive pressures. Failure to achieve these or other strategic priorities could adversely affect the Company's financial position and its competitiveness.

Loblaw's inability to effectively predict market activity, leverage customer preferences and spending patterns and respond in a timely manner to trends, or compete effectively with its current or future competitors could result in, among other things, reduced market share and reduced profitability. If 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.

Choice Properties competes with other investors, developers, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Competitors may have newer or better located properties, greater financial or other resources, or greater operating flexibility than Choice Properties. An increase in the availability of funds for investment or an increase in interest in real estate property investments may increase the competition for real estate property investments, thereby increasing purchase prices and reducing the yield on the investment. Increased competition to lease properties could adversely impact Choice Properties' ability to find suitable tenants at the appropriate rent and may negatively impact the financial performance of Choice Properties.

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

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

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

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

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

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

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

IT SYSTEMS IMPLEMENTATIONS AND DATA MANAGEMENT The operations of the Company are reliant on the continuous and uninterrupted operations of critical technology systems. Any technology failure/outage pertaining to availability, capacity or sustainability of the Company's IT systems may result in disruptions impacting the Company's customers or financial performance, or may negatively impact the Company's reputation. The Company continues to 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 effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

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

Management's Discussion and Analysis

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

DISTRIBUTION AND SUPPLY CHAIN The Company's ability to satisfy its customers' demands and achieve its cost objectives depends on its ability to maintain key logistic and transport arrangements. The Company's distribution and supply chain could be negatively affected by unforeseen disruptions due to fire, severe weather conditions, natural disasters, or other catastrophic events, public health events, labour disagreements, or other 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.

LABOUR RELATIONS The Company's workforce is comprised of both unionized and non-unionized colleagues. With respect to those colleagues that are covered by collective agreements, there can be no assurance as to the outcome of any labour negotiations or the timing of their completion. Renegotiating collective agreements or the failure to successfully renegotiate collective agreements could result in strikes, work stoppages or business interruptions, and if any of these events were to occur, they could adversely affect the reputation, operations and financial performance of the Company. If non-unionized colleagues become unionized, the terms of the resulting collective agreements would have implications for the affected operations such as higher labour costs. Weston Foods' manufacturing locations across North America are subject to risks associated with having insufficient or inadequate labour. Failure to successfully manage such risks could result in decreased production or additional higher costs at these manufacturing facilities which could adversely affect the operations or financial performance of the Company.

FOOD, DRUG AND PRODUCT AND SERVICES SAFETY The Company's products may expose it to risks associated with product safety and defects and product handling in relation to the manufacturing, design, packaging and labeling, storage, distribution, and display of products. The Company cannot 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.

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

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. In December 2019, a proposed class action on behalf of independent distributors was commenced against the Company and Weston Foods. 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 or Loblaw's dividend, dividend policy or share buyback plans. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2020 or prior on the basis that a reliable estimate of the liability cannot be determined at this time. The Company and Loblaw will continue to assess whether a provision for civil liability associated with the class action lawsuits can be

reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and 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. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. In February 2020, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and Loblaw. The allegations in the Ontario, Quebec and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and February 2020 claims seek recovery of damages on behalf of opioid users directly.

Loblaw has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, Loblaw filed a Notice of Appeal with the Federal Court of Appeal. On October 15, 2019, the matter was heard by the Federal Court of Appeal and on April 23, 2020, the Federal Court of Appeal released its decision and reversed the decision of the Tax Court. On October 29, 2020, the Supreme Court granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. Loblaw has not reversed any portion of the \$367 million of charges recorded during the third quarter of 2018, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes.

PROPERTY VALUATION Choice Properties conducts a valuation assessment of its properties on a quarterly basis. As property values fluctuate over time in response to market factors, or as underlying assumptions and inputs to the valuation model change, the fair value of Choice Properties' portfolio could change materially. Choice Properties is responsible for the reasonableness of the assumptions and for the accuracy of the inputs into the property valuation model. Errors in the inputs to the valuation model or inappropriate assumptions may result in an inaccurate valuation of the properties. In addition to a market activity report that is tailored to Choice Properties' portfolio, management uses the market information obtained in external appraisals, across multiple firms, commissioned during the reporting period to assess whether changes to market-related assumptions are required for the balance of the portfolio. Choice Properties is responsible for monitoring the value of its portfolio going forward and evaluating the impact of any changes in property value over time. Any changes in the value of the properties may impact unitholder value.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the above-mentioned valuations.

CAPITALIZATION RATE RISK The fair market property valuation process is dependent on several inputs, including the current market capitalization rate. Risks associated with Choice Properties' property valuation model include fluctuations in the current market capitalization rate which can significantly impact the value of Choice Properties' overall real estate portfolio. In addition, Choice Properties is subject to certain financial and non-financial covenants in Choice Properties' existing financial instruments that include maintaining certain leverage ratios. Changes in the market capitalization rate could impact Choice Properties' property valuation which in turn could impact financial covenants.

PROPERTY DEVELOPMENT AND CONSTRUCTION Choice Properties engages in development, redevelopment and major renovation activities with respect to certain properties. It is subject to certain risks, including: (a) the availability and pricing of financing on satisfactory terms or availability at all; (b) the availability and timely receipt of zoning, occupancy, land use and other regulatory and governmental approvals; (c) changes in zoning and land use laws; (d) the ability to achieve an acceptable level of occupancy upon completion; (e) the potential that Choice Properties may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (f) the potential that Choice Properties may expend funds on and devote management time to projects which are not completed; (g) construction or redevelopment costs of a project, including certain fees payable to Loblaw under a strategic alliance agreement, may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable; (h) the time required to complete the construction or redevelopment of a project or to lease-up the completed project may be greater than originally anticipated, thereby adversely affecting Choice Properties' cash flows and liquidity; (i) the cost and timely completion of construction (including risks beyond Choice Properties' control, such as weather, labour conditions or material shortages); (j) contractor and subcontractor disputes, strikes, labour disputes or supply disruptions; (k) occupancy rates and rents of a completed project may not be sufficient to make

Management's Discussion and Analysis

the project profitable; (l) Choice Properties' ability to dispose of properties redeveloped with the intent to sell could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and (m) the availability and pricing of financing to fund Choice Properties' development activities on favourable terms or availability at all.

The above risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the initiation of development activities or the completion of development activities once undertaken. In addition, development projects entail risks that investments may not perform in accordance with expectations and can carry an increased risk of litigation (and its accompanying risks) with contractors, subcontractors, suppliers, partners and others. Any failure by Choice Properties to develop quality assets and effectively manage all development, redevelopment and major renovation initiatives may negatively impact the reputation and financial performance of the Company.

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

Loblaw's retail segment is also examining its fundamental processes related to article lifecycle management, with the goal of making existing processes more efficient. This will impact existing workflow and system processes across procurement, supply chain and merchandising. Such simplification and efficiency processes are critical to Loblaw's ability to integrate towards longer term system solutions and achieve efficiencies across its retail divisions. Any failure to effectively deliver this enterprise core solution could negatively impact Loblaw's operations or 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 the Company's administrative, store, manufacturing, and distribution network infrastructures, and other organizational changes.

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.

EMPLOYEE ATTRACTION, DEVELOPMENT AND SUCCESSION PLANNING The Company's operations and continued growth are dependent on its ability to hire, retain and develop its leaders and other key personnel. Any failure to effectively attract and retain talented and experienced colleagues and to establish adequate succession planning and retention strategies could result in a lack of requisite knowledge, skill and experience. This could erode the Company's competitive position or result in increased costs, competition for or high turn-over of colleagues. Any of the foregoing could negatively affect the Company's ability to operate its businesses and execute its strategies, which in turn, could adversely affect the Company's reputation, operations or financial performance.

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

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

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

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

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

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

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

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

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

REGULATORY COMPLIANCE The Company is subject to a wide variety of laws, regulations and orders across all countries in which it does business, including those laws involving product liability, labour and employment, anti-trust and competition, pharmacy, food safety, intellectual property, privacy, environmental and other matters.

The Company is subject to taxation by various taxation authorities in Canada and a number of foreign jurisdictions. Changes to any of the laws, rules, regulations or policies applicable to the Company's business, including tax laws, minimum wage laws, and laws affecting the production, processing, preparation, distribution, packaging and labelling of food, pharmaceuticals, and general merchandise products, could adversely affect the operations, financial condition or performance of the Company.

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

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

Management's Discussion and Analysis

Loblaw is subject to 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 minimum common equity Tier 1 capital ratio of 7.0%, a Tier 1 capital ratio of 8.5% and a total capital ratio of 10.5%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio and OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework. PC Bank would be assessed fines and other penalties for non-compliance with these and other regulations. In addition, failure by PC Bank to comply, understand, acknowledge and effectively respond to applicable regulations could result in regulatory intervention and reputational damage.

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 the Company, could be materially adversely different in certain respects, which could in turn materially adversely affect the trading price of the Trust Units.

TENANT CONCENTRATION Investment properties generate income through rent payments made by tenants, and particularly rent payments made by Loblaw as Choice Properties' largest tenant. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. Furthermore, the terms of any subsequent lease may be less favourable than the existing lease, including the addition of restrictive covenants. In addition, historical occupancy rates and rents are not necessarily an accurate prediction of future occupancy rates. Choice Properties' cash flows and financial position would be adversely affected if its tenants (and especially Loblaw) were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties was not able to be leased on economically favourable lease terms. In the event of default by a tenant, Choice Properties may experience delays or limitations in enforcing its rights as lessor and incur substantial costs in protecting its investment. In addition, restrictive covenants and the terms of a strategic alliance agreement may narrow the field of potential tenants at a property and could contribute to difficulties in leasing space to new tenants.

Choice Properties' net income could also be adversely affected in the event of a downturn in the business, or the bankruptcy or insolvency, of Loblaw, as Choice Properties' largest tenant. Choice Properties derives a large majority of its annual base minimum rent from Loblaw. Consequently, revenues are dependent on the ability of Loblaw to meet its rent obligations and Choice Properties' ability to collect rent from Loblaw. The future financial performance and operating results of Loblaw are subject to inherent risks, uncertainties, and other factors. If Loblaw were to terminate its tenancies, default on or cease to satisfy its payment obligations, it would have a material adverse effect on Choice Properties' financial condition or results of operations and its ability to make distributions to unitholders.

The closing of an anchor store at a property could also have a material adverse effect on the value of that property. Vacated anchor tenant space also tends to adversely affect the entire property because of the loss of the departed anchor tenant's power to draw customers to the property, which in turn may cause other tenants' operations to suffer and adversely affect such other tenants' ability to pay rent or perform any other obligations under their leases. No assurance can be given that Choice Properties will be able to quickly re-lease space vacated by an anchor tenant on favourable terms, if at all. In addition, certain leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, and there can be no assurance that such tenants will continue to occupy such premises. Furthermore, at any time, an anchor tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and thereby cause a reduction in Choice Properties' cash flows, financial condition or results of operations and its ability to make distributions to unitholders.

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 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. Rising commodity prices could adversely affect the financial performance of the Company and the impact could be material. 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, Weston Foods 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 result in reduced demand for its products, which could in turn negatively affect the financial performance of the Company.

8.3 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	Credit Rating

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

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, finance lease receivable, pension assets held in the Company's defined benefit plans, Loblaw's accounts receivable and other receivables from Weston Foods' customers and suppliers. Failure to manage credit risk could adversely affect the financial performance of the Company.

Management's Discussion and Analysis

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 finance lease 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 tenants, 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, WHL issued \$466 million of 7.00% Series A Debentures due 2031, which are serviced by the issuance of Series B Debentures. In addition, WHL entered into an equity forward sale agreement with the lender to sell 9.6 million Loblaw common shares at an initial forward sale price of \$48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward rate of \$128.30 (2019 – \$123.64) per Loblaw common share as at year end 2020. WHL is permitted to settle the transaction in whole or in part, at any time prior to 2031. If the forward is settled in cash, WHL will receive the forward price and will pay the market value of the underlying Loblaw common shares. 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. If the forward price is greater (less) than the market price upon settlement, 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.

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

9. Related Party Transactions

Galen G. Weston beneficially owns or controls, directly and indirectly, through Wittington Investments, Limited ("Wittington"), a total of 78,647,040 of GWL's common shares, representing approximately 51.6% of GWL's outstanding common shares (2019 - Mr. W Galen Weston owned or controlled approximately 53.2%).

In the ordinary course of business, the Company enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties. Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed below.

In 2020, the Company made rental payments to Wittington in the amount of \$3 million (2019 - \$5 million). As at year end 2020 and 2019, there were no rental payments outstanding.

In 2020, inventory purchases from Associated British Foods plc, a related party by virtue of a common director of such entity's parent company and GWL's parent company, amounted to \$51 million (2019 - \$38 million). As at year end 2020, \$3 million (2019 - \$2 million) was included in trade payables and other liabilities relating to these inventory purchases.

TRANSACTION BETWEEN CHOICE PROPERTIES AND WITTINGTON

On July 31, 2020, Choice Properties acquired two real estate assets from Wittington Properties Limited, a subsidiary of Wittington, for an aggregate purchase price of \$209 million, excluding transaction costs, which was satisfied in full by the issuance of 16.5 million Trust Units of Choice Properties.

The assets acquired included: (i) the Weston Centre, an office and retail property in Toronto, Ontario for \$129 million and (ii) the remaining 60% interest in a joint venture between Choice Properties and Wittington Properties Limited for \$80 million, less a cost-to-complete receivable of \$16 million, giving Choice Properties 100% ownership of the joint venture.

Weston Centre The Company had multiple lease arrangements with Wittington, in addition to existing leases with Choice Properties at the Weston Centre. Upon acquisition of the property, the Company recognized a gain of \$6 million in operating income from the derecognition of its net impact of lease obligations and right-of-use assets associated with the property and will cease paying rents to Wittington. Due to continued tenancy on the property through its group of companies, \$51 million was recorded in fixed assets as own-use property and \$78 million was recorded in investment properties.

Operating Lease Choice Properties entered into a ten-year lease for office space with Wittington that commenced in 2014. Lease payments totaled \$3 million over the term of the lease. As of the acquisition date, Choice Properties de-recognized its right-of-use assets and lease liabilities with the office lease and will cease paying rents to Wittington.

Joint Venture In 2014, a joint venture, partnership known as West Block between Choice Properties and Wittington Properties Limited, completed the acquisition of a parcel of land located on 500 Lakeshore Boulevard West in Toronto, Ontario from Loblaw. Choice Properties used the equity method of accounting to record its 40% interest in the joint venture.

During the second quarter of 2020, Loblaw recognized \$65 million of right-of-use assets and lease liabilities related to the leases of retail stores and a corporate office with the joint venture.

During the third quarter of 2020, Choice Properties acquired the remaining 60% interest of the joint venture, after which the investment was accounted for on a consolidated basis. As a result of the increase in ownership, the Company recorded a \$5 million fair value loss before income taxes in other comprehensive income, and a gain of \$4 million in operating income from the derecognition of its net impact of lease obligations and right-of-use assets associated with the property and will cease paying rents to Wittington. Due to continued tenancy on the property through its group of companies, \$95 million was recorded in fixed assets as own-use property and \$13 million was recorded in investment properties. Wittington will continue to act as the development and construction manager for the commercial space until development is completed.

VENTURE FUND During the second quarter of 2020, GWL, Loblaw and a wholly-owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("Venture Fund"). A wholly-owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee the Venture Fund. The purpose of the Venture Fund is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have a 33% interest in the Fund. The Company participates in the Fund's Investment Committee which, among other items, approves the initial investments. The Company uses the equity method of accounting to record its consolidated 66% interest in the Venture Fund. The Company has a consolidated capital commitment of \$66 million over a 10-year period. In 2020, on a consolidated basis, the Company invested \$13 million in the Venture Fund, which was recorded in other assets. Subsequent to year-end 2020, on a consolidated basis, the Company invested an additional \$5 million in the Venture Fund.

Management's Discussion and Analysis

POST-EMPLOYMENT BENEFIT PLANS The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in the notes to the consolidated financial statements.

INCOME TAX MATTERS From time to time, the Company 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)	2020	2019
Salaries, director fees and other short-term employee benefits	\$ 12	\$ 13
Equity-based compensation	11	11
Total compensation	\$ 23	\$ 24

10. 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, FIXED ASSETS AND RIGHT-OF-USE ASSETS)

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

Key Sources of Estimation In determining the recoverable amount of a CGU or a group of CGUs, various estimates are employed. The Company determines fair value less costs to sell using such estimates as market rental rates for comparable properties, recoverable operating costs for leases with tenants, non-recoverable operating costs, future cash flows, discount rates, capitalization rates and terminal rates. The Company determines value in use by using estimates including projected future

revenues, earnings and capital investments consistent with strategic plans presented to the Board of Directors at GWL and Loblaw, and discount rates consistent with external industry information reflecting the risk associated with the specific cash flows.

CUSTOMER LOYALTY AWARDS PROGRAMS

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

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

FAIR VALUE OF INCOME PRODUCING PROPERTIES

Key Sources of Estimation The fair value of income producing properties is dependent on future cash flows over the holding period, terminal capitalization rates, and discount rates applicable to those assets. The review of future cash flows involves assumptions relating to occupancy, rental rates, and residual value. In addition to reviewing future 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.

PROVISIONS

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

LEASES

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

Key Sources of Estimation In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate using a base risk-free

Management's Discussion and Analysis

interest rate estimated by reference to the Government of Canada bond yield with an adjustment that reflects the Company's credit rating, the security, lease term and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change due to changes in the business and macroeconomic environment.

11. Accounting Standards Implemented

NEW SIGNIFICANT ACCOUNTING POLICIES

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

Demand Deposits from Customers Demand deposits from customers are comprised of balances in customers' debit accounts with *PC Money Account* and are measured at amortized cost.

12. Future Accounting Standard

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

13. Outlook⁽³⁾

For 2021, the Company expects adjusted net earnings⁽¹⁾ to increase due to the results from its operating segments as described below. Additionally, the Company expects to return capital to shareholders through share repurchases by allocating a portion of the free cash flow received from its operating businesses and proceeds from participating in Loblaw's normal course issuer bid.

Loblaw Loblaw cannot predict the precise impacts of COVID-19 on its 2021 financial results. However, Loblaw anticipates that grocery sales will remain elevated in the first half due to continued impact of the pandemic, including the impact of lockdown measures in many jurisdictions. As economies reopen, revenue growth will be challenged compared to elevated 2020 sales. Loblaw expects that in 2021 costs will be lower compared to those incurred in 2020 as a result of COVID-19, and as Process & Efficiencies and Data-Driven Insights programs continue to deliver benefits. Moderate levels of regulatory drug reform are anticipated.

Loblaw expects:

- its core retail business to grow earnings faster than sales;
- growth in financial services profitability;
- EPS growth in the low double digits, excluding the impact of the 53rd week;
- to invest approximately \$1.2 billion in capital expenditures, net of proceeds from property disposals; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

In the four weeks following the end of the quarter, Loblaw's food same-store sales growth remained elevated and drug same-store sales growth slowed in front store while remaining consistent in pharmacy. For the balance of the first quarter, both food and drug same-store sales will lap consumer stockpiling that began in the first quarter of 2020. COVID-19 related costs are trending in the range of \$40 to \$50 million for the first quarter of 2021.

Choice Properties Choice Properties' real estate platform is positioned to deliver both income stability and long-term growth for its investors, underpinned by disciplined financial management.

Although the duration and longer-term impact of the COVID-19 pandemic cannot be predicted, Choice Properties remains confident that its business model and disciplined approach to financial management will enable it to weather the impact of COVID-19. Choice Properties' diversified portfolio of office, retail and industrial properties is 97.1% occupied and leased to high-

quality tenants across Canada. Its retail portfolio is primarily leased to grocery stores, pharmacies and other necessity-based tenants, which continue to perform well in this environment, and the diversification of income provided by Choice Properties' industrial and office assets provides stability to Choice Properties' overall portfolio.

Despite the ongoing impact of the pandemic, Choice Properties continues to advance its development initiatives, which provide Choice Properties with the best opportunity to add high-quality real estate to its portfolio at a reasonable cost. Choice Properties has a mix of development projects ranging in size, scale, and complexity, including retail intensification projects, which provide incremental growth to its existing sites, to larger, more complex mixed-use developments which are expected to drive net asset value growth in the future.

The majority of Choice Properties' active development pipeline is focused on growing its rental residential portfolio. In addition to ongoing residential development, Choice Properties continues to evaluate opportunities within its portfolio to redevelop and transform grocery anchored retail projects into large scale major mixed-use projects.

In 2021, Choice Properties plans to continue improving its portfolio quality and seek out opportunities to strengthen its balance sheet by extending debt maturities with longer term debt.

Weston Foods Weston Foods expects first quarter 2021 financial results to be challenged relative to the strong financial performance in the fourth quarter of 2020 due to the impact of ongoing government-mandated lockdowns and social distancing protocols in both Canada and United States associated with the COVID-19 pandemic. In the four weeks following the end of the fourth quarter of 2020, the weekly run rate for incremental COVID-19 related costs incurred to protect its colleagues was approximately \$0.3 million.

The uncertainty associated with the pandemic makes it difficult to reliably estimate future sales trends and the overall financial performance of the business. Weston Foods' expectations for full year 2021 assume that stricter government-mandated lockdowns implemented in many regions in the fourth quarter of 2020 will be relaxed by the end of the first quarter of 2021. On that basis, Weston Foods expects:

- sales to be modestly higher compared to 2020, after excluding the impact of foreign currency translation and the impact of the 53rd week in fiscal 2020;
- adjusted EBITDA⁽¹⁾ to be higher compared to 2020;
- capital expenditures to decrease to approximately \$145 million; and
- depreciation to increase in the mid-single digits compared to 2020.

14. Non-GAAP Financial Measures

The Company uses non-GAAP financial measures in this document, such as: 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, free cash flow and Choice Properties funds from operations, among others. 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 effective tax rate. The Company believes these non-GAAP financial measures provide useful information to both management and investors with regard to accurately assessing the Company's financial performance and financial condition for the reasons outlined below.

Further, certain non-GAAP measures of Loblaw and Choice Properties are included in this document. For more information on these measures, refer to the materials filed by Loblaw and Choice Properties, which are available on sedar.com or at loblaw.ca or choicereit.ca, respectively.

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

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

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.

Management's Discussion and Analysis

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, 2019 ⁽ⁱⁱ⁾				
	Dec. 31, 2020 (13 weeks)					(12 weeks)				
	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated
Net earnings attributable to shareholders of the Company					\$ 299					\$ 443
Add impact of the following:										
Non-controlling interests					214					135
Income taxes					148					133
Net interest expense and other financing charges					245					7
Operating income	\$ 700	\$ 332	\$ 35	\$ (161)	\$ 906	\$ 539	\$ 220	\$ 27	\$ (68)	\$ 718
Add impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 117	\$ –	\$ –	\$ –	\$ 117	\$ 116	\$ –	\$ –	\$ –	\$ 116
Fair value adjustment on investment properties	–	(103)	–	100	(3)	–	5	–	34	39
Restructuring and other related costs	10	–	13	–	23	24	–	(4)	10	30
Asset impairments, net of recoveries	17	–	–	6	23	75	–	–	(38)	37
Fair value adjustment of non-operating properties	9	–	–	–	9	(4)	–	–	–	(4)
Fair value adjustment of derivatives	(7)	–	(2)	–	(9)	(5)	–	(4)	–	(9)
Gain on sale of non-operating properties	(8)	–	–	–	(8)	(8)	–	–	–	(8)
Inventory loss, net of recoveries	–	–	–	–	–	–	–	4	–	4
Certain prior period items	–	–	–	–	–	(7)	–	–	7	–
Foreign currency translation and other company level activities	–	(4)	–	–	(4)	–	–	–	(1)	(1)
Adjusting items	\$ 138	\$ (107)	\$ 11	\$ 106	\$ 148	\$ 191	\$ 5	\$ (4)	\$ 12	\$ 204
Adjusted operating income (loss)	\$ 838	\$ 225	\$ 46	\$ (55)	\$ 1,054	\$ 730	\$ 225	\$ 23	\$ (56)	\$ 922
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱ⁾	492	1	33	(79)	447	473	–	33	(77)	429
Adjusted EBITDA	\$1,330	\$ 226	\$ 79	\$ (134)	\$ 1,501	\$1,203	\$ 225	\$ 56	\$ (133)	\$ 1,351

- (i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$117 million (2019 – \$116 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$8 million (2019 – \$3 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.
- (ii) Certain comparative figures have been restated to conform with current year presentation.

(unaudited) (\$ millions)	Years Ended									
	Dec. 31, 2020 (53 weeks)					Dec. 31, 2019 ⁽ⁱⁱⁱ⁾ (52 weeks)				
	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated
Net earnings attributable to shareholders of the Company					\$ 963					\$ 242
Add impact of the following:										
Non-controlling interests					619					581
Income taxes					475					431
Net interest expense and other financing charges					831					1,704
Operating income	\$ 2,357	\$ 622	\$ 3	\$ (94)	\$ 2,888	\$ 2,262	\$ 890	\$ 72	\$ (266)	\$ 2,958
Add impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 509	\$ –	\$ –	\$ –	\$ 509	\$ 508	\$ –	\$ –	\$ –	\$ 508
Fair value adjustment on investment properties	–	257	–	(72)	185	–	15	–	85	100
Restructuring and other related costs	58	–	50	–	108	74	–	11	10	95
Asset impairments, net of recoveries	17	–	–	6	23	75	–	–	(38)	37
Fair value adjustment on non-operating properties	9	–	–	–	9	(7)	–	–	–	(7)
Fair value adjustment of derivatives	5	–	2	–	7	–	–	–	–	–
Acquisition transaction costs and other related costs	–	2	–	–	2	–	8	–	–	8
Gain on sale of non-operating properties	(9)	–	–	–	(9)	(12)	–	–	–	(12)
Pension annuities and buy-outs	–	–	–	–	–	10	–	–	–	10
Inventory loss, net of recoveries	–	–	–	–	–	–	–	2	–	2
Loblaw's spin-out of Choice Properties	–	–	–	–	–	–	–	–	1	1
Certain prior period items	–	–	–	–	–	(22)	–	–	7	(15)
Foreign currency translation and other company level activities	–	(5)	–	2	(3)	–	–	–	(3)	(3)
Adjusting items	\$ 589	\$ 254	\$ 52	\$ (64)	\$ 831	\$ 626	\$ 23	\$ 13	\$ 62	\$ 724
Adjusted operating income	\$ 2,946	\$ 876	\$ 55	\$ (158)	\$ 3,719	\$ 2,888	\$ 913	\$ 85	\$ (204)	\$ 3,682
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱ⁾	2,087	3	145	(347)	1,888	2,016	1	138	(354)	1,801
Adjusted EBITDA	\$ 5,033	\$ 879	\$ 200	\$ (505)	\$ 5,607	\$ 4,904	\$ 914	\$ 223	\$ (558)	\$ 5,483

- (i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$509 million (2019 – \$508 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$30 million (2019 – \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.
- (ii) Certain comparative figures have been restated to conform with current year presentation.

The following items impacted adjusted EBITDA⁽¹⁾ in 2020 and 2019:

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. Annual amortization associated with the acquired intangible assets will be approximately \$500 million until 2024 and will decrease thereafter.

Management's Discussion and Analysis

Fair value adjustment on investment properties The Company measures investment properties at fair value. 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.

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

Restructuring and other related costs 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 related costs incurred by each of the Company's operating segments see Section 2.1, "Loblaw Operating Results" and Section 2.3, "Weston Foods Operating Results", of this MD&A.

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, right-of-use assets, and intangible assets.

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.

Acquisition transaction costs and other related costs Choice Properties recorded transaction and other related costs in connection with the acquisition of Canadian Real Estate Investment Trust.

Gain on sale of non-operating properties In 2020, Loblaw disposed of a non-operating property to a third party and recorded a gain of \$9 million (2019 - gain of \$12 million).

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

Inventory loss, net of recoveries In 2019, Weston Foods recorded damaged inventory of \$4 million that was written off and was recorded in SG&A, partially offset by proceeds from insurance claims related to previous year losses.

Loblaw's spin-out of Choice Properties In the second quarter of 2019, the Company recorded transaction and other related costs in connection with the spin-out of Loblaw's interest in Choice Properties.

Certain prior period items In the second quarter of 2019, Loblaw revised its estimate of the amount owed associated with a prior period regulatory matter.

Foreign currency translation and other company level activities 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. Other company level activities include fair value adjustments related to investments and certain financial assets and liabilities held by the Company.

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, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	Dec. 31, 2020 (53 weeks)	Dec. 31, 2019 (52 weeks)
Net interest expense and other financing charges	\$ 245	\$ 7	\$ 831	\$ 1,704
Add: Fair value adjustment of the Trust Unit liability	(20)	203	239	(550)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	61	67	47	(69)
Choice Properties issuance costs	—	—	—	(14)
Adjusted net interest expense and other financing charges	\$ 286	\$ 277	\$ 1,117	\$ 1,071

In addition to certain items described in the “Adjusted EBITDA” section above, the following items impacted net interest expense and other financing charges in the fourth quarters and year-to-date of 2020 and 2019:

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.

Choice Properties issuance costs Choice Properties incurred issuance costs of \$14 million related to the offering of Trust Units in 2019.

Management's Discussion and Analysis

ADJUSTED INCOME TAXES AND ADJUSTED EFFECTIVE TAX RATE The Company believes the adjusted effective 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 tax rate applicable to adjusted earnings before taxes to the GAAP effective tax rate applicable to earnings before taxes as reported for the periods ended as indicated.

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	Dec. 31, 2020 (53 weeks)	Dec. 31, 2019 (52 weeks)
Adjusted operating income ⁽ⁱ⁾	\$ 1,054	\$ 922	\$ 3,719	\$ 3,682
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	286	277	1,117	1,071
Adjusted earnings before taxes	\$ 768	\$ 645	\$ 2,602	\$ 2,611
Income taxes	\$ 148	\$ 133	\$ 475	\$ 431
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽ⁱⁱ⁾	35	38	197	189
Remeasurement of deferred tax balances	(2)	–	7	15
Statutory corporate income tax rate change	–	–	2	10
Outside basis difference in certain Loblaw shares	4	–	(2)	–
Reserve release related to 2014 tax audit	–	–	–	8
Adjusted income taxes	\$ 185	\$ 171	\$ 679	\$ 653
Effective tax rate applicable to earnings before taxes	22.4%	18.7%	23.1%	34.4%
Adjusted effective tax rate applicable to adjusted earnings before taxes	24.1%	26.5%	26.1%	25.0%

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

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

In addition to certain items described in the "Adjusted EBITDA" and "Adjusted Net Interest Expense and Other Financing Charges" sections above, the following items impacted income taxes and the effective tax rate in the fourth quarters and year-to-date of 2020 and 2019:

Remeasurement of deferred tax balances In the third quarter of 2020, as a result of Choice Properties issuing Trust Units to a related party, the Company recorded a tax recovery of \$9 million related to the remeasurement of certain deferred income tax balances resulting from the dilution of its interest in Choice Properties. In the fourth quarter of 2020, as a result of Choice Properties issuing Class B partnership units to the Company, the Company recorded a tax expense of \$2 million related to the remeasurement of certain deferred income tax balances resulting from the change in its interest in Choice Properties.

As a result of the remeasurement of certain deferred income tax balances in the second quarter of 2019, the Company recorded a tax recovery of \$15 million related to the remeasurement of certain deferred income tax balances resulting from the dilution of its interest in Choice Properties.

Statutory corporate income tax rate change The Company's deferred income tax assets and liabilities are impacted by changes to provincial 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 first quarter of 2020, the Government of Nova Scotia substantively enacted a decrease in the provincial statutory corporate income tax rate from 16% to 14% effective April 1, 2020. The Company recorded a tax recovery of \$2 million in the first quarter of 2020 related to the remeasurement of its deferred income tax balances.

In the second quarter of 2019, the Government of Alberta announced and substantively enacted a gradual decrease in the provincial statutory corporate income tax rate from 12% to 8% by 2022. The Company recorded a tax recovery of \$10 million in the second quarter of 2019 related to the remeasurement of its deferred income tax balances.

Outside basis difference in certain Loblaw shares The Company recorded a deferred tax recovery of \$4 million in the fourth quarter of 2020 and deferred tax expense of \$2 million year-to-date on temporary differences in respect of GWL's investment in certain Loblaw shares that are expected to reverse in the foreseeable future as a result of GWL's participation in Loblaw's NCIB program.

Reserve release related to 2014 tax audit In the third quarter of 2019, Loblaw reversed certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart acquisition costs incurred in 2014.

ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS AND ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE The Company believes that adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

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

(unaudited) (\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2020 (13 weeks)	Dec. 31, 2019 (12 weeks)	Dec. 31, 2020 (53 weeks)	Dec. 31, 2019 (52 weeks)
Net earnings attributable to shareholders of the Company	\$ 299	\$ 443	\$ 963	\$ 242
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Net earnings available to common shareholders of the Company	\$ 289	\$ 433	\$ 919	\$ 198
Less: Reduction in net earnings due to dilution at Loblaw	(1)	(1)	(4)	(4)
Net earnings available to common shareholders for diluted earnings per share	\$ 288	\$ 432	\$ 915	\$ 194
Net earnings attributable to shareholders of the Company	\$ 299	\$ 443	\$ 963	\$ 242
Adjusting items (refer to the following table)	23	(171)	136	919
Adjusted net earnings attributable to shareholders of the Company	\$ 322	\$ 272	\$ 1,099	\$ 1,161
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Adjusted net earnings available to common shareholders of the Company	\$ 312	\$ 262	\$ 1,055	\$ 1,117
Less: Reduction in net earnings due to dilution at Loblaw	(1)	(1)	(4)	(4)
Adjusted net earnings available to common shareholders for diluted earnings per share	\$ 311	\$ 261	\$ 1,051	\$ 1,113
Diluted weighted average common shares outstanding (in millions)	153.3	154.0	153.5	153.7

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, 2020		Dec. 31, 2019 ⁽ⁱⁱ⁾	
	(13 weeks)		(12 weeks)	
(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	\$ 289	\$ 1.88	\$ 433	\$ 2.81
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 45	\$ 0.29	\$ 44	\$ 0.29
Fair value adjustment on investment properties	(3)	(0.02)	35	0.23
Restructuring and other related costs	14	0.09	16	0.10
Asset impairments, net of recoveries	11	0.08	2	–
Fair value adjustment of non-operating properties	4	0.03	(2)	(0.01)
Fair value adjustment of derivatives	(5)	(0.03)	(5)	(0.03)
Gain on sale of non-operating properties	(3)	(0.02)	(3)	(0.02)
Inventory loss, net of recoveries	–	–	2	0.01
Certain prior period items	–	–	2	0.01
Fair value adjustment of the Trust Unit liability	20	0.13	(203)	(1.31)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(53)	(0.34)	(58)	(0.38)
Outside basis difference in certain Loblaw shares	(4)	(0.03)	–	–
Statutory corporate income tax rate change	(1)	(0.01)	–	–
Remeasurement of deferred tax balances	2	0.01	–	–
Foreign currency translation and other company level activities	(4)	(0.03)	(1)	(0.01)
Adjusting items	\$ 23	\$ 0.15	\$ (171)	\$ (1.12)
Adjusted	\$ 312	\$ 2.03	\$ 262	\$ 1.69

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

(ii) Certain comparative figures have been restated to conform with current year presentation.

	Years Ended			
	Dec. 31, 2020 (53 weeks)		Dec. 31, 2019 ⁽ⁱⁱⁱ⁾ (52 weeks)	
(unaudited) (\$ except where otherwise indicated)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net (Loss) Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net (Loss) Earnings Per Common Share
As reported	\$ 919	\$ 5.96	\$ 198	\$ 1.26
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 195	\$ 1.28	\$ 192	\$ 1.25
Fair value adjustment on investment properties	155	1.02	86	0.57
Restructuring and other related costs	60	0.38	44	0.28
Asset impairments, net of recoveries	11	0.08	2	0.01
Fair value adjustment on non-operating properties	4	0.03	(3)	(0.02)
Fair value adjustment of derivatives	3	0.02	—	—
Acquisition transaction costs and other related costs	2	0.01	7	0.04
Gain on sale of non-operating properties	(4)	(0.03)	(5)	(0.03)
Pension annuities and buy-outs	—	—	4	0.03
Inventory loss, net of recoveries	—	—	1	0.01
Loblaw's spin-out of Choice Properties	—	—	1	0.01
Certain prior period items	—	—	(4)	(0.03)
Fair value adjustment of the Trust Unit liability	(239)	(1.56)	550	3.58
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(41)	(0.27)	60	0.39
Outside basis difference in certain Loblaw shares	2	0.01	—	—
Statutory corporate income tax rate change	(2)	(0.01)	(8)	(0.05)
Remeasurement of deferred tax balances	(7)	(0.05)	(15)	(0.10)
Choice Properties issuance costs	—	—	14	0.09
Reserve release related to 2014 tax audit	—	—	(4)	(0.03)
Foreign currency translation and other company level activities	(3)	(0.02)	(3)	(0.02)
Adjusting items	\$ 136	\$ 0.89	\$ 919	\$ 5.98
Adjusted	\$ 1,055	\$ 6.85	\$ 1,117	\$ 7.24

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

(ii) Certain comparative figures have been restated to conform with current year presentation.

Management's Discussion and Analysis

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, 2020 (13 weeks)	Dec. 31, 2019 ⁽⁴⁾ (12 weeks)	\$ Change	Dec. 31, 2020 (53 weeks)	Dec. 31, 2019 ⁽⁴⁾ (52 weeks)	\$ Change
Cash flows from operating activities	\$ 1,574	\$ 1,272	\$ 302	\$ 5,521	\$ 4,555	\$ 966
Less: Interest paid	180	181	(1)	883	891	(8)
Capital Investments	635	556	79	1,658	1,571	87
Lease payments, net	192	131	61	852	726	126
Free cash flow ⁽¹⁾	\$ 567	\$ 404	\$ 163	\$ 2,128	\$ 1,367	\$ 761

Choice Properties' Funds from Operations 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 its performance.

The following table reconciles Choice Properties' Funds from Operations to net income for the periods ended as indicated.

(unaudited) (\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Net income (loss)	\$ 117	\$ 294	\$ 451	\$ (581)
Add (deduct) impact of the following:				
Fair value adjustment on Exchangeable Units	87	(207)	(354)	932
Unit distributions on Exchangeable Units	73	73	289	289
Fair value adjustment on investment properties	(104)	(8)	220	4
Fair value adjustment on investment property held in equity accounted joint ventures	—	13	37	11
Internal expenses for leasing	2	1	7	6
Capitalized interest on equity accounted joint ventures	1	2	5	5
Acquisition transaction costs and other related costs	—	—	2	8
Amortization of intangible assets	—	—	1	—
Foreign exchange gain	—	—	(1)	—
Other fair value gains (losses), net	(2)	(2)	(3)	7
Income taxes	(2)	—	(2)	(1)
Funds from Operations	\$ 172	\$ 166	\$ 652	\$ 680

14.1 Non-GAAP Financial Measures Policy Change Commencing Fiscal 2021

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

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

The below summaries are presented for informational purposes and reconciles the non-GAAP financial measures as previously reported in 2020 to those which will be reported under the new policy beginning in 2021.

Adjusted Operating Income and Adjusted EBITDA:

(unaudited) (\$ millions)	Quarters Ended														
	March 21, 2020 (12 weeks)					June 13, 2020 (12 weeks)					October 3, 2020 (16 weeks)				
	Loblaw	Choice Properties	Weston Foods	Other	Consoli- dated	Loblaw	Choice Properties	Weston Foods	Other	Consoli- dated	Loblaw	Choice Properties	Weston Foods	Other	Consoli- dated
Adjusted Operating income - previously reported	\$ 692	\$ 226	\$ 18	\$ (64)	\$ 872	\$ 534	\$ 201	\$ (27)	\$ (59)	\$ 649	\$ 882	\$ 224	\$ 18	\$ 20	\$ 1,144
Add (deduct) impact of the following:															
Asset Impairments, net of recoveries	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Restructuring and other related costs	(4)	—	—	—	(4)	(8)	—	—	—	(8)	(6)	—	—	—	(6)
Adjusting Items	\$ (4)	\$ —	\$ —	\$ —	\$ (4)	\$ (8)	\$ —	\$ —	\$ —	\$ (8)	\$ (6)	\$ —	\$ —	\$ —	\$ (6)
Adjusted operating income - Restated	\$ 688	\$ 226	\$ 18	\$ (64)	\$ 868	\$ 526	\$ 201	\$ (27)	\$ (59)	\$ 641	\$ 876	\$ 224	\$ 18	\$ 20	\$ 1,138
Depreciation and amortization	594	1	43	(78)	560	598	—	44	(76)	566	795	1	47	(114)	729
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	—	—	(119)	(118)	—	—	—	(118)	(155)	—	—	—	(155)
Less: Accelerated Depreciation	—	—	(9)	—	(9)	—	—	(10)	—	(10)	—	—	(3)	—	(3)
Adjusted EBITDA - Restated	\$1,163	\$ 227	\$ 52	\$ (142)	\$1,300	\$1,006	\$ 201	\$ 7	\$ (135)	\$1,079	\$1,516	\$ 225	\$ 62	\$ (94)	\$1,709

Management's Discussion and Analysis

(unaudited) (\$ millions)	Quarter Ended					Year Ended				
	December 31, 2020					December 31, 2020				
	(13 weeks)					(53 weeks)				
	Loblaw	Choice Properties	Weston Foods	Other	Consolidated	Loblaw	Choice Properties	Weston Foods	Other	Consolidated
Adjusted Operating income - previously reported	\$ 838	\$ 225	\$ 46	\$ (55)	\$ 1,054	\$ 2,946	\$ 876	\$ 55	\$ (158)	\$ 3,719
Add (deduct) impact of the following:										
Asset Impairments, net of recoveries	(17)	—	—	(6)	(23)	(17)	—	—	(6)	(23)
Restructuring and other related costs	—	—	—	—	—	(18)	—	—	—	(18)
Adjusting Items	\$ (17)	\$ —	\$ —	\$ (6)	\$ (23)	\$ (35)	\$ —	\$ —	\$ (6)	\$ (41)
Adjusted operating income - Restated	\$ 821	\$ 225	\$ 46	\$ (61)	\$ 1,031	\$ 2,911	\$ 876	\$ 55	\$ (164)	\$ 3,678
Depreciation and amortization	609	1	41	(79)	572	2,596	3	175	(347)	2,427
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(117)	—	—	—	(117)	(509)	—	—	—	(509)
Less: Accelerated Depreciation	—	—	(8)	—	(8)	—	—	(30)	—	(30)
Adjusted EBITDA - Restated	\$ 1,313	\$ 226	\$ 79	\$ (140)	\$ 1,478	\$ 4,998	\$ 879	\$ 200	\$ (511)	\$ 5,566

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

	Quarters Ended								Year Ended	
	March 21, 2020		June 13, 2020		October 3, 2020		December 31, 2020		December 31, 2020	
	(12 weeks)		(12 weeks)		(16 weeks)		(13 weeks)		(53 weeks)	
(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	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	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share
Adjusted - As previously reported	\$ 239	\$ 1.55	\$ 142	\$ 0.93	\$ 362	\$ 2.35	\$ 312	\$ 2.03	\$ 1,055	\$ 6.85
Add (deduct) impact of the following:										
Asset impairments, net of recoveries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (11)	\$ (0.08)	\$ (11)	\$ (0.08)
Restructuring and other related costs	(2)	(0.01)	(3)	(0.02)	(2)	(0.01)	-	-	(7)	(0.04)
Statutory corporate income tax rate change	2	0.01	-	-	(1)	(0.01)	1	0.01	2	0.01
Adjusting items	\$ -	\$ -	\$ (3)	\$ (0.02)	\$ (3)	\$ (0.02)	\$ (10)	\$ (0.07)	\$ (16)	\$ (0.11)
Adjusted - Restated	\$ 239	\$ 1.55	\$ 139	\$ 0.91	\$ 359	\$ 2.33	\$ 302	\$ 1.96	\$ 1,039	\$ 6.74

There were no impacts to previously reported adjusted net interest expense and other financing charges as a result of this change as reported in the Company's 2020 annual and interim MD&A.

15. Forward-Looking Statements

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of IT systems implementations. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in Section 3, "Liquidity and Capital Resources", Section 13, "Outlook", and Section 14, "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", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2021 is based on certain assumptions, including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the "Enterprise Risks and Risk Management" of the Company's 2020 Annual Report and the Company's AIF for the year ended December 31, 2020. Such risks and uncertainties include:

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of the Company, as well as on vendor operations, consumer behaviour and the economy in general;

Management's Discussion and Analysis

- 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 execute the Company's e-commerce initiatives or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- adverse outcomes of legal and regulatory proceedings and related matters;
- failure by Choice Properties to realize the anticipated benefits associated with its strategic priorities and major initiatives, including failure to develop quality assets and effectively manage development, redevelopment, and renovation initiatives;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets;
- 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;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- 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, 2020, as well as COVID-19 related risks as described in Section 8, "Enterprise Risks and Risk Management", of this MD&A, which include discussion of COVID-19 related risks. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

16. Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at 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 on SEDAR from time to time. These filings are also maintained on Loblaw's website at www.loblaw.ca.

This Annual Report also includes selected information on Choice Properties, a public real estate investment trust with units trading on the TSX. For information regarding Choice Properties, readers should also refer to the materials filed by Choice Properties on SEDAR from time to time. These filings are also maintained on Choice Properties' website at www.choicereit.ca.

Toronto, Canada

March 1, 2021

Financial Results

Management's Statement of Responsibility for Financial Reporting	90
Independent Auditors' Report	91
Consolidated Financial Statements	94
Consolidated Statements of Earnings	94
Consolidated Statements of Comprehensive Income	94
Consolidated Balance Sheets	95
Consolidated Statements of Changes in Equity	96
Consolidated Statements of Cash Flows	97
Notes to the Consolidated Financial Statements	98
Note 1. Nature and Description of the Reporting Entity	98
Note 2. Significant Accounting Policies	98
Note 3. Critical Accounting Estimates and Judgments	111
Note 4. Future Accounting Standard	113
Note 5. Subsidiaries	113
Note 6. Business Acquisitions	114
Note 7. Net Interest Expense and Other Financing Charges	114
Note 8. Income Taxes	115
Note 9. Basic and Diluted Net Earnings per Common Share	116
Note 10. Cash and Cash Equivalents, Short-Term Investments and Security Deposits	117
Note 11. Accounts Receivable	118
Note 12. Credit Card Receivables	118
Note 13. Inventories	120
Note 14. Assets Held for Sale	120
Note 15. Fixed Assets	121
Note 16. Investment Properties	123
Note 17. Equity Accounted Joint Ventures	124
Note 18. Intangible Assets	125
Note 19. Goodwill	127
Note 20. Other Assets	128
Note 21. Customer Loyalty Awards Program Liability	128
Note 22. Provisions	129
Note 23. Short-Term Debt	130
Note 24. Long-Term Debt	131
Note 25. Other Liabilities	134
Note 26. Share Capital	135
Note 27. Loblaw Capital Transactions	138
Note 28. Capital Management	139
Note 29. Post-Employment and Other Long-Term Employee Benefits	140
Note 30. Equity-Based Compensation	146
Note 31. Employee Costs	151
Note 32. Leases	152
Note 33. Financial Instruments	155
Note 34. Financial Risk Management	158
Note 35. Contingent Liabilities	160
Note 36. Financial Guarantees	161
Note 37. Related Party Transactions	163
Note 38. Segment Information	165
Note 39. Subsequent Events	167
Three Year Summary	168
Glossary	170

Management's Statement of Responsibility for Financial Reporting

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
March 1, 2021

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, 2020 and December 31, 2019
- 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, 2020 and December 31, 2019, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of Impairment of Certain Non-Financial Assets for Food Retail Locations

Description of the matter

We draw attention to Notes 2, 3, 15 and 32 to the financial statements. At each balance sheet date, the Entity reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Fixed assets and right-of-use assets are \$11,943 and \$4,043 million, respectively. The Entity has determined that each retail location is a separate cash generating unit (CGU) for purposes of impairment testing of non-financial assets for food retail locations. The recoverable amount of a CGU is the higher of its value-in-use and its fair value less cost to sell. In determining the recoverable amount various estimates are employed. The Entity's estimates in evaluating the impairment of certain non-financial assets for food retail locations include:

- Discount rate, projected future revenues, and earnings for value-in-use
- Discount rate, capitalization rates, terminal capitalization rates, future cash flows over the holding period and market rental rates for fair value less cost to sell.

Why the matter is a key audit matter

We identified the evaluation of impairment of certain non-financial assets, specifically fixed assets and right-of-use assets, for food retail locations as a key audit matter. Food retail assets comprised the largest portion of the Loblaw operating segment tested for impairment. This matter represented an area of significant risk of material misstatement due to the magnitude of the balance and the high degree of estimation uncertainty in determining the recoverable amount. Significant auditor judgment and the involvement of professionals with specialized skills and knowledge was required to evaluate the evidence supporting the Entity's estimates due to the sensitivity of the recoverable amount to minor changes in those estimates.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the design and tested the operating effectiveness of the control over the Entity's review of estimates used to determine the recoverable amount of the CGU. This control included the review of estimates used to determine the recoverable amount.

For a selection of food retail locations, where value-in-use was used in the evaluation of impairment, we evaluated the appropriateness of the:

- Projected future revenues and earnings estimates by comparing to the actual historical revenues and earnings generated by the food retail location. We took into account changes in conditions and events affecting the retail location to assess the adjustments or lack of adjustments made in arriving at the projected future revenues and earnings estimates
- Discount rate by involving valuations professionals with specialized skills and knowledge by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.

Independent Auditors' Report

For a selection of food retail locations, where fair value less cost to sell was used in the evaluation of impairment, we evaluated the appropriateness of the:

- Future cash flows over the holding period based on representative leases. We took into account the changes in conditions and events affecting those future cash flows to assess the adjustments, or lack of adjustments, made by the Entity.
- Terminal capitalization rates and discount rates on a portfolio basis by involving valuations professionals with specialized skills and knowledge. These rates were evaluated by comparing them to published reports of real estate industry commentators and considering the various characteristics of the portfolio.
- Capitalization rates and market rental rates by comparing to external information such as industry reports and commercial real estate property listings.

Evaluation of the fair value of income producing properties

Description of the matter

We draw attention to Note 2, 3, and Note 16 of the financial statements. The income producing properties are measured at fair value using the fair value model. The Entity has recorded income producing properties at fair value for an amount of \$4,832 million. The Entity's significant assumptions in evaluating the fair value of income producing properties include:

- future cash flows over the holding period
- terminal capitalization rates and discount rates applied to these cash flows.

Why the matter is a key audit matter

We identified the evaluation of the fair value of income producing properties as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of income producing properties and the high degree of estimation uncertainty in determining the fair value of income producing properties. Significant auditor judgment and involvement of professionals with specialized skills and knowledge was required to evaluate the results of our audit procedures due to the sensitivity of the fair value of income producing properties to minor changes in certain significant assumptions.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

For a selection of income producing properties, we assessed the Entity's ability to accurately forecast by comparing the Entity's future cash flows over the holding period used in the prior year's fair value of income producing properties to actual results.

For a selection of income producing properties, we compared the future cash flows over the holding period to the actual historical cash flows generated by the income producing properties. We took into account the changes in conditions and events affecting the income producing properties to assess the adjustments, or lack of adjustments, made by the Entity in arriving at those future cash flows.

For a selection of income producing properties, we involved valuations professionals with specialized skills and knowledge, who assisted in evaluating the terminal capitalization rates and discount rates. These rates were evaluated by comparing them to published reports of real estate industry commentators and considering the features of the specific income producing property.

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 "2020 Annual Report".

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

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

We obtained the information included in Management's Discussion and Analysis and a document entitled "2020 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.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Chartered Professional Accountants, Licensed Public Accountants

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

Toronto, Canada
March 1, 2021

Consolidated Statements of Earnings

For the years ended December 31
(millions of Canadian dollars except where otherwise indicated)

	2020	2019
Revenue	\$ 54,705	\$ 50,109
Operating Expenses		
Cost of inventories sold (note 13)	37,583	34,166
Selling, general and administrative expenses	14,234	12,985
	51,817	47,151
Operating Income	2,888	2,958
Net Interest Expense and Other Financing Charges (note 7)	831	1,704
Earnings Before Income Taxes	2,057	1,254
Income Taxes (note 8)	475	431
Net Earnings	1,582	823
Attributable to:		
Shareholders of the Company (note 9)	963	242
Non-Controlling Interests	619	581
Net Earnings	\$ 1,582	\$ 823
Net Earnings per Common Share (\$) (note 9)		
Basic	\$ 5.99	\$ 1.29
Diluted	\$ 5.96	\$ 1.26

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

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

	2020	2019
Net earnings	\$ 1,582	\$ 823
Other comprehensive (loss) income, net of taxes		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustment (note 33)	(28)	(49)
Unrealized losses on cash flow hedges (note 33)	(31)	(7)
Items that will not be reclassified to profit or loss:		
Net defined benefit plan actuarial (losses) gains (note 29)	(43)	1
Adjustment to fair value of investment properties (note 16)	17	10
Other comprehensive loss	(85)	(45)
Comprehensive Income	1,497	778
Attributable to:		
Shareholders of the Company	910	202
Non-Controlling Interests	587	576
Comprehensive Income	\$ 1,497	\$ 778

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

As at December 31
(millions of Canadian dollars)

	2020	2019 ⁽ⁱ⁾
ASSETS		
Current Assets		
Cash and cash equivalents (note 10)	\$ 2,581	\$ 1,834
Short-term investments (note 10)	575	229
Accounts receivable (note 11)	1,192	1,295
Credit card receivables (note 12)	3,109	3,518
Inventories (note 13)	5,385	5,270
Prepaid expenses and other assets	304	336
Assets held for sale (note 14)	108	203
Total Current Assets	13,254	12,685
Fixed Assets (note 15)	11,943	11,773
Right-of-Use Assets (note 32)	4,043	4,074
Investment Properties (note 16)	4,930	4,888
Equity Accounted Joint Ventures (note 17)	573	605
Intangible Assets (note 18)	7,032	7,488
Goodwill (note 19)	4,772	4,775
Deferred Income Taxes (note 8)	139	250
Security Deposits (note 10)	75	76
Franchise Loans Receivable (note 33)	—	19
Other Assets (note 20)	1,314	1,180
Total Assets	\$ 48,075	\$ 47,813
LIABILITIES		
Current Liabilities		
Bank indebtedness (note 36)	\$ 86	\$ 18
Trade payables and other liabilities	6,011	5,906
Loyalty liability (note 21)	194	191
Provisions (note 22)	109	147
Income taxes payable	128	53
Demand deposits from customers	24	—
Short-term debt (note 23)	1,335	1,489
Long-term debt due within one year (note 24)	924	1,842
Lease liabilities due within one year (note 32)	799	857
Associate interest	349	280
Total Current Liabilities	9,959	10,783
Provisions (note 22)	117	90
Long-Term Debt (note 24)	13,519	12,712
Lease Liabilities (note 32)	4,206	4,250
Trust Unit Liability (note 33)	3,600	3,601
Deferred Income Taxes (note 8)	2,059	2,245
Other Liabilities (note 25)	1,197	957
Total Liabilities	34,657	34,638
EQUITY		
Share Capital (note 26)	3,599	3,626
Retained Earnings	5,226	4,766
Contributed Surplus (notes 27 & 30)	(1,180)	(979)
Accumulated Other Comprehensive Income	166	196
Total Equity Attributable to Shareholders of the Company	7,811	7,609
Non-Controlling Interests	5,607	5,566
Total Equity	13,418	13,175
Total Liabilities and Equity	\$ 48,075	\$ 47,813

(i) Certain comparative figures have been restated to conform with current year presentation. Contingent liabilities (note 35). Subsequent events (note 39). See accompanying notes to the consolidated financial statements.

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, 2019	\$ 2,809	\$ 817	\$ 3,626	\$ 4,766	\$ (979)	\$ 182	\$ (4)	\$ 18	\$ 196	\$ 5,566	\$ 13,175
Net earnings	–	–	–	963	–	–	–	–	–	619	1,582
Other comprehensive (loss) income ⁽ⁱ⁾	–	–	–	(23)	–	(29)	(18)	17	(30)	(32)	(85)
Comprehensive income (loss)	\$ –	\$ –	\$ –	\$ 940	\$ –	\$ (29)	\$ (18)	\$ 17	\$ (30)	\$ 587	\$ 1,497
Effect of equity-based compensation (notes 26 & 30)	1	–	1	(1)	12	–	–	–	–	4	16
Shares purchased and cancelled (note 26)	(24)	–	(24)	(99)	–	–	–	–	–	–	(123)
Net effect of shares held in trusts (notes 26 & 30)	(4)	–	(4)	(11)	–	–	–	–	–	–	(15)
Loblaw capital transactions and dividends (notes 27 & 30)	–	–	–	–	(213)	–	–	–	–	(550)	(763)
Dividends declared											
Per common share (\$)											
– \$2.125	–	–	–	(326)	–	–	–	–	–	–	(326)
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)
	\$ (27)	\$ –	\$ (27)	\$ (480)	\$ (201)	\$ –	\$ –	\$ –	\$ –	\$ (546)	\$ (1,254)
Balance as at Dec. 31, 2020	\$ 2,782	\$ 817	\$ 3,599	\$ 5,226	\$ (1,180)	\$ 153	\$ (22)	\$ 35	\$ 166	\$ 5,607	\$ 13,418

(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, 2018	\$ 2,766	\$ 817	\$ 3,583	\$ 5,017	\$ (799)	\$ 231	\$ –	\$ 8	\$ 239	\$ 6,164	\$ 14,204
Impact of adopting IFRS 16	–	–	–	(115)	–	–	–	–	–	(394)	(509)
Restated balance as at Jan. 1, 2019	\$ 2,766	\$ 817	\$ 3,583	\$ 4,902	\$ (799)	\$ 231	\$ –	\$ 8	\$ 239	\$ 5,770	\$ 13,695
Net earnings	–	–	–	242	–	–	–	–	–	581	823
Other comprehensive income (loss) ⁽ⁱ⁾	–	–	–	3	–	(49)	(4)	10	(43)	(5)	(45)
Comprehensive income (loss)	\$ –	\$ –	\$ –	\$ 245	\$ –	\$ (49)	\$ (4)	\$ 10	\$ (43)	\$ 576	\$ 778
Effect of equity-based compensation (notes 26 & 30)	47	–	47	(1)	(10)	–	–	–	–	(3)	33
Shares purchased and cancelled (note 26)	(4)	–	(4)	(21)	–	–	–	–	–	–	(25)
Net effect of shares held in trusts (notes 26 & 30)	–	–	–	5	–	–	–	–	–	–	5
Loblaw capital transactions and dividends (notes 27 & 30)	–	–	–	–	(170)	–	–	–	–	(777)	(947)
Dividends declared											
Per common share (\$)											
– \$2.090	–	–	–	(321)	–	–	–	–	–	–	(321)
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)
	\$ 43	\$ –	\$ 43	\$ (381)	\$ (180)	\$ –	\$ –	\$ –	\$ –	\$ (780)	\$ (1,298)
Balance as at Dec 31, 2019	\$ 2,809	\$ 817	\$ 3,626	\$ 4,766	\$ (979)	\$ 182	\$ (4)	\$ 18	\$ 196	\$ 5,566	\$ 13,175

(i) Other comprehensive (loss) income includes actuarial loss of \$43 million (2019 – gain of \$1 million), \$23 million (2019 – gain of \$3 million) of which is presented above in retained earnings, and \$20 million (2019 – loss of \$2 million) in non-controlling interests. Also included in non-controlling interests is foreign currency translation gain of \$1 million (2019 – nil) and unrealized loss on cash flow hedges of \$13 million (2019 – \$3 million).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

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

	2020	2019 ⁽ⁱ⁾
Operating Activities		
Net earnings	\$ 1,582	\$ 823
Add:		
Net interest expense and other financing charges (note 7)	831	1,704
Income taxes (note 8)	475	431
Depreciation and amortization	2,427	2,318
Asset impairments, net of recoveries	39	46
Adjustment to fair value of investment properties and assets held for sale (notes 14 and 16)	194	93
Change in allowance for credit card receivables (note 12)	41	29
Change in provisions (note 22)	(6)	(54)
	5,583	5,390
Change in gross credit card receivables (note 12)	368	(238)
Change in non-cash working capital	(57)	(7)
Income taxes paid	(448)	(656)
Interest received	25	35
Interest received from finance leases (note 32)	3	4
Other	47	27
Cash Flows from Operating Activities	5,521	4,555
Investing Activities		
Fixed asset and investment properties purchases (notes 15 & 16)	(1,235)	(1,155)
Intangible asset additions (note 18)	(357)	(403)
Cash assumed on initial consolidation of franchises (note 6)	14	20
Proceeds from disposal of assets	301	87
Lease payments received from finance leases	5	8
Change in short-term investments (note 10)	(346)	52
Change in security deposits (note 10)	–	7
Other	(120)	(108)
Cash Flows used in Investing Activities	(1,738)	(1,492)
Financing Activities		
Change in bank indebtedness	68	(38)
Change in short-term debt (note 23)	(154)	(90)
Change in demand deposits from customers	24	–
Proceeds from other financing (note 25)	231	435
Interest paid	(883)	(891)
Long-term debt – Issued (note 24)	2,492	1,438
– Repayments (note 24)	(2,598)	(1,690)
Cash rent paid on lease liabilities – Interest (note 32)	(207)	(214)
Cash rent paid on lease liabilities – Principal (note 32)	(650)	(520)
Share capital – Issued (notes 26 & 30)	1	40
– Purchased and held in trusts (note 26)	(21)	(6)
– Purchased and cancelled (note 26)	(123)	(25)
Loblaw common share capital – Issued (notes 27 & 30)	30	82
– Purchased and held in trusts (note 27)	(10)	(62)
– Purchased and cancelled (note 27)	(552)	(937)
Choice Properties units – Issued (note 5)	–	345
– Issuance Costs	–	(14)
Dividends – To common shareholders	(328)	(319)
– To preferred shareholders	(44)	(44)
– To minority shareholders	(284)	(228)
Other	(27)	(12)
Cash Flows used in Financing Activities	(3,035)	(2,750)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1)	–
Change in Cash and Cash Equivalents	747	313
Cash and Cash Equivalents, Beginning of Year	1,834	1,521
Cash and Cash Equivalents, End of Year	\$ 2,581	\$ 1,834

(i) Certain comparative figures have been restated to conform with current year presentation.
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 2S5. The Company's parent is Wittington Investments, Limited ("Wittington").

The Company operates through its three reportable operating segments, Loblaw Companies Limited ("Loblaw"), Choice Properties Real Estate Investment Trust ("Choice Properties"), and Weston Foods. Other and Intersegment includes eliminations, intersegment adjustments related to the consolidation and cash and short-term investments held by the Company. All other company level activities that are not allocated to the reportable operating segments, such as interest expense, corporate activities and administrative costs are included in Other and Intersegment.

Loblaw has two reportable operating segments, retail and financial services. Loblaw's retail segment consists primarily of food retail and drug retail. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise and financial services.

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

Weston Foods is a North American bakery making bread, rolls, cupcakes, donuts, cookies, cakes, pies, cones and wafers, artisan baked goods and more.

Since the first quarter of 2020, the COVID-19 pandemic has had a significant impact on the Company. The Company's financial results for the year ended 2020 show increased revenue, driven by increased demands for the Company's products, as well as increased cost of inventories sold. In addition, starting in the second quarter of 2020 selling, general and administrative expenses ("SG&A") also increased as the Company increased its spending on temporary pay premiums, pay protection safeguards, security, customer convenience and health and safety measures to protect colleagues, customers, tenants and other stakeholders, incurring incremental COVID-19 related costs.

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 March 1, 2021.

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 equity-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 years 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. The years ended December 31, 2020 and December 31, 2019 contained 53 weeks and 52 weeks, respectively.

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 Loblaw and Choice Properties (see note 5).

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 Associates as well as the franchisees of its food retail stores that are subject to a simplified franchise agreement implemented in 2015 ("Franchise Agreement"). An "Associate" is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using Shoppers Drug Mart Corporation ("Shoppers Drug Mart") trademarks. The consolidation of Associates and franchisees is based on the concept of control, for accounting purposes, which was determined to exist through the agreements that govern the relationships between 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 Inc. (or an affiliate thereof) agrees to purchase the assets that the Associates use in store operations, primarily at the carrying value to the Associate, when Associate Agreements are terminated by either party. The Associates' corporations and the franchisees remain separate legal entities.

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

NET EARNINGS PER COMMON SHARE ("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 control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, including variable consideration to the extent that it is highly probable that a significant reversal will not occur.

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, 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.

Notes to the Consolidated Financial Statements

Loblaw 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.

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.

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.

Choice Properties 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.

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

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

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 franchisees for loans issued through a structure involving consolidated independent funding trusts. These trusts, which are considered structured entities, were created to provide loans to franchisees 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. Inventories are measured at weighted average cost.

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.

Notes to the Consolidated Financial Statements

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.

ASSETS HELD FOR SALE Non-current assets are classified as assets held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. To qualify as assets held for sale, the sale must be highly probable, assets must be available for immediate sale in their present condition and management must be committed to a plan to sell assets that should be expected to close within one year from the date of classification. Assets that were previously classified as investment properties are measured using the fair value model consistent with properties classified as investment properties.

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

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

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

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

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

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

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

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

LEASES

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

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

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

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

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

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

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

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

INVESTMENT PROPERTIES Investment properties include income producing properties and properties under development that are owned by the Company and held to either earn rental income, 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.

Income producing properties 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 future cash flows over the holding period, generally over a minimum term of ten years, including a terminal value

Notes to the Consolidated Financial Statements

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

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

Properties under development include specifically identifiable costs incurred in the period before construction is complete, and are transferred to income producing properties at their fair value upon practical completion.

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.

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, deferred tax assets and investment properties, to determine whether there is any indication of impairment. If any such indication exists, the asset is then tested for impairment by comparing its recoverable amount to its carrying value. Goodwill and indefinite life intangible assets are tested for impairment at least annually.

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

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

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

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

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

Impairment losses and reversals are recognized in SG&A.

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.

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

Asset / Liability	Classification / Measurement
Cash and cash equivalents	Amortized cost
Short-term investments	Amortized cost
Accounts receivable	Amortized cost
Credit card receivables	Amortized cost
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
Demand deposits from customers	Amortized cost
Short-term debt	Amortized cost
Long-term debt	Amortized cost
Trust Unit liability	Fair value through profit and loss
Certain other liabilities	Amortized cost
Derivatives	Fair value through profit and loss / fair value through other comprehensive income

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

The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and interest rates. The effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. If the change in fair value of the hedging item is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings. The Company ensures that the hedge accounting relationships are aligned with the Company's risk management objectives and strategy and applies a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in Note 33 "Financial Instruments" and Note 34 "Financial Risk Management".

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

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

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

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

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

Type	Valuation Approach
Cash and Cash Equivalents, Short-Term Investments, Security Deposits, Accounts Receivable, Credit Card Receivables, Bank Indebtedness, Trade Payables and Other Liabilities, Demand deposits from other customers 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; and • The fair values of other derivative instruments are determined based on observable market information as well as valuations determined by external valuers with experience in financial markets.
Long-Term Debt, Trust Unit Liability and certain Other Financial Instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

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

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

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

Notes to the Consolidated Financial Statements

recognized based on the expected losses over the expected life of the instrument arising from loss events that could occur over the expected life. The Company is required to recognize a lifetime ECL for Stage 2 financial instruments.

- Stage 3 is comprised of all financial instruments that have objective evidence of impairment at the reporting date. The Company is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

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

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

FOREIGN CURRENCY TRANSLATION The functional currency of the Company is the Canadian dollar.

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

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

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

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

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

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

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

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 historical volatility of GWL or Loblaw 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.

Notes to the Consolidated Financial Statements

CASH-SETTLED EQUITY-BASED COMPENSATION PLANS Unit Options, Restricted Units ("RUs"), Performance Units ("PUs"), Trustee Deferred Units ("DUs"), and Unit-Settled Restricted Units ("URUs") issued by Choice Properties, and certain DSUs and stock options are accounted for as cash-settled awards. The fair value of the amount payable to recipients in respect of these cash settled awards 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.

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 Choice Properties unit price over a period consistent with the expected life of the options;
- The risk-free interest rate is estimated based on the Government of Canada bond yield in effect at the balance sheet date for a term to maturity equal to the expected life of the options; and
- The effect of expected exercise of options prior to expiry is incorporated into the weighted average expected life of the options, which is based on expectations of option holder behaviour.

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

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

URUs are accounted for as cash-settled awards. Typically, full vesting of the URUs would not occur until the employee had remained with Choice Properties 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 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.

NEW SIGNIFICANT ACCOUNTING POLICIES

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

Demand Deposits from Customers Demand deposits from customers are comprised of balances in customers' debit accounts with *PC Money* Account and are measured at amortized cost.

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, FIXED ASSETS AND RIGHT-OF-USE ASSETS)

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

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

CUSTOMER LOYALTY AWARDS PROGRAMS

Key Sources of Estimation 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.

Notes to the Consolidated Financial Statements

IMPAIRMENT OF CREDIT CARD RECEIVABLES

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

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

FAIR VALUE OF INCOME PRODUCING PROPERTIES

Key Sources of Estimation The fair value of income producing properties is dependent on future cash flows over the holding period, terminal capitalization rates, and discount rates applicable to those assets. The review of future cash flows involves assumptions relating to occupancy, rental rates, and residual value. In addition to reviewing future 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.

PROVISIONS

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

LEASES

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

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

Note 4. Future Accounting Standard

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

Note 5. Subsidiaries

The table below summarizes the Company's principal subsidiaries. The proportion of ownership interests held equals the voting rights held by the Company. GWL's ownership in Loblaw and Choice Properties is impacted by changes in Loblaw's common share equity and Choice Properties' trust units, respectively.

		As at			
		Dec. 31, 2020		Dec. 31, 2019	
		Number of shares / units held	Ownership interest	Number of shares / units held	Ownership interest
Loblaw	Common shares ⁽ⁱ⁾	182,874,456	52.6%	187,815,136	52.2%
	Class B LP Units ⁽ⁱⁱ⁾⁽ⁱⁱⁱ⁾	395,786,525	n/a	389,961,783	n/a
	Trust Units	50,661,415	n/a	50,661,415	n/a
Choice Properties		446,447,940	61.8%	440,623,198	62.9%

- (i) Includes 9.6 million Loblaw common shares pledged under the equity forward sale agreement (see note 33). Additionally, commencing in the first quarter of 2020, GWL participated in Loblaw's Normal Course Issuer Bid ("NCIB") program, in order to maintain its proportionate percentage ownership (see note 27).
- (ii) Class B LP Units ("Exchangeable Units") are economically equivalent to Trust Units, receive distributions equal to the distributions paid on Trust Units and are exchangeable, at the holder's option, into Trust Units.
- (iii) During the fourth quarter of 2020, Choice Properties acquired six properties from Weston Foods and issued 5,824,742 Exchangeable Units as consideration.

Notes to the Consolidated Financial Statements

Note 6. Business Acquisitions

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

Loblaw has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2020, Loblaw consolidated all of its remaining franchisees for accounting purposes under the Franchise Agreement.

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

(\$ millions)	2020	2019
Net assets acquired:		
Cash and cash equivalents	\$ 14	\$ 20
Inventories	42	51
Fixed assets (note 15)	44	67
Trade payables and other liabilities ⁽ⁱ⁾	(54)	(48)
Other liabilities ⁽ⁱ⁾	(30)	(73)
Non-controlling interests	(16)	(17)
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.

Note 7. Net Interest Expense and Other Financing Charges

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

(\$ millions)	2020	2019
Interest expense:		
Long-term debt	\$ 638	\$ 644
Lease liabilities	207	214
Borrowings related to credit card receivables	48	45
Trust Unit distributions	223	203
Choice Properties issuance costs	–	14
Independent funding trusts	14	19
Post-employment and other long-term employee benefits (note 29)	9	9
Bank indebtedness	4	6
Financial liabilities (note 25)	31	7
Capitalized interest (capitalization rate 3.7% (2019 - 4.0%)) (notes 15 & 18)	(4)	(4)
	\$ 1,170	\$ 1,157
Interest income:		
Accretion income	\$ (5)	\$ (9)
Short-term interest income	(24)	(33)
	\$ (29)	\$ (42)
Forward sale agreement ⁽ⁱ⁾	\$ (71)	\$ 39
Fair value adjustment of the Trust Unit liability (note 33)	(239)	550
Net interest expense and other financing charges	\$ 831	\$ 1,704

(i) Included income of \$47 million (2019 – charge of \$69 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 \$46 million (2019 – \$50 million), and the forward fee of \$22 million (2019 – \$20 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)	2020	2019
Current income taxes		
Current period	\$ 546	\$ 534
Adjustment in respect of prior periods	(18)	8
Deferred income taxes		
Origination and reversal of temporary differences	(63)	(80)
Effect of change in income tax rates	(3)	(10)
Adjustment in respect of prior periods	13	(21)
Income taxes	\$ 475	\$ 431

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

(\$ millions)	2020	2019
Net defined benefit plan actuarial gains (note 29)	\$ (15)	\$ 1
Adjustment to fair value on transfer of investment properties	3	2
Settlement of bond forward	(10)	–
Total income tax recognized in other comprehensive income	\$ (22)	\$ 3

The effective 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:

	2020	2019
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	–	(0.7)
Non-deductible and non-taxable items	(0.1)	(1.2)
Impact of fair value adjustment of Trust Unit liability	(3.1)	11.7
Impact of income tax rate changes on deferred income tax balances	(0.2)	(0.8)
Adjustments in respect of prior periods	(0.1)	(0.8)
Other	–	(0.5)
Effective tax rate applicable to earnings before income taxes	23.1%	34.4%

Loblaw has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited (“Glenhuron”), a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court of Canada (“Tax Court”) released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, Loblaw filed a Notice of Appeal with the Federal Court of Appeal. During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of Loblaw and reversed the decision of the Tax Court. During the fourth quarter, on October 29, 2020, the Supreme Court granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. Loblaw has not reversed any portion of the \$367 million of charges recorded during the third quarter of 2018, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes.

Notes to the Consolidated Financial Statements

Deferred income tax assets which were not recognized on the consolidated balance sheets were as follows:

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Deductible temporary differences	\$ 15	\$ 19
Income tax losses and credits	171	185
Unrecognized deferred income tax assets	\$ 186	\$ 204

The portion of the income tax losses and credits which have a limited carry-forward period expire in the years 2026 to 2040. 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, 2020	Dec. 31, 2019
Trade payables and other liabilities	\$ 82	\$ 92
Other liabilities	372	141
Lease liabilities	1,301	1,160
Fixed assets	(1,153)	(1,037)
Right-of-use assets	(1,064)	(902)
Goodwill and intangible assets	(1,559)	(1,674)
Non-capital losses carried forward (expiring 2026 to 2040)	97	155
Capital losses carried forward	19	32
Other	(15)	38
Net deferred income tax liabilities	\$ (1,920)	\$ (1,995)
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	\$ 139	\$ 250
Deferred income tax liabilities	(2,059)	(2,245)
Net deferred income tax liabilities	\$ (1,920)	\$ (1,995)

Note 9. Basic and Diluted Net Earnings per Common Share

(\$ millions except where otherwise indicated)	2020	2019
Net earnings attributable to shareholders of the Company	\$ 963	\$ 242
Prescribed dividends on preferred shares in share capital	(44)	(44)
Net earnings available to common shareholders of the Company	\$ 919	\$ 198
Reduction in net earnings due to dilution at Loblaw	(4)	(4)
Net earnings available to common shareholders for diluted earnings per share	\$ 915	\$ 194
Weighted average common shares outstanding (in millions) (note 26)	153.4	153.5
Dilutive effect of equity-based compensation ⁽ⁱ⁾ (in millions)	0.1	0.2
Diluted weighted average common shares outstanding (in millions)	153.5	153.7
Basic net earnings per common share (\$)	\$ 5.99	\$ 1.29
Diluted net earnings per common share (\$)	\$ 5.96	\$ 1.26

- (i) Excluded from the computation of diluted net earnings per common share were 1.4 million (2019 – 1.0 million) potentially dilutive instruments, as they were anti-dilutive.

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, 2020	Dec. 31, 2019
Cash	\$ 1,228	\$ 775
Cash equivalents:		
Government treasury bills	758	262
Bankers' acceptances	570	557
Corporate commercial paper	—	240
Guaranteed investment certificates	22	—
Other	3	—
Cash and cash equivalents	\$ 2,581	\$ 1,834

SHORT-TERM INVESTMENTS

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Government treasury bills	\$ 485	\$ 61
Bankers' acceptances	81	32
Corporate commercial paper	1	136
Guaranteed Investment Certificates	7	—
Other	1	—
Short-term investments	\$ 575	\$ 229

SECURITY DEPOSITS

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Cash	\$ 52	\$ 46
Government treasury bills	23	30
Security deposits	\$ 75	\$ 76

Notes to the Consolidated Financial Statements

Note 11. Accounts Receivable

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

(\$ millions)	As at				Dec. 31, 2019 ⁽ⁱ⁾			
	Dec. 31, 2020				0 - 90 days	> 90 days	> 180 days	Total
	0 - 90 days	> 90 days	> 180 days	Total	0 - 90 days	> 90 days	> 180 days	Total
Accounts receivable	\$ 1,036	\$ 108	\$ 48	\$ 1,192	\$ 1,180	\$ 38	\$ 77	\$ 1,295

(i) Certain comparative figures have been restated to conform with current year presentation.

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

(\$ millions)	2020	2019
Allowance, beginning of year	\$ (34)	\$ (34)
Net write-offs	3	—
Allowance, end of year	\$ (31)	\$ (34)

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, 2020	Dec. 31, 2019
Gross credit card receivables	\$ 3,346	\$ 3,714
Allowance for credit card receivables	(237)	(196)
Credit card receivables	\$ 3,109	\$ 3,518
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> [®] (note 24)	\$ 1,050	\$ 1,000
Securitized to Other Independent Securitization Trusts (note 23)	575	775
Total securitized to independent securitization trusts	\$ 1,625	\$ 1,775

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 associated liability of *Eagle* is recorded in long-term debt (see note 24). The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short-term debt.

The securitization agreements between PC Bank and the Other Independent Securitization Trusts are renewed and extended on an annual basis. The existing agreements were renewed in 2020, with their respective maturity dates extended to 2022 and with all other terms and conditions remaining substantially the same.

On a year-to-date basis in 2020, PC Bank recorded a \$200 million net decrease of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts as a result of a decline in the volume of credit card receivables.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts at year end 2020 were \$400 million (2019 – \$125 million).

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 2020 and throughout the year.

The following is an aging of gross credit card receivables:

(\$ millions)	As at				Dec. 31, 2019			
	Dec. 31, 2020							
	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	\$ 3,169	\$ 150	\$ 27	\$ 3,346	\$ 3,504	\$ 176	\$ 34	\$ 3,714

The following are continuities of Loblaw's allowances for credit card receivables for the years ended December 31, 2020 and December 31, 2019:

(\$ millions)	Stage 1	Stage 2	Stage 3	2020 Total
Balance, beginning of the year	\$ 72	\$ 92	\$ 32	\$ 196
Increase / (Decrease) during the year:				
Transfers ⁽ⁱ⁾				
To Stage 1	33	(33)	—	—
To Stage 2	(5)	7	(2)	—
To Stage 3	(1)	(18)	19	—
New loans originated ⁽ⁱⁱ⁾	7	16	1	24
New remeasurements ⁽ⁱⁱⁱ⁾	(16)	52	93	129
Write-offs	—	—	(138)	(138)
Recoveries	—	—	26	26
Balance, end of year	\$ 90	\$ 116	\$ 31	\$ 237

- (i) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.
(ii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.
(iii) Net remeasurement of loss allowance includes impact from changes in loan balances and credit quality during the year.

(\$ millions)	Stage 1	Stage 2	Stage 3	2019 Total
Balance, beginning of the year	\$ 62	\$ 80	\$ 25	\$ 167
Increase / (Decrease) during the year:				
Transfers ⁽ⁱ⁾				
To Stage 1	31	(31)	—	—
To Stage 2	(7)	8	(1)	—
To Stage 3	(1)	(16)	17	—
New loans originated ⁽ⁱⁱ⁾	9	13	3	25
New remeasurements ⁽ⁱⁱⁱ⁾	(22)	38	105	121
Write-offs	—	—	(139)	(139)
Recoveries	—	—	22	22
Balance, end of year	\$ 72	\$ 92	\$ 32	\$ 196

- (i) Transfers reflect allowance movements between stages for loans that were recognized as of the beginning of the year.
(ii) New loans originated reflect the stage of loan, and the related loan balance, as of the end of the year.
(iii) Net remeasurement of loss allowance includes impact from changes in loan balances and credit quality during the year.

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

Notes to the Consolidated Financial Statements

Note 13. Inventories

The components of inventories were as follows:

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Raw materials and supplies	\$ 71	\$ 70
Finished goods	5,314	5,200
Inventories	\$ 5,385	\$ 5,270

As at year end 2020, Loblaw recorded an inventory provision of \$34 million (December 31, 2019 – \$33 million), for the write-down of inventories below cost to net realizable value. The write-down was included in cost of inventories sold. There were no reversals of previously recorded write-downs of inventories during December 31, 2020 and December 31, 2019.

Note 14. Assets Held for Sale

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 either originally used in Loblaw's retail business segment or held in investment properties. In 2020, Loblaw recorded a net gain of \$9 million (2019 – net gain of \$12 million) from the sale of these assets. Net fair value write-down of \$20 million (2019 – \$8 million) was recognized on assets held for sale in 2020.

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, 2020:

(\$ 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	\$ 2,071	\$ 9,062	\$ 9,648	\$ 2,347	\$ –	\$ 713	\$ 23,841
Additions ⁽ⁱ⁾	1	2	145	32	–	920	1,100
Disposals	(2)	(43)	(63)	(26)	–	(7)	(141)
Transfer to assets held for sale	(29)	–	–	–	–	–	(29)
Net transfer from investment properties (note 16)	11	42	–	–	–	75	128
Net transfer to equity accounted joint ventures	–	–	–	–	–	–	–
Transfer from assets under construction	30	340	640	40	–	(1,050)	–
Business acquisitions (note 6)	–	–	44	–	–	–	44
Impact of foreign currency translation	–	(9)	(23)	–	–	(2)	(34)
Cost, end of year	\$ 2,082	\$ 9,394	\$ 10,391	\$ 2,393	\$ –	\$ 649	\$ 24,909
Accumulated depreciation and impairment losses, beginning of year	\$ 2	\$ 3,680	\$ 7,000	\$ 1,383	\$ –	\$ 3	\$ 12,068
Depreciation	–	268	632	134	–	–	1,034
Impairment losses	1	6	12	9	–	–	28
Reversal of impairment losses	–	(9)	(2)	(4)	–	–	(15)
Disposals	–	(22)	(63)	(25)	–	–	(110)
Transfer to assets held for sale	–	–	–	–	–	–	–
Transfer to investment properties (note 16)	–	(23)	–	–	–	–	(23)
Impact of foreign currency translation	–	(3)	(13)	–	–	–	(16)
Accumulated depreciation and impairment losses, end of year	\$ 3	\$ 3,897	\$ 7,566	\$ 1,497	\$ –	\$ 3	\$ 12,966
Carrying amount as at:							
December 31, 2020	\$ 2,079	\$ 5,497	\$ 2,825	\$ 896	\$ –	\$ 646	\$ 11,943

(i) Additions to fixed assets in Loblaw includes \$66 million prepayment that was made in 2019. The balance was transferred from other assets in 2020.

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, 2019:

(\$ 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	\$ 2,050	\$ 8,895	\$ 9,164	\$ 2,217	\$ 951	\$ 747	\$ 24,024
IFRS 16 Adjustments	—	—	(42)	—	(951)	—	(993)
Restated balance, beginning of year	2,050	8,895	9,122	2,217	—	747	23,031
Additions ⁽ⁱ⁾	5	32	167	52	—	852	1,108
Disposals	(7)	(18)	(205)	(18)	—	—	(248)
Transfer to assets held for sale	(9)	(4)	—	—	—	—	(13)
Net transfer to investment properties (note 16)	(12)	(36)	—	—	—	(1)	(49)
Net transfer to equity accounted joint ventures	—	(8)	—	—	—	—	(8)
Transfer from assets under construction	44	174	528	133	—	(879)	—
Business acquisitions	—	38	66	(37)	—	—	67
Impact of foreign currency translation	—	(11)	(30)	—	—	(6)	(47)
Cost, end of year	\$ 2,071	\$ 9,062	\$ 9,648	\$ 2,347	\$ —	\$ 713	\$ 23,841
Accumulated depreciation and impairment losses, beginning of year	\$ 2	\$ 3,499	\$ 6,659	\$ 1,220	\$ 540	\$ 3	\$ 11,923
IFRS 16 Adjustments	—	—	(18)	—	(540)	—	(558)
Restated balance, beginning of year	2	3,499	6,641	1,220	—	3	11,365
Depreciation	—	227	561	163	—	—	951
Impairment losses	—	7	20	18	—	—	45
Reversal of impairment losses	—	(18)	(5)	(4)	—	—	(27)
Disposals	—	(18)	(198)	(14)	—	—	(230)
Transfer to assets held for sale	—	(1)	—	—	—	—	(1)
Net transfer to investment properties (note 16)	—	(12)	—	—	—	—	(12)
Impact of foreign currency translation	—	(4)	(19)	—	—	—	(23)
Accumulated depreciation and impairment losses, end of year	\$ 2	\$ 3,680	\$ 7,000	\$ 1,383	\$ —	\$ 3	\$ 12,068
Carrying amount as at:							
December 31, 2019	\$ 2,069	\$ 5,382	\$ 2,648	\$ 964	\$ —	\$ 710	\$ 11,773

(i) Additions to fixed assets in Loblaw includes \$13 million prepayment that was made in 2018. The balance was transferred from other assets in 2019.

ASSETS UNDER CONSTRUCTION The cost of additions to properties under construction for 2020 was \$920 million (2019 – \$852 million). Included in this amount were capitalized borrowing costs of \$4 million (2019 – \$4 million) with a weighted average capitalization rate of 3.7% (2019 – 4.0%) (see note 7).

SECURITY AND ASSETS PLEDGED As at year end 2020, the Company had fixed assets with a carrying amount of \$52 million (2019 - \$66 million) which were encumbered by mortgages of \$38 million (2019 - \$44 million) (see note 24).

FIXED ASSET COMMITMENTS As at year end 2020, the Company had entered into commitments of \$502 million (2019 – \$773 million) for the construction, expansion and renovation of buildings and the purchase of real property.

IMPAIRMENT LOSSES AND REVERSALS OF FIXED ASSETS AND RIGHT-OF-USE ASSETS In 2020, the Company recorded \$20 million (2019 – \$41 million) of impairment losses on fixed assets and \$20 million (2019 – \$16 million) of impairment losses on right-of-use assets (note 32) in respect of 23 CGUs (2019 – 32 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 13% (2019 – 6%) of impaired CGUs had carrying values which were \$5 million (2019 – \$3 million) greater than their fair value less costs to sell. The remaining 87% (2019 – 94%) of impaired CGUs had carrying values which were \$35 million (2019 – \$54 million) greater than their value in use.

In 2020, the Company recorded \$15 million (2019 – \$27 million) of impairment reversals on fixed assets and \$2 million (2019 – nil) of impairment reversals on right-of-use assets (see note 32) in respect to 10 CGUs (2019 – 10 CGUs). Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying values. Approximately 50% (2019 – 30%) of CGUs with impairment reversals had fair value less costs to sell greater than their carrying values of \$8 million (2019 – \$12 million). The remaining 50% (2019 – 70%) of CGUs with impairment reversals had value in use of \$9 million (2019 – \$15 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. Projected future sales and earnings for cash flows are based on actual operating results, operating budgets, and long-term growth rates that are consistent with industry averages, all of which are consistent with strategic plans presented to GWL's and Loblaw's Boards. The estimate of the value in use of relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at the end of 2020 (2019 – 8.0% to 8.5%).

Additional impairment losses of \$8 million (2019 – \$4 million) were incurred related to Loblaw's store closures, renovations, conversions of retail locations and restructuring activities. Additional impairment losses on right-of-use assets (see note 32) of \$3 million (2019 – nil) were related to restructuring activities.

Note 16. Investment Properties

The following are continuities of investment properties for the years ended December 31, 2020 and December 31, 2019:

(\$ millions)	2020	2019
Balance, beginning of the year	\$ 4,888	\$ 4,847
Adjustment to fair value of investment properties	(138)	(74)
Additions ⁽ⁱ⁾	444	85
Disposals	(159)	(34)
Net transfer from (to) fixed assets ⁽ⁱⁱⁱ⁾ (note 15)	(125)	49
Net transfer to assets held for sale	(25)	(174)
Net transfer from equity accounted joint ventures	43	182
Other	2	7
Balance, end of the year ⁽ⁱⁱⁱ⁾	\$ 4,930	\$ 4,888

(i) Additions to investment properties includes \$243 million (2019 – \$25 million) of non-cash consideration.

(ii) Includes the fair value gain of \$20 million (2019 – \$12 million) recognized in other comprehensive income related to transfer of fixed assets to investment properties.

(iii) Includes \$4,832 million (2019 – \$4,822 million) of income producing properties and \$98 million (2019 – \$66 million) of properties under development.

During 2020, the Company recognized in operating income \$394 million (2019 – \$400 million) of rental revenue and incurred direct operating costs of \$137 million (2019 – \$123 million) related to its investment properties. In addition, the Company recognized direct operating costs of \$2 million (2019 – \$2 million) related to its investment properties for which no rental revenue was earned.

Notes to the Consolidated Financial Statements

INTERNAL APPRAISALS

Investment properties are measured at fair value, which was primarily determined by using the discounted cash flow method. Management reviews the valuation process and results prepared by the internal valuation team at least once per quarter. The valuations exclude any portfolio premium or value for the management platform and reflect the highest and best use for each of the Company's investment properties. As part of the internal valuation process, Management considers external valuations performed by independent national real estate valuation firms for a cross-section of properties that represent different geographical locations and asset classes across the Company's portfolio. On a quarterly basis, the internal 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.

INDEPENDENT APPRAISALS

Properties are typically independently appraised at the time of acquisition. In addition, the Company has engaged independent nationally-recognized valuation firms to appraise its investment properties such that the majority 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. Where warranted, adjustments will be made to the internal valuations to reflect the assumptions contained in the external valuations. The Company will record the internal value in its consolidated financial statements.

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.

	As at			
	Dec. 31, 2020		Dec. 31, 2019	
	Number of joint ventures	Ownership interest	Number of joint ventures	Ownership interest
Retail	16	25% - 75%	16	25% - 75%
Industrial	2	50%	2	50%
Residential	3	47% - 50%	3	47% - 50%
Mixed-use	—	—%	1	40%
Land, held development	1	50%	—	—%
Total equity accounted joint ventures	22		22	
Investment in equity accounted joint ventures (\$ millions)		\$ 573		\$ 605

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, 2020:

(\$ 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 ⁽ⁱ⁾	\$ 3,490	\$ 20	\$ 20	\$ 3,186	\$ 6,018	\$ 12,734
Additions	–	–	–	350	7	357
Business acquisitions	1	–	–	–	2	3
Impact of foreign currency translation	–	–	–	(1)	(3)	(4)
Cost, end of year	\$ 3,491	\$ 20	\$ 20	\$ 3,535	\$ 6,024	\$ 13,090
Accumulated amortization and impairment losses, beginning of year	\$ –	\$ 20	\$ 11	\$ 2,142	\$ 3,073	\$ 5,246
Amortization	–	–	1	304	510	815
Impairment losses	–	–	–	–	1	1
Impact of foreign currency translation	–	–	–	–	(4)	(4)
Accumulated amortization and impairment losses, end of year	\$ –	\$ 20	\$ 12	\$ 2,446	\$ 3,580	\$ 6,058
Carrying amount as at:						
December 31, 2020	\$ 3,491	\$ –	\$ 8	\$ 1,089	\$ 2,444	\$ 7,032

(i) Certain comparative figures have been restated to conform with current year presentation.

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, 2019:

(\$ 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 ⁽ⁱ⁾	\$ 3,489	\$ 20	\$ 20	\$ 2,789	\$ 6,204	\$ 12,522
IFRS 16 adjustments	—	—	—	—	(207)	(207)
Restated balance, beginning of year	3,489	20	20	2,789	5,997	12,315
Additions	1	—	—	397	5	403
Business acquisitions	—	—	—	—	23	23
Disposal	—	—	—	—	(1)	(1)
Write-off cost of fully amortized assets	—	—	—	—	(1)	(1)
Impact of foreign currency translation	—	—	—	—	(5)	(5)
Cost, end of year	\$ 3,490	\$ 20	\$ 20	\$ 3,186	\$ 6,018	\$ 12,734
Accumulated amortization and impairment losses, beginning of year	\$ —	\$ 20	\$ 10	\$ 1,852	\$ 2,682	\$ 4,564
IFRS 16 adjustments	—	—	—	—	(125)	(125)
Restated balance, beginning of year	—	20	10	1,852	2,557	4,439
Amortization	—	—	1	290	508	799
Impairment losses	—	—	—	—	12	12
Disposals	—	—	—	—	(1)	(1)
Write-off amortization of fully amortized assets	—	—	—	—	(1)	(1)
Impact of foreign currency translation	—	—	—	—	(2)	(2)
Accumulated amortization and impairment losses, end of year	\$ —	\$ 20	\$ 11	\$ 2,142	\$ 3,073	\$ 5,246
Carrying amount as at:						
December 31, 2019	\$ 3,490	\$ —	\$ 9	\$ 1,044	\$ 2,945	\$ 7,488

(i) Certain comparative figures have been restated to conform with current year presentation.

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 cash flow forecasts, growth rates, discount rates, and terminal rate. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 19).

SOFTWARE Software is comprised of software purchases and development costs. There were no capitalized borrowing costs included in 2020 (2019 – nil).

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 impairment losses of goodwill for the years ended December 31, 2020 and December 31, 2019:

(\$ millions)	2020	2019
Cost, beginning of year	\$ 5,842	\$ 5,848
Business acquisitions	2	4
Adjusted purchase price allocation	–	(1)
Impact of foreign currency translation	(5)	(9)
Cost, end of year	\$ 5,839	\$ 5,842
Accumulated impairment losses, beginning of year	\$ 1,067	\$ 1,067
Impairment losses	–	–
Accumulated impairment losses, end of year	\$ 1,067	\$ 1,067
Carrying amount as at:		
December 31	\$ 4,772	\$ 4,775

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

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Weston Foods	\$ 298	\$ 303
Shoppers Drug Mart	2,976	2,974
Market	375	375
Discount	461	461
T&T Supermarket Inc.	129	129
Other	533	533
Carrying amount of goodwill	\$ 4,772	\$ 4,775

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 cash flow forecasts, growth rates, discount rate, and terminal rate. These assumptions are considered to be Level 3 in the fair value hierarchy.

The weighted average cost of capital was determined to be 7.1% to 9.3% (2019 – 7.1% to 9.3%) 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 an after-tax weighted average cost of capital. As at year end 2020, the after-tax discount rate used in the recoverable amount calculations was 7.1% to 9.3% (2019 – 7.1% to 9.3%). The pre-tax discount rate was 9.7% to 12.7% (2019 – 9.7% to 12.7%).

The Company included a minimum of three years of cash flows in its discounted cash flow models. The cash flow forecasts were extrapolated beyond the three year period using an estimated long-term growth rate of 2.0% (2019 – 2.0%). The budgeted adjusted EBITDA⁽ⁱ⁾ growth was based on the strategic plans approved by GWL's and Loblaw's Board of Directors.

(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, 2020	Dec. 31, 2019
Fair value of equity forward (note 33)	\$ 630	\$ 537
Sundry investments and other receivables ⁽ⁱ⁾	145	43
Net accrued benefit plan asset (note 29)	184	249
Finance lease receivable (note 32)	77	73
Mortgages, loans and notes receivable	168	188
Other	159	177
Total Other Assets	\$ 1,363	\$ 1,267
Current portion of mortgages, loans and notes receivable ⁽ⁱⁱ⁾	(49)	(87)
Other Assets	\$ 1,314	\$ 1,180

- (i) In 2020, Shoppers Drug Mart Inc. agreed to invest a total of \$75 million in Maple Corporation ("Maple"), the leading virtual care provider in Canada, in exchange for a significant minority stake. The investment will be made in two tranches. As at December 31, 2020, tranche one had been executed and the Company invested \$61 million in exchange for approximately 24% of the ownership interest in Maple. The tranche two investment is expected to be executed in the third quarter of 2021.
- (ii) Current portion of mortgages, loans and note receivable are included in prepaid expenses and other assets in the consolidated balance sheets.

Note 21. Customer Loyalty Awards Program Liability

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

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Loyalty liability	\$ 194	\$ 191

The majority of the Company's loyalty liability, which is a contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

Note 22. Provisions

The following are continuities of provisions for the years ended December 31, 2020 and December 31, 2019:

(\$ millions)	2020	2019
Provisions, beginning of year	\$ 237	\$ 372
IFRS 16 adjustment	–	(80)
Restated balance, beginning of year	\$ 237	\$ 292
Additions	106	104
Payments	(98)	(142)
Reversals	(19)	(16)
Impact of foreign currency translation	–	(1)
Provisions, end of year	\$ 226	\$ 237

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Carrying amount of provisions recorded in:		
Current provisions	\$ 109	\$ 147
Non-current provisions	117	90
Provisions	\$ 226	\$ 237

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, environmental and decommissioning liabilities, certain onerous costs on leased properties, legal claims, the Loblaw Card Program and a MEPP withdrawal liability.

The Company's accrued insurance liabilities were \$86 million (2019 – \$79 million), of which \$47 million (2019 – \$44 million) was included in non-current provisions and \$39 million (2019 – \$35 million) in current provisions. Included in total accrued insurance liabilities were \$19 million (2019 – \$20 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 2020 U.S. workers' compensation cost and liability was 2.0% (2019 – 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 2020, the U.S. workers' compensation cost associated with the worker's compensation liabilities was \$4 million (2019 – \$4 million).

COMPETITION BUREAU INVESTIGATION In 2017, the Company and Loblaw announced actions taken to address 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. As at December 31, 2020, the Loblaw Card Program liability is \$15 million (2019 – \$17 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 RELATED COSTS The Company continues to execute on a multi-year plan, initiated in 2018, that focuses on improving processes and generating efficiencies across administrative, store, manufacturing and distribution network infrastructure. 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 the Company's strategic growth areas. As at December 31, 2020, the provision related to restructuring and other related costs was \$71 million (2019 – \$79 million).

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, 2020	Dec. 31, 2019
Other Independent Securitization Trusts (note 12)	\$ 575	\$ 775
Series B Debentures ⁽ⁱ⁾	760	714
Short-term debt	\$ 1,335	\$ 1,489

- (i) Series B Debentures issued by CWL are due on demand and pay a current weighted average interest rate of 1.55% (2019 – 2.55%). 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).

Note 24. Long-Term Debt

The components of long-term debt were as follows:

(\$ millions)		As at	
		Dec. 31, 2020	Dec. 31, 2019
Debentures			
George Weston Limited Notes	Series A, 7.00%, due 2031 ⁽ⁱ⁾	\$ 466	\$ 466
	4.12%, due 2024	200	200
Loblaw Companies Limited Notes	7.10%, due 2032	150	150
	6.69%, due 2033	100	100
	5.22%, due 2020	–	350
	4.86%, due 2023	800	800
	3.92% due 2024	400	400
	6.65%, due 2027	100	100
	6.45%, due 2028	200	200
	4.49%, due 2028	400	400
	6.50%, due 2029	175	175
	2.28%, due 2030	350	–
Choice Properties Debentures	11.40%, due 2031		
	Principal	151	151
	Effect of coupon repurchase	33	15
	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
	Series B 4.90%, due 2023	200	200
	Series C 3.50%, due 2021	–	250
	Series D 4.29%, due 2024	200	200
	Series E 2.30%, due 2020	–	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	300
Long-Term Debt Secured by Mortgage Guaranteed Investment Certificates Independent Securitization Trust (note 12)	Series J 3.55%, due 2025	350	350
	Series K 3.56%, due 2024	550	550
	Series L 4.18%, due 2028	750	750
	Series M 3.53%, due 2029	750	750
	Series N 2.98%, due 2030	400	–
	Series O 3.83%, due 2050	100	–
	Series P 2.85%, due 2027	500	–
	Series 8 3.60%, due 2020	–	300
	Series 9 3.60%, due 2021	200	200
	Series 10 3.60%, due 2022	300	300
Independent Funding Trusts Choice Properties Credit Facility Choice Properties Construction Loans Transaction costs and other	Series B-C 4.32%, due 2021	–	100
	Series D-C 2.95%, due 2023	125	125
	2.30% - 5.60%, due 2021 - 2038 (note 15)	1,207	1,231
	0.20% - 3.78%, due 2021 - 2025	1,185	1,311
	2.23%, due 2020	–	250
Total long-term debt Less amount due within one year Long-term debt	2.71%, due 2022	250	250
	3.10%, due 2023	250	250
	2.28%, due 2024	250	250
	1.34%, due 2025	300	–
		512	505
		–	132
		25	25
		(41)	(37)
Total long-term debt		\$ 14,443	\$ 14,554
Less amount due within one year		924	1,842
Long-term debt		\$ 13,519	\$ 12,712

(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 in the years ended as indicated:

(\$ millions)	Interest Rate	Maturity Date	2020	2019
			Principal Amount	Principal Amount
Loblaw Companies Limited notes	2.28%	May 7, 2030 ⁽ⁱ⁾	\$ 350	\$ –
Choice Properties senior unsecured debentures				
– Series M	3.53%	June 11, 2029	–	750
– Series N	2.98%	March 4, 2030	400	–
– Series O	3.83%	March 4, 2050	100	–
– Series P	2.85%	May 21, 2027	500	–
Total debentures issued			\$ 1,350	\$ 750

- (i) In connection with this issuance, during 2020, \$350 million of bond forward agreements were settled, resulting in a realized fair value loss of \$34 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the May 7, 2030 notes. This settlement also resulted in a net effective interest rate of 3.34% on the May 7, 2030 notes issued.

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

(\$ millions)	Interest Rate	Maturity Date	2020	2019
			Principal Amount	Principal Amount
Loblaw Companies Limited notes	5.22%	June 18, 2020	\$ 350	\$ –
Choice Properties senior unsecured debentures				
– Series 7	3.00%	September 20, 2019 ⁽ⁱ⁾	–	200
– Series 8	3.60%	April 20, 2020	300	–
– Series B-C	4.32%	January 15, 2021	100	–
– Series C	3.50%	February 8, 2021	250	–
– Series C-C	2.56%	November 30, 2019 ⁽ⁱ⁾	–	100
– Series E	2.30%	September 14, 2020	250	–
Choice Properties - Term Loan	Variable	May 4, 2022 ⁽ⁱⁱ⁾	–	175
Choice Properties - Term Loan	Variable	May 4, 2023 ⁽ⁱⁱⁱ⁾	–	625
Total debentures and term loans repaid			\$ 1,250	\$ 1,100

- (i) Choice Properties senior unsecured debentures Series 7 and Series C-C were redeemed on June 27, 2019.
(ii) Choice Properties term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on June 11, 2019.
(iii) Choice Properties term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on June 11, 2019 and September 30, 2019.

GUARANTEED INVESTMENT CERTIFICATES ("GICs") The following table summarizes PC Bank's GIC activity, before commissions, for the years ended as follows:

(\$ millions)	2020	2019
Balance, beginning of year	\$ 1,311	\$ 1,141
GICs issued	410	453
GICs matured	(536)	(283)
Balance, end of year	\$ 1,185	\$ 1,311

INDEPENDENT SECURITIZATION TRUST The notes issued by *Eagle* are debentures, which are collateralized by PC Bank's credit card receivables (see note 12).

During 2020, *Eagle* issued \$300 million (2019 – \$250 million) of senior and subordinated term notes with a maturity date of July 17, 2025 (2019 – July 17, 2024) at a weighted average interest rate of 1.34% (2019 – 2.28%). In connection with this issuance, \$200 million (2019 – \$250 million) of bond forward agreements were settled, resulting in a realized fair value loss of \$11 million (2019 – \$8 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.07% (2019 – 2.94%) on the *Eagle* notes issued. (see note 33).

During 2020, \$250 million of the senior and subordinated term notes at a weighted average interest rate of 2.23% previously issued by *Eagle*, matured and were repaid on September 17, 2020. As a result, there was a net change in the balances related to *Eagle* notes of \$50 million. There were no repayments of notes issued by *Eagle* in 2019.

INDEPENDENT FUNDING TRUSTS As at year end 2020, the independent funding trusts had drawn \$512 million (2019 – \$505 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts.

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

COMMITTED CREDIT FACILITIES The components of the committed lines of credit available as at year end 2020 and 2019 were as follows:

(\$ millions)	Maturity Date	As at			
		Dec. 31, 2020		Dec. 31, 2019	
		Available Credit	Drawn	Available Credit	Drawn
Loblaw committed credit facility	October 7, 2023 ⁽ⁱ⁾	\$ 1,000	\$ –	\$ 1,000	\$ –
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	–	1,500	132
Total committed credit facilities		\$ 2,500	\$ –	\$ 2,500	\$ 132

(i) In 2020, Loblaw amended its committed credit facility and extended the maturity date from June 10, 2021 to October 7, 2023.

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, 2020	Dec. 31, 2019
Debentures	\$ 196	\$ 897
GICs	597	527
Independent Securitization Trust	–	250
Long-term debt secured by mortgage	106	156
Construction Loans	25	12
Long-term debt due within one year	\$ 924	\$ 1,842

SCHEDULE OF REPAYMENTS The schedule of repayment of long-term debt, based on maturity is as follows:

(\$ millions)	Dec. 31, 2020
2021	\$ 929
2022	1,736
2023	1,870
2024	1,889
2025	1,165
Thereafter	6,895
Long-Term Debt (excludes transaction costs)	\$ 14,484

See note 33 for the fair value of long-term debt.

Notes to the Consolidated Financial Statements

RECONCILIATION OF LONG-TERM DEBT The following table reconciles the changes in cash flows from financing activities for long-term debt for the years ended as indicated:

(\$ millions)	2020	2019
Total long-term debt, beginning of year	\$ 14,554	\$ 15,318
Reclassification of finance lease obligations due to IFRS 16	–	(535)
Restated balance, beginning of year	14,554	14,783
Long-term debt issuances ⁽ⁱ⁾	2,492	1,438
Long-term debt repayments	(2,598)	(1,690)
Total cash flow (used in) from long-term debt financing activities	(106)	(252)
Other non-cash changes	(5)	23
Total non-cash long-term debt activities	(5)	23
Total long-term debt, end of year	\$ 14,443	\$ 14,554

(i) Includes net movements from the independent funding trust, which are revolving debt instruments.

Note 25. Other Liabilities

The components of other liabilities were as follows:

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Financial liabilities ⁽ⁱ⁾	\$ 661	\$ 431
Net defined benefit plan obligation (note 29)	382	375
Other long-term employee benefit obligation	129	128
Equity-based compensation liability (note 30)	7	7
Other	18	16
Other liabilities	\$ 1,197	\$ 957

(i) In 2020, Choice Properties disposed or partially disposed of 17 properties (2019 – 31 properties) to third parties for aggregate consideration of \$233 million (2019 – \$435 million). On consolidation, these transactions were not recognized as a sale of assets as under the terms of the leases, the Company did not relinquish control of the properties for purposes of IFRS 16 “Leases” and IFRS 15 “Revenue from Contracts with Customers”. Instead, the proceeds from the transactions were recognized as financial liabilities and as at December 31, 2020, \$5 million (December 31, 2019 – \$4 million) was recorded in trade payables and other liabilities and \$661 million (December 31, 2019 – \$431 million) was recorded in other liabilities.

Note 26. Share Capital

The components of share capital were as follows:

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Common share capital	\$ 2,782	\$ 2,809
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	\$ 3,599	\$ 3,626

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, 2020 and December 31, 2019:

(\$ millions except where otherwise indicated)	2020		2019	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	153,667,750	\$ 2,809	153,370,108	\$ 2,766
Issued for settlement of stock options (note 30)	6,666	1	529,965	47
Purchased and cancelled	(1,300,000)	(24)	(232,323)	(4)
Issued and outstanding, end of year	152,374,416	\$ 2,786	153,667,750	\$ 2,809
Shares held in trusts, beginning of year	(88,832)	–	(120,305)	–
Purchased for future settlement of RSUs and PSUs	(229,000)	(4)	(60,000)	(1)
Released for settlement of RSUs and PSUs (note 30)	63,307	–	91,473	1
Shares held in trusts, end of year	(254,525)	(4)	(88,832)	–
Issued and outstanding, net of shares held in trusts, end of year	152,119,891	\$ 2,782	153,578,918	\$ 2,809
Weighted average outstanding, net of shares held in trusts	153,406,800		153,537,411	

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 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 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.

Notes to the Consolidated Financial Statements

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 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 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.

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 2019, the Board raised the quarterly common share dividend by \$0.010 to \$0.525 per share. In the fourth quarter of 2020, the Board raised the quarterly common share dividend by \$0.025 to \$0.550 per share. The Board declared dividends for the years ended as follows:

(\$)	2020	2019
Dividends declared per share ⁽ⁱ⁾ :		
Common share	\$ 2.125	\$ 2.090
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, 2021 and subsequently paid on January 4, 2021. Dividend declared on Preferred Shares, Series I was paid on December 15, 2020.

The following table summarizes the Company's cash dividends declared subsequent to year end 2020:

(\$)		
Dividends declared per share ⁽ⁱ⁾		
– Common share		\$ 0.550
– 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, 2021. Dividends declared on Preferred Shares, Series I are payable on March 15, 2021.

NORMAL COURSE ISSUER BID (“NCIB”) PROGRAM The following table summarizes the Company’s activity under its NCIB program for the years ended as follows:

(\$ millions except where otherwise indicated)	2020	2019
Purchased for future settlement of RSUs and PSUs (number of shares)	229,000	60,000
Purchased for current settlement of RSUs and DSUs (number of shares)	33,325	64,851
Purchased and cancelled (number of shares)	1,300,000	230,698
Cash consideration paid		
Purchased and held in trusts	\$ (21)	\$ (6)
Purchased and settled	(3)	(6)
Purchased and cancelled	(123)	(25)
Premium charged to retained earnings		
Purchased and held in trusts	\$ 17	\$ 4
Purchased and settled	–	1
Purchased and cancelled	99	21
Reduction in share capital	\$ 24	\$ 4

In the second quarter of 2020, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange (“TSX”) or through alternative trading systems up to 7,683,528 of its common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares.

Pursuant to an exemption order granted by the Ontario Securities Commission, on December 21, 2020, the Company purchased for cancellation 1,300,000 common shares from an entity controlled by Mr. W. Galen Weston (“Mr. Weston”), the then controlling shareholder of the Company. The common shares were purchased at a price approved by the Ontario Securities Commission and count towards the common shares the Company is entitled to purchase under its NCIB, for aggregate cash consideration of \$123 million.

As of December 31, 2020, 1,300,365 common shares were purchased under its current NCIB, including 1,300,000 common shares purchased from Mr. Weston.

Notes to the Consolidated Financial Statements

Note 27. Loblaw Capital Transactions

LOBLAW PREFERRED SHARES As at year end of 2020, 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 condensed consolidated balance sheet. In 2020, Loblaw declared dividends of \$12 million (2019 – \$12 million) related to the Second Preferred Shares, Series B.

LOBLAW COMMON SHARES The following table summarizes Loblaw's common share activity under its equity-based compensation arrangements and NCIB program, and includes the impact on the Company's consolidated financial statements for the years ended as indicated:

(\$ millions except where otherwise indicated)	2020	2019
Issued (number of shares)	1,187,274	2,408,158
Purchased and held in trusts (number of shares)	(145,000)	(900,000)
Purchased and cancelled (number of shares)	(13,304,751)	(13,613,225)
	(12,262,477)	(12,105,067)
Cash consideration received (paid)		
Equity-based compensation	\$ 30	\$ 82
Purchased and held in trusts	(10)	(62)
Purchased and cancelled	(888)	(937)
	\$ (868)	\$ (917)
Increase (decrease) in contributed surplus		
Equity-based compensation	\$ 16	\$ 25
Purchased and held in trusts	(3)	(19)
Purchased and cancelled	(226)	(176)
	\$ (213)	\$ (170)

NORMAL COURSE ISSUER BID During 2020, the TSX accepted an amendment to Loblaw's NCIB. The amendment permitted Loblaw to purchase its common shares from GWL under Loblaw's NCIB, pursuant to an automatic disposition plan agreement among Loblaw's broker, Loblaw and GWL, in order for GWL to maintain its proportionate ownership interest in Loblaw. Pursuant to an exemption order granted by the Ontario Securities Commission, on December 21, 2020, Loblaw purchased for cancellation 3,269,208 common shares from an entity controlled by Mr. Weston, the then controlling shareholder of GWL (see note 37). The common shares were purchased at a price approved by the Ontario Securities Commission and count towards the common shares Loblaw is entitled to purchase under its NCIB.

During the second quarter of 2020, Loblaw renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 of Loblaw's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, Loblaw may purchase its common shares from time to time at the then market price of such shares. As at December 31, 2020, Loblaw had purchased 10,547,174 common shares for cancellation under its current NCIB.

During the year ended 2020, 4,940,680 Loblaw common shares were purchased from GWL under the Loblaw NCIB for cancellation, for aggregate cash consideration of \$336 million, and 3,269,208 common shares purchased from an entity controlled by Mr. Weston, for aggregate cash consideration of \$205 million.

Note 28. Capital Management

In order to manage its capital structure, the Company may, among other activities, adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB 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, 2020	Dec. 31, 2019
Bank indebtedness	\$ 86	\$ 18
Demand deposits from customer	24	–
Short-term debt	1,335	1,489
Long-term debt due within one year	924	1,842
Long-term debt	13,519	12,712
Certain other liabilities ⁽ⁱ⁾	737	500
Fair value of financial derivatives related to the above debt	(630)	(537)
Total debt excluding lease liabilities	\$ 15,995	\$ 16,024
Lease liabilities due within one year	799	857
Lease liabilities	4,206	4,250
Total debt including lease liabilities	\$ 21,000	\$ 21,131
Equity attributable to shareholders of the Company	7,811	7,609
Total capital under management	\$ 28,811	\$ 28,740

(i) Includes financial liabilities of \$666 million (2019 – \$435 million) recorded primarily as a result of Choice Properties' transactions.

SHORT FORM BASE SHELF PROSPECTUS In 2019, 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 over a 25-month period.

In 2019, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$1.25 billion of notes 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, 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 2020 and throughout the year, Loblaw was in compliance with each of the 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 7.0%, a Tier 1 capital ratio of 8.5% and a total capital ratio of 10.5%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio. PC Bank is also subject to the OSFI's Guideline on Liquidity Adequacy Requirements ("LARs"). The LARs guideline establishes standards based on the Basel III framework, including a Liquidity Coverage Ratio standard. As at year end 2020 and throughout the year, PC Bank has met all applicable regulatory requirements.

Notes to the Consolidated Financial Statements

Choice Properties has certain key financial covenants in its debentures and committed 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 2020 and throughout the year, Choice Properties was in compliance with each of the key financial covenants under these agreements.

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 2020.

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 2021 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.

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, 2019	
	Dec. 31, 2020		Dec. 31, 2019	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
(\$ millions)				
Present value of funded obligations	\$ (2,026)	\$ –	\$ (1,670)	\$ –
Present value of unfunded obligations	(208)	(168)	(196)	(156)
Total present value of defined benefit obligations	\$ (2,234)	\$ (168)	\$ (1,866)	\$ (156)
Fair value of plan assets	2,207	–	1,899	–
Total funded status of (obligations) surpluses	\$ (27)	\$ (168)	\$ 33	\$ (156)
Assets not recognized due to asset ceiling	(3)	–	(3)	–
Total net defined benefit plan obligations	\$ (30)	\$ (168)	\$ 30	\$ (156)
Recorded on the consolidated balance sheets as follows:				
Other assets (note 20)	\$ 184	\$ –	\$ 249	\$ –
Other liabilities (note 25)	\$ (214)	\$ (168)	\$ (219)	\$ (156)

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

	2020			2019		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(\$ millions)						
Changes in the fair value of plan assets						
Fair value, beginning of year	\$ 1,899	\$ –	\$ 1,899	\$ 1,802	\$ –	\$ 1,802
Employer contributions	47	–	47	47	–	47
Employee contributions	4	–	4	3	–	3
Benefits paid	(52)	–	(52)	(58)	–	(58)
Interest income	62	–	62	64	–	64
Actuarial gains in other comprehensive income	252	–	252	231	–	231
Settlements ⁽ⁱ⁾	(1)	–	(1)	(187)	–	(187)
Other	(4)	–	(4)	(3)	–	(3)
Fair value, end of year	\$ 2,207	\$ –	\$ 2,207	\$ 1,899	\$ –	\$ 1,899
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	\$ 1,866	\$ 156	\$ 2,022	\$ 1,742	\$ 152	\$ 1,894
Current service cost	67	4	71	61	5	66
Interest cost	62	5	67	64	5	69
Benefits paid	(64)	(7)	(71)	(73)	(8)	(81)
Employee contributions	4	–	4	3	–	3
Actuarial losses in other comprehensive income	300	10	310	246	2	248
Settlements ⁽ⁱ⁾	(1)	–	(1)	(177)	–	(177)
Balance, end of year	\$ 2,234	\$ 168	\$ 2,402	\$ 1,866	\$ 156	\$ 2,022

(i) Settlements relate to annuity purchases.

In 2020 and 2019, the Company completed annuity purchases with respect to former employees. These activities are designed to reduce the Company's defined benefit pension plan obligations and decrease future risks and volatility associated with these obligations. The Company paid \$1 million (2019 – \$187 million) from the impacted plans' assets to settle \$1 million (2019 – \$177 million) of pension obligations and recorded settlement nominal charge (2019 – \$10 million) in SG&A. The settlement charges resulted from the difference between the amount paid for the annuity purchases and the value of the Company's defined benefit plan obligations related to these annuity purchases at the time of the settlement.

Notes to the Consolidated Financial Statements

For the year ended 2020, the actual return on plan assets was \$314 million (2019 – \$295 million).

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

- Active plan participants – 63% (2019 – 63%)
- Deferred plan participants – 12% (2019 – 14%)
- Retirees – 25% (2019 – 23%)

During 2021, the Company expects to contribute approximately \$45 million (2020 – contributed \$47 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:

	2020			2019		
(\$ millions)	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Current service cost	\$ 67	\$ 4	\$ 71	\$ 61	\$ 5	\$ 66
Interest cost on net defined benefit plan obligations	–	5	5	–	5	5
Settlement charges ⁽ⁱ⁾	–	–	–	10	–	10
Other	4	–	4	3	–	3
Net post-employment defined benefit costs	\$ 71	\$ 9	\$ 80	\$ 74	\$ 10	\$ 84

(i) Relates to annuity purchases.

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

	2020			2019		
(\$ millions)	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Return on plan assets excluding amounts included in interest income	\$ (252)	\$ –	\$ (252)	\$ (231)	\$ –	\$ (231)
Experience adjustments	–	(3)	(3)	3	(21)	(18)
Actuarial losses from change in financial assumptions	300	13	313	243	23	266
Change in liability arising from asset ceiling	–	–	–	(19)	–	(19)
Total net actuarial losses (gains) losses recognized in other comprehensive income before income taxes	\$ 48	\$ 10	\$ 58	\$ (4)	\$ 2	\$ (2)
Income tax expenses on actuarial (gains) losses (note 8)	(13)	(2)	(15)	1	–	1
Actuarial losses (gains) net of income tax expenses	\$ 35	\$ 8	\$ 43	\$ (3)	\$ 2	\$ (1)

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

	2020			2019		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(\$ millions)						
Cumulative amount, beginning of year	\$ (57)	\$ (81)	\$ (138)	\$ (53)	\$ (83)	\$ (136)
Net actuarial losses (gains) recognized in the year before income taxes	48	10	58	(4)	2	(2)
Cumulative amount, end of year	\$ (9)	\$ (71)	\$ (80)	\$ (57)	\$ (81)	\$ (138)

COMPOSITION OF PLAN ASSETS The defined benefit pension plan assets are held in trust and consist of the following asset categories:

(\$ millions except where otherwise indicated)	As at			
	Dec. 31, 2020		Dec. 31, 2019	
Equity securities				
Canadian – pooled funds	\$ 13	1%	\$ 66	4%
Foreign – pooled funds	1,195	53%	575	30%
Total equity securities	\$ 1,208	54%	\$ 641	34%
Debt securities				
Fixed income securities – government	\$ 743	34%	\$ 865	45%
– corporate	79	4%	200	10%
Fixed income pooled funds ⁽ⁱ⁾ – government	–	–%	36	2%
– corporate	–	–%	14	1%
Total debt securities	\$ 822	38%	\$ 1,115	58%
Other investments	\$ 125	6%	\$ 125	7%
Cash and cash equivalents	\$ 52	2%	\$ 18	1%
Total	\$ 2,207	100%	\$ 1,899	100%

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

As at year end 2020 and 2019, the defined benefit pension plans did not directly include any GWL, 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.

Notes to the Consolidated Financial Statements

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):

	2020		2019	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	2.50%	2.50%	3.25%	3.00%
Rate of compensation increase	3.00%	n/a	3.00%	n/a
Mortality table ⁽ⁱ⁾	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational	CPM-RPP2014Pub/Priv Generational
Net Defined Benefit Plan Cost				
Discount rate	3.25%	3.00%	4.00%	4.00%
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 2020 is 19.1 years (2019 – 18.5 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 2020 was estimated at 4.50% and is expected to remain at 4.50% as at year end 2021.

SENSITIVITY OF KEY ACTUARIAL ASSUMPTIONS The following table outlines the key assumptions for 2020 (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	2.50%	3.25%	2.50%	3.00%
Impact of: 1% increase	\$ (390)	\$ (27)	\$ (22)	\$ –
1% decrease	\$ 475	\$ 26	\$ 29	\$ –
Expected growth rate of health care costs				
Impact of: 1% increase	n/a	n/a	\$ 16	\$ 1
1% decrease	n/a	n/a	\$ (13)	\$ (1)

n/a – not applicable

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

MULTI-EMPLOYER PENSION PLANS During 2020, the Company recognized an expense of \$75 million (2019 – \$66 million) in operating income, which represents the contributions made in connection with MEPPs. During 2020, 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 60,000 (2019 – 55,000) employees as members. Included in the 2020 expense described above are contributions of \$73 million (2019 – \$64 million) to CCWIPP.

POST-EMPLOYMENT AND OTHER LONG-TERM EMPLOYEE BENEFIT COSTS The net cost recognized in net earnings before income taxes for the Company’s post-employment and other long-term employee benefit plans was as follows:

(\$ millions)	2020	2019
Net post-employment defined benefit cost ⁽ⁱ⁾	\$ 80	\$ 84
Defined contribution costs ⁽ⁱⁱ⁾	36	34
Multi-employer pension plan costs ⁽ⁱⁱⁱ⁾	75	66
Total net post-employment benefit costs	\$ 191	\$ 184
Other long-term employee benefit costs ^(iv)	33	43
Net post-employment and other long-term employee benefit costs	\$ 224	\$ 227
Recorded on the consolidated statements of earnings as follows:		
Operating income (note 31)	\$ 215	\$ 218
Net interest expense and other financing charges (note 7)	9	9
Net post-employment and other long-term employee benefits costs	\$ 224	\$ 227

(i) Includes nominal settlement charge (2019 – \$10 million) related to annuity purchases.

(ii) Amounts represent the Company’s contributions made in connection with defined contribution plans.

(iii) Amounts represent the Company’s contributions made in connection with MEPPs.

(iv) Other long-term employee benefit costs include \$4 million (2019 – \$4 million) of net interest expense and other financing charges.

Notes to the Consolidated Financial Statements

Note 30. Equity-Based Compensation

The Company's equity-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 equity-based compensation arrangements in 2020 were \$67 million (2019 – \$69 million).

The following is the carrying amount of the Company's equity-based compensation arrangements:

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Trade payables and other liabilities	\$ 9	\$ 8
Other liabilities (note 25)	\$ 7	\$ 7
Contributed surplus	\$ 125	\$ 113

Details related to the equity-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:

	2020		2019	
	Options (number of shares)	Weighted Average Exercise Price/ Share	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	1,246,718	\$ 100.22	1,548,044	\$ 90.82
Granted	548,868	\$ 104.15	427,523	\$ 93.17
Exercised ⁽ⁱ⁾	(6,666)	\$ 84.20	(595,496)	\$ 75.09
Forfeited/cancelled	(42,437)	\$ 103.33	(53,096)	\$ 107.45
Expired	–	\$ –	(80,257)	\$ 62.96
Outstanding options, end of year	1,746,483	\$ 101.44	1,246,718	\$ 100.22
Options exercisable, end of year	674,386	\$ 101.41	455,884	\$ 101.07

(i) During 2019, GWL settled 65,531 stock options in cash.

The following table summarizes information about GWL's outstanding stock options:

Range of Exercise Prices (\$)	2020				
	Outstanding Options			Exercisable Options	
	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$81.92 - \$96.88	508,963	4	\$ 91.17	174,196	\$ 87.33
\$96.89 - \$104.48	729,955	5	\$ 103.16	204,607	\$ 100.61
\$104.49 - \$123.73	507,565	3	\$ 109.27	295,583	\$ 110.25
	1,746,483		\$ 101.44	674,386	\$ 101.41

During 2020, GWL issued common shares on the exercise of stock options with a weighted average market share price of \$93.05 (2019 – \$102.67) per common share and received cash consideration of \$1 million (2019 – \$40 million).

During 2020, GWL granted stock options with a weighted average exercise price of \$104.15 (2019 – \$93.17) per common share and a fair value of \$6 million (2019 – \$5 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:

	2020	2019
Expected dividend yield	2.0%	2.2%
Expected share price volatility	14.3% - 14.9%	14.9% - 15.4%
Risk-free interest rate	0.9%	1.7% - 1.8%
Expected life of options	4.9 - 6.7 years	4.8 - 6.7 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at year end 2020 was 1.4% (2019 – 0.8%).

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

	2020		2019	
	Options (number of shares)	Weighted Average Exercise Price/Share	Options (number of shares)	Weighted Average Exercise Price/Share
Outstanding options, beginning of year	6,317,922	\$ 57.57	7,509,631	\$ 51.60
Granted	1,851,415	\$ 70.03	1,552,458	\$ 65.66
Exercised ⁽ⁱ⁾	(601,756)	\$ 50.32	(2,345,820)	\$ 43.82
Forfeited/cancelled	(307,936)	\$ 61.28	(398,347)	\$ 57.88
Outstanding options, end of year	7,259,645	\$ 61.19	6,317,922	\$ 57.57
Options exercisable, end of year	2,758,738	\$ 55.99	2,117,144	\$ 52.79

(i) During 2019, Loblaw settled 459,087 stock options in cash.

The following table summarizes information about Loblaw's outstanding stock options:

	2020				
	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
\$39.97 - \$57.38	2,352,828	3	\$ 53.66	1,415,505	\$ 52.27
\$57.84 - \$65.57	2,998,885	4	\$ 61.55	1,325,775	\$ 59.82
\$65.58 - \$70.19	1,907,932	6	\$ 69.91	17,458	\$ 67.46
	7,259,645		\$ 61.19	2,758,738	\$ 55.99

During 2020, Loblaw issued common shares on the exercise of stock options with a weighted average market share price of \$68.22 (2019 – \$69.21) per common share and received cash consideration of \$30 million (2019 – \$82 million).

During 2020, Loblaw granted stock options with a weighted average exercise price of \$70.03 (2019 – \$65.66) per common share and a fair value of \$13 million (2019 – \$12 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:

	2020	2019
Expected dividend yield	1.9%	1.8%
Expected share price volatility	13.5 - 20.1%	13.7 - 15.7%
Risk-free interest rate	0.3 - 1.2%	1.4% - 1.8%
Expected life of options	3.7 - 6.2 years	3.7 - 6.2 years

Notes to the Consolidated Financial Statements

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at year end 2020 and 2019 was 9.0%.

RESTRICTED SHARE UNIT PLANS The following is a summary of GWL's and Loblaw's RSU plan activity:

(Number of awards)	GWL		Loblaw	
	2020	2019	2020	2019
Outstanding RSUs, beginning of year	136,788	166,034	1,032,832	1,024,275
Granted	47,957	37,264	242,797	355,311
Reinvested	2,741	2,749	23,666	17,125
Settled	(48,291)	(54,774)	(367,020)	(274,335)
Forfeited	(6,157)	(14,485)	(38,003)	(89,544)
Outstanding RSUs, end of year	133,038	136,788	894,272	1,032,832

The fair value of GWL's and Loblaw's RSUs granted during 2020 was \$5 million (2019 – \$4 million) and \$17 million (2019 – \$24 million), respectively.

PERFORMANCE SHARE UNIT PLANS The following is a summary of GWL's and Loblaw's PSU plan activity:

(Number of awards)	GWL		Loblaw	
	2020	2019	2020	2019
Outstanding PSUs, beginning of year	114,473	89,656	662,695	674,945
Granted	58,555	69,951	237,391	258,261
Reinvested	3,026	2,074	16,301	11,264
Settled	(20,425)	(40,341)	(218,955)	(235,881)
Forfeited	(4,571)	(6,867)	(31,032)	(45,894)
Outstanding PSUs, end of year	151,058	114,473	666,400	662,695

The fair value of GWL's and Loblaw's PSUs granted during 2020 was \$6 million (2019 – \$6 million) and \$17 million (2019 – \$16 million), respectively.

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)	2020	2019
Settled	68,716	95,115
Released from trusts (note 26)	63,307	91,473

During 2020, the settlement of awards from shares held in trusts resulted in \$6 million increase (2019 – \$9 million) in retained earnings and a nominal increase (2019 – \$1 million) in share capital.

DIRECTOR DEFERRED SHARE UNIT PLANS The following is a summary of GWL's and Loblaw's DSU plan activity:

(Number of awards)	GWL		Loblaw	
	2020	2019	2020	2019
Outstanding DSUs, beginning of year	155,418	186,600	336,897	296,329
Granted	22,878	22,937	35,008	34,895
Reinvested	3,111	3,116	8,576	5,673
Settled	(31,870)	(57,235)	–	–
Outstanding DSUs, end of year	149,537	155,418	380,481	336,897

The fair value of GWL's and Loblaw's DSUs granted during 2020 was \$2 million (2019 – \$2 million) and \$2 million (2019 – \$2 million), respectively.

EXECUTIVE DEFERRED SHARE UNIT PLANS The following is a summary of GWL's and Loblaw's EDSU plan activity:

(Number of awards)	GWL		Loblaw	
	2020	2019	2020	2019
Outstanding EDSUs, beginning of year	43,947	43,065	45,258	45,473
Granted	—	—	10,310	4,796
Reinvested	964	882	1,288	846
Settled	—	—	—	(5,857)
Outstanding EDSUs, end of year	44,911	43,947	56,856	45,258

There were no GWL EDSUs granted in 2020 and 2019. The fair value of Loblaw's EDSUs granted during 2020 was \$1 million (2019 – nominal).

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

UNIT OPTION PLAN Choice Properties maintains a Unit Option plan for certain employees. Under this plan, Choice Properties may grant 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:

	2020		2019	
	Number of awards	Weighted average exercise price/unit	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	1,287,314	\$ 12.51	3,764,107	\$ 11.66
Exercised	(148,794)	\$ 12.09	(2,048,060)	\$ 11.04
Cancelled	(54,414)	\$ 13.15	(417,439)	\$ 11.96
Expired	(1,466)	\$ 13.93	(11,294)	\$ 14.21
Outstanding Unit Options, end of year	1,082,640	\$ 12.54	1,287,314	\$ 12.51
Unit Options exercisable, end of year	706,804	\$ 12.56	561,779	\$ 12.27

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

	2020	2019
Expected average distribution yield	5.5%	5.4%
Expected average Unit price volatility	15.6% - 35.0%	13.9% - 18.3%
Average risk-free interest rate	0.01% - 2.7%	0.02% - 1.7%
Expected average life of options	0.1 - 2.7 years	0.1 - 3.6 years

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 2020 and 2019.

Notes to the Consolidated Financial Statements

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

(Number of awards)	2020	2019
Outstanding RUs, beginning of year	484,544	446,341
Granted	69,227	239,483
Reinvested	24,451	26,547
Exercised	(161,044)	(106,355)
Cancelled	(11,465)	(121,472)
Outstanding RUs, end of year	405,713	484,544

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 has 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 764,385 URUs vested, but still subject to disposition restrictions as at year end 2020 (2019 – 1,147,753).

The following is a summary of Choice Properties' URU plan activity for units not yet vested:

(Number of awards)	2020	2019
Outstanding URUs, beginning of year	624,419	717,815
Granted	159,083	155,946
Forfeited	–	(40,796)
Vested	(194,968)	(208,546)
Outstanding URUs, end of year	588,534	624,419

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 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 Trust Unit at the balance sheet date. There were no PUs vested as at year end 2020 and 2019.

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

(Number of awards)	2020	2019
Outstanding PUs, beginning of year	103,868	104,449
Granted	59,273	50,686
Reinvested	7,241	5,867
Exercised	(40,205)	(58,282)
Cancelled	(3,543)	(21,471)
Added by performance factor	9,061	22,619
Outstanding PUs, end of year	135,695	103,868

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 exercised while Trustees are members of the Board.

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

(Number of awards)	2020	2019
Outstanding Trustee DUs, beginning of year	277,139	302,589
Granted	76,632	68,123
Reinvested	17,338	17,046
Cancelled	—	(185)
Exercised	(2,819)	(110,434)
Outstanding Trustee DUs, end of year	368,290	277,139

Note 31. Employee Costs

Included in operating income were the following employee costs:

(\$ millions)	2020	2019
Wages, salaries and other short-term employee benefits	\$ 7,450	\$ 6,620
Post-employment benefits (note 29)	186	179
Other long-term employee benefits (note 29)	29	39
Equity-based compensation	61	56
Capitalized to fixed assets and intangible assets	(69)	(63)
Employee costs	\$ 7,657	\$ 6,831

Notes to the Consolidated Financial Statements

Note 32. Leases

The Company leases certain of Loblaw's retail stores and distribution centres, Weston Foods' bakeries and distribution centres, corporate offices, passenger vehicles, trailers and IT equipment. Leases of Loblaw's retail stores are a substantial portion of the Company's lease portfolio. Loblaw retail store leases typically have an initial lease term with additional renewal options available thereafter.

The Company has owned and leased properties that are leased and subleased to third parties, respectively. Owned properties are held to either earn rental income, for capital appreciation, or both. Subleases are primarily related to non-consolidated franchise stores, medical centres and ancillary tenants within Loblaw stores.

AS A LESSEE

Right-of-Use Assets The following is a continuity of the cost and accumulated depreciation of right-of-use assets for the year ended December 31, 2020:

	2020		
(\$ millions)	Property	Other	Total
Cost			
Balance, beginning of year	\$ 4,588	\$ 70	\$ 4,658
Lease additions, net of terminations	165	—	165
Lease extensions and other items	386	17	403
Balance, end of year	\$ 5,139	\$ 87	\$ 5,226
Accumulated depreciation			
Balance, beginning of year	\$ 560	\$ 24	\$ 584
Depreciation	557	21	578
Impairment losses, net of reversals (note 15)	21	—	21
Balance, end of year	\$ 1,138	\$ 45	\$ 1,183
Carrying amount as at December 31, 2020	\$ 4,001	\$ 42	\$ 4,043

The following is a continuity of the cost and accumulated depreciation of right-of-use assets for the year ended December 31, 2019:

	2019		
(\$ millions)	Property	Other	Total
Cost			
Balance, beginning of year	\$ 4,046	\$ 68	\$ 4,114
Lease additions	176	2	178
Lease extensions and other items	366	—	366
Balance, end of year	\$ 4,588	\$ 70	\$ 4,658
Accumulated depreciation			
Balance, beginning of year	\$ —	\$ —	\$ —
Depreciation	544	24	568
Impairment losses (note 15)	16	—	16
Balance, end of year	\$ 560	\$ 24	\$ 584
Carrying amount as at December 31, 2019	\$ 4,028	\$ 46	\$ 4,074

Lease Liabilities The following is the continuity of lease liabilities for the year ended December 31, 2020 and December 31, 2019:

(\$ millions)	2020	2019
Balance, beginning of year	\$ 5,107	\$ 5,086
Lease additions, net of terminations	161	178
Lease extensions and other items	387	363
Lease payments	(857)	(734)
Interest expense on lease liabilities (note 7)	207	214
Balance, end of year	\$ 5,005	\$ 5,005
Lease liabilities due within one year	\$ 799	\$ 857
Lease liabilities	4,206	4,250
Total lease liabilities	\$ 5,005	\$ 5,107

Liquidity The future undiscounted contractual lease payments are as follows:

							As at	
Payments due by year							Dec. 31, 2020	Dec. 31, 2019
(\$ millions)	2021	2022	2023	2024	2025	Thereafter	Total	Total
Lease payments	\$ 804	\$ 684	\$ 660	\$ 560	\$ 487	\$ 1,849	\$ 5,044	\$ 5,303

As at December 31, 2020, the Company had a future undiscounted cash flow of \$270 million (December 31, 2019 – \$208 million) related to leases not yet commenced but committed to.

Short-Term Leases The Company has short-term leases that are primarily related to trailer rentals and certain properties. During 2020, \$25 million (2019 – \$28 million) was recognized in cost of inventories sold and SG&A.

Variable Lease Payments The Company makes variable lease payments for property tax and insurance charges on leased properties. The Company also has certain retail store leases where portions of the lease payments are contingent on a percentage of retail sales. During 2020, \$235 million (2019 – \$227 million) was recognized in SG&A.

Extension Options Substantially all of Loblaw's retail store leases have extension options for additional lease terms. As at December 31, 2020, approximately 15% (December 31, 2019 – 14%) of the lease liabilities are related to extension options that were deemed reasonably certain to be exercised.

As at December 31, 2020, approximately \$6 billion (December 31, 2019 – \$5 billion) of discounted future lease payments are related to extension options that were not deemed to be reasonably certain to be exercised and were not included in lease liabilities. These future lease payments are discounted at the incremental borrowing rates associated with the current lease liability profile.

Sale and Leaseback Transactions During 2020, Loblaw disposed of and leased back one office property, and recognized a loss of \$1 million (2019 – nominal gain) in SG&A.

Notes to the Consolidated Financial Statements

AS A LESSOR

Finance Leases Finance lease receivable is included in other assets on the Company's consolidated balance sheet (see note 20). During 2020, the Company recognized finance interest income of \$3 million (2019 – \$4 million) and impairment losses of \$5 million (2019 – nil). The future finance lease payments to be received by the Company relating to properties that are subleased to third parties are as follows:

(\$ millions)	Payments to be received by year						As at	
	2021	2022	2023	2024	2025	Thereafter	Dec. 31, 2020 Total	Dec. 31, 2019 Total
Finance lease payments to be received	\$ 15	\$ 14	\$ 15	\$ 9	\$ 6	\$ 273	\$ 332	\$ 82
Less: unearned finance interest income	(4)	(3)	(3)	(2)	(2)	(238)	(252)	(9)
Total finance lease receivable (note 20)	\$ 11	\$ 11	\$ 12	\$ 7	\$ 4	\$ 35	\$ 80	73

Operating Leases During 2020, the Company recognized operating lease income of \$373 million (2019 – \$371 million), of which \$20 million (2019 – \$23 million) is related to subleases of right-of-use assets.

The future undiscounted operating lease payments to be received by the Company are as follows:

(\$ millions)	Payments to be received by year						As at	
	2021	2022	2023	2024	2025	Thereafter	Dec. 31, 2020 Total	Dec. 31, 2019 Total
Operating lease income	\$ 388	\$ 351	\$ 312	\$ 269	\$ 228	\$ 599	\$ 2,147	\$ 2,474

The Company has certain owned land and buildings that it leases to third parties, which as at December 31, 2020 had a net carrying amount of \$1 billion (2019 – \$1 billion).

Note 33. Financial Instruments

The following table presents the fair value 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, 2020				Dec. 31, 2019 ⁽ⁱ⁾			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Amortized cost:								
Franchise loans receivable	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 19	\$ 19
Certain other assets ⁽ⁱⁱ⁾	–	–	113	113	–	–	116	116
Fair value through other comprehensive income:								
Certain long-term investments and other assets ⁽ⁱⁱ⁾	117	–	–	117	50	–	–	50
Fair value through profit and loss:								
Security deposits	75	–	–	75	76	–	–	76
Certain other assets ⁽ⁱⁱ⁾	–	–	79	79	–	–	86	86
Certain long-term investments and other assets ⁽ⁱⁱ⁾	–	20	–	20	–	21	–	21
Derivatives included in accounts receivable	3	(2)	–	1	1	2	–	3
Derivatives included in prepaid expenses and other assets	–	–	3	3	5	–	1	6
Derivatives included in other assets	–	630	–	630	–	537	–	537
Financial liabilities								
Amortized cost:								
Long-term debt	–	16,389	–	16,389	–	15,839	–	15,839
Certain other liabilities ⁽ⁱⁱ⁾	–	–	668	668	–	–	444	444
Fair value through other comprehensive income:								
Derivatives included in trade payables and other liabilities	–	–	–	–	–	2	–	2
Fair value through profit and loss:								
Trust Unit liability	3,600	–	–	3,600	3,601	–	–	3,601
Derivatives included in trade payables and other liabilities	4	14	–	18	–	8	–	8

(i) Certain comparative figures have been restated to conform with current year presentation.

(ii) Certain other assets, certain other long-term investments and other assets, and certain other liabilities are included in the consolidated balance sheets in Other Assets and Other Liabilities, respectively.

There were no transfers between the levels of the fair value hierarchy during the periods presented.

During 2020, a loss of \$2 million (2019 – loss of \$3 million) was recognized in operating income on financial instruments designated as amortized cost. In addition, a net gain of \$268 million (2019 – net gain of \$614 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 the end of 2020, the Company had cash and cash equivalents, short-term investments and security deposits of \$3,231 million (2019 – \$2,139 million), including U.S. dollars of \$199 million (2019 – \$68 million).

During 2020, a loss of \$28 million (2019 – loss of \$49 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.

Notes to the Consolidated Financial Statements

Franchise Loans Receivable As at year end 2020, the value of Loblaw franchise loans receivable is nil (2019 – \$19 million). In 2020, Loblaw recorded nil (2019 – gain of \$1 million) in operating income related to these loans receivable.

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.

During 2020, a gain of \$2 million (2019 – gain of \$4 million) was recognized in operating income related to these derivatives. In addition, as at year end 2020, a corresponding \$3 million asset was included in prepaid expenses and other assets (2019 – \$1 million asset). As at year end 2020, a 1% increase (decrease) in foreign currency exchange rates would result in a gain (loss) in fair value of \$1 million.

Equity Derivative Contracts As at year end 2020, 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 initial forward sale price of \$48.50 per Loblaw common share. As at year end 2020, the forward rate was \$128.30 (2019 – \$123.64) per Loblaw common share. In 2020, a fair value gain of \$47 million (2019 – loss of \$69 million) was recorded in net interest expense and other financing charges related to this agreement (see note 7).

Trust Unit Liability In 2020, a fair value gain of \$239 million (2019 – loss of \$550 million) was recorded in net interest expense and other financing charges (see note 7).

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, 2020		
(\$ millions)	Net asset (liability) fair value	Gain/ (loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges			
Interest Rate Risk - Bond Forwards ⁽ⁱ⁾	\$ —	\$ (40)	\$ (5)
Interest Rate Risk - Interest Rate Swaps ⁽ⁱⁱⁱ⁾	7	(3)	(4)
Total derivatives designated as cash flow hedges	\$ 7	\$ (43)	\$ (9)
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	\$ (6)	\$ —	\$ (4)
Other Non-Financial Derivatives	(4)	—	(20)
Total derivatives not designated in a formal hedging relationship	\$ (10)	\$ —	\$ (24)
Total derivatives	\$ (3)	\$ (43)	\$ (33)

(i) PC Bank uses bond forwards, with a notional value of \$25 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities. During 2020, PC Bank settled \$200 million of bond forward and the Company issued and settled \$350 million of bond forward. The Company has concluded that these hedges were effective as at their respective settlement date.

(ii) PC Bank uses interest rate swaps, with a notional value of \$225 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

	Dec. 31, 2019		
(\$ 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 ⁽ⁱ⁾	\$ —	\$ (1)	\$ 1
Interest Rate Risk - Bond Forwards ⁽ⁱⁱ⁾	—	(6)	—
Interest Rate Risk - Interest Rate Swaps ⁽ⁱⁱⁱ⁾	(4)	(2)	(1)
Total derivatives designated as cash flow hedges	\$ (4)	\$ (9)	\$ —
Derivatives not designated in a formal hedging relationship			
Foreign Exchange and Other Forwards	\$ (3)	\$ —	\$ (18)
Other Non-Financial Derivatives	6	—	19
Total derivatives not designated in a formal hedging relationship	\$ 3	\$ —	\$ 1
Total derivatives	\$ (1)	\$ (9)	\$ 1

(i) PC Bank uses foreign exchange forwards, with a notional value of \$5 million USD, to manage its foreign exchange currency risk related to certain U.S. payables. The fair value of the derivatives is included in prepaid expenses and other assets.

(ii) PC Bank uses bond forwards, with a notional value of \$50 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

(iii) PC Bank uses interest rate swaps, with a notional value of \$300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

Notes to the Consolidated Financial Statements

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, which requires a reliable source of funding for its credit card business. PC Bank relies on its securitization programs, demand deposits from customers and the acceptance of GIC deposits to fund the receivables of its credit cards. The Company would experience liquidity risks if it fails to maintain appropriate levels of cash and short-term investments, 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, 2020:

(\$ millions)	2021	2022	2023	2024	2025	Thereafter	Total ⁽ⁱⁱⁱ⁾
Long-term debt including interest payments ⁽ⁱ⁾	\$ 1,493	\$ 2,274	\$ 2,359	\$ 2,090	\$ 1,510	\$ 8,946	\$ 18,672
Foreign exchange forward contracts	399	28	—	—	—	—	427
Short-term debt (note 23)	1,335	—	—	—	—	—	1,335
Financial liabilities ⁽ⁱⁱⁱ⁾	43	41	45	45	49	245	468
Bank indebtedness	86	—	—	—	—	—	86
Demand deposits from customers	24	—	—	—	—	—	24
Certain other liabilities	3	—	—	—	—	—	3
Total	\$ 3,383	\$ 2,343	\$ 2,404	\$ 2,135	\$ 1,559	\$ 9,191	\$ 21,015

(i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long-term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities and mortgages. Variable interest payments are based on the forward rates as at year end 2020.

(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.

(iii) Represents the contractual payments that Loblaw is committed to related to the Choice Properties' dispositions (see note 25).

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 other foreign subsidiaries 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 2020, an appreciation of the Canadian dollar of one cent relative to the U.S. dollar would result in a nominal loss 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.

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, finance lease receivable, pension assets held in the Company's defined

benefit plans, Loblaw's accounts receivable 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 finance lease 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 tenants, 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. 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 \$276 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 \$19 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 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. Rising commodity prices could adversely affect the financial performance of the Company and the impact could be material. 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 2020, a 10% decrease in relevant commodity prices, with all other variables held constant, would result in a net loss of \$9 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 which events could lead to reassessments.

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

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

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

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. In December 2019, a proposed class action on behalf of independent distributors was commenced against the Company and Weston Foods. 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 or Loblaw's dividend, dividend policy or share buyback plans. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2020 or prior on the basis that a reliable estimate of the liability cannot be determined at this time. The Company and Loblaw will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and 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. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. In February 2020, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and Loblaw. The allegations in the Ontario, Quebec and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and February 2020 claims seek recovery of damages on behalf of opioid users directly. Loblaw believes these proceedings are without merit and is vigorously defending them. Loblaw does not currently have any significant accruals or provisions for these matters recorded in the consolidated financial statements.

Loblaw has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, Loblaw filed a Notice of Appeal with the Federal Court of Appeal. On October 15, 2019, the matter was heard by the Federal Court of Appeal and on April 23, 2020, the Federal Court of Appeal released its decision and reversed the decision of the Tax Court. On October 29, 2020, the Supreme Court granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. Subsequent to the end of the year, the Supreme Court scheduled the hearing of the appeal for May 13, 2021. Loblaw has not reversed any portion of the \$367 million of charges recorded during the third quarter of 2018, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes.

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

Note 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 \$413 million (2019 – \$416 million). In addition, Loblaw and Choice Properties have 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 2020, Loblaw's maximum obligation in respect of such guarantees was \$580 million (2019 – \$580 million) with an aggregate amount of \$470 million (2019 – \$468 million) in available lines of credit allocated to the Associates by the various banks. As at year end 2020, the Associates had drawn an aggregate amount of \$86 million (2019 – \$18 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 2020, Loblaw has agreed to provide a credit enhancement of \$64 million (2019 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2019 – not less than 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 (2019 – \$12 million). Additionally, Loblaw has guaranteed lease obligations of a third-party distributor in the amount of \$3 million (2019 – \$2 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 35), Loblaw arranged for a surety bond to the Ministry of Finance in order to appeal the reassessments. As a result of the decision of the Tax Court and incremental payments by Loblaw, the amount of the surety bond is \$52 million (2019 – \$49 million).

Notes to the Consolidated Financial Statements

CASH COLLATERALIZATION As at year end 2020, GWL and Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$52 million (2019 – \$45 million) and \$102 million (2019 – \$103 million), respectively. As at year end 2020, GWL and Loblaw had \$52 million (2019 – \$45 million) and a nominal amount (2019 – \$1 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 2020, the guarantee on behalf of PC Bank to MasterCard® was U.S. dollars \$190 million (2019 – 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 (2019 – \$11 million).

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. 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 \$52 million (2019 – \$70 million), which represented approximately 9% (2019 – 10%) of the securitized credit card receivables amount (see note 12).

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 2020, the aggregate gross potential liability related to these letters of credit totaled \$34 million (2019 – \$36 million).

Choice Properties’ credit facility 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 Limited Partnership 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 Choice Properties has under these guarantees, in which case it would have a claim against the underlying property. The estimated amount of debt as at year end 2020 subject to such guarantees, and therefore the maximum exposure to credit risk, was \$36 million (2019 – \$37 million) with an estimated weighted average remaining term of 2.5 years (2019 – 3.5 years).

Note 37. Related Party Transactions

Galen G. Weston beneficially owns or controls, directly and indirectly, through Wittington, a total of 78,647,040 of GWL's common shares, representing approximately 51.6% of GWL's outstanding common shares (2019 - Mr. W Galen Weston owned or controlled approximately 53.2%).

In the ordinary course of business, the Company enters into various transactions with related parties. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties. Transactions between the Company and its consolidated entities have been eliminated on consolidation and are not disclosed in this note.

In 2020, the Company made rental payments to Wittington in the amount of \$3 million (2019 - \$5 million). As at year end 2020 and 2019, there were no rental payments outstanding.

In 2020, inventory purchases from Associated British Foods plc, a related party by virtue of a common director of such entity's parent company and GWL's parent company, amounted to \$51 million (2019 - \$38 million). As at year end 2020, \$3 million (2019 - \$2 million) was included in trade payables and other liabilities relating to these inventory purchases.

TRANSACTION BETWEEN CHOICE PROPERTIES AND WITTINGTON

On July 31, 2020, Choice Properties acquired two real estate assets from Wittington Properties Limited, a subsidiary of Wittington, for an aggregate purchase price of \$209 million, excluding transaction costs, which was satisfied in full by the issuance of 16.5 million Trust Units of Choice Properties.

The assets acquired included: (i) the Weston Centre, an office and retail property in Toronto, Ontario for \$129 million and (ii) the remaining 60% interest in a joint venture between Choice Properties and Wittington Properties Limited for \$80 million, less a cost-to-complete receivable of \$16 million, giving Choice Properties 100% ownership of the joint venture.

Weston Centre The Company had multiple lease arrangements with Wittington, in addition to existing leases with Choice Properties at the Weston Centre. Upon acquisition of the property, the Company recognized a gain of \$6 million in operating income from the derecognition of its net impact of lease obligations and right-of-use assets associated with the property and will cease paying rents to Wittington. Due to continued tenancy on the property through its group of companies, \$51 million was recorded in fixed assets as own-use property and \$78 million was recorded in investment properties.

Operating Lease Choice Properties entered into a ten-year lease for office space with Wittington that commenced in 2014. Lease payments totaled \$3 million over the term of the lease. As of the acquisition date, Choice Properties de-recognized its right-of-use assets and lease liabilities with the office lease and will cease paying rents to Wittington.

Joint Venture In 2014, a joint venture, partnership known as West Block between Choice Properties and Wittington Properties Limited, completed the acquisition of a parcel of land located on 500 Lakeshore Boulevard West in Toronto, Ontario from Loblaw. Choice Properties used the equity method of accounting to record its 40% interest in the joint venture.

During the second quarter of 2020, Loblaw recognized \$65 million of right-of-use assets and lease liabilities related to the leases of retail stores and a corporate office with the joint venture.

During the third quarter of 2020, Choice Properties acquired the remaining 60% interest of the joint venture, after which the investment was accounted for on a consolidated basis. As a result of the increase in ownership, the Company recorded a \$5 million fair value loss before income taxes in other comprehensive income, and a gain of \$4 million in operating income from the derecognition of its net impact of lease obligations and right-of-use assets associated with the property and will cease paying rents to Wittington. Due to continued tenancy on the property through its group of companies, \$95 million was recorded in fixed assets as own-use property and \$13 million was recorded in investment properties. Wittington will continue to act as the development and construction manager for the commercial space until development is completed.

Notes to the Consolidated Financial Statements

VENTURE FUND During the second quarter of 2020, GWL, Loblaw and a wholly-owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("Venture Fund"). A wholly-owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee the Venture Fund. The purpose of the Venture Fund is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have a 33% interest in the Fund. The Company participates in the Fund's Investment Committee which, among other items, approves the initial investments. The Company uses the equity method of accounting to record its consolidated 66% interest in the Venture Fund. The Company has a consolidated capital commitment of \$66 million over a 10-year period. In 2020, on a consolidated basis, the Company invested \$13 million in the Venture Fund, which was recorded in other assets. Subsequent to year-end 2020, on a consolidated basis, the Company invested an additional \$5 million in the Venture Fund.

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)	2020	2019
Salaries, director fees and other short-term employee benefits	\$ 12	\$ 13
Equity-based compensation	11	11
Total compensation	\$ 23	\$ 24

Note 38. Segment Information

The Company has three reportable operating segments: Loblaw, Choice Properties and Weston Foods. Other and Intersegment includes eliminations, intersegment adjustments related to the consolidation, cash and short-term investments held by the Company and all other company level activities that are not allocated to the reportable operating segments, as further illustrated below.

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⁽ⁱ⁾ and adjusted operating income⁽ⁱ⁾. No reportable operating segment is reliant on any single external customer.

	2020					2019				
(\$ millions)	Loblaw	Choice Properties	Weston Foods	Other and Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other and Intersegment	Total
Revenue	\$ 52,714	\$ 1,271	\$ 2,062	\$ (1,342)	\$ 54,705	\$ 48,037	\$ 1,289	\$ 2,155	\$ (1,372)	\$ 50,109
Operating income (loss)	\$ 2,357	\$ 622	\$ 3	\$ (94)	\$ 2,888	\$ 2,262	\$ 890	\$ 72	\$ (266)	\$ 2,958
Net interest expense (income) and other financing charges	742	173	(1)	(83)	831	747	1,472	1	(516)	1,704
Earnings (loss) before income taxes	\$ 1,615	\$ 449	\$ 4	\$ (11)	\$ 2,057	\$ 1,515	\$ (582)	\$ 71	\$ 250	\$ 1,254
Operating income (loss)	\$ 2,357	\$ 622	\$ 3	\$ (94)	\$ 2,888	\$ 2,262	\$ 890	\$ 72	\$ (266)	\$ 2,958
Depreciation and amortization	2,596	3	175	(347)	2,427	2,524	1	147	(354)	2,318
Adjusting items ⁽ⁱ⁾	80	254	22	(64)	292	118	23	4	62	207
Adjusted EBITDA ⁽ⁱ⁾	\$ 5,033	\$ 879	\$ 200	\$ (505)	\$ 5,607	\$ 4,904	\$ 914	\$ 223	\$ (558)	\$ 5,483
Depreciation and amortization ⁽ⁱⁱ⁾	2,087	3	145	(347)	1,888	2,016	1	138	(354)	1,801
Adjusted operating income (loss)⁽ⁱ⁾	\$ 2,946	\$ 876	\$ 55	\$ (158)	\$ 3,719	\$ 2,888	\$ 913	\$ 85	\$ (204)	\$ 3,682

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

(ii) Excludes \$509 million (2019 – \$508 million) of amortization of intangible assets acquired with Shoppers Drug Mart, recorded by Loblaw and \$30 million (2019 – \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

Notes to the Consolidated Financial Statements

Other and Intersegment includes the following items:

	2020			2019		
(\$ millions)	Revenue	Operating Income	Net Interest Expense and Other Financing Charges	Revenue	Operating Income	Net Interest Expense and Other Financing Charges
Elimination of internal lease arrangements	\$ (512)	\$ (96)	\$ (134)	\$ (531)	\$ (148)	\$ (170)
Elimination of cost recovery	(202)	—	—	(209)	—	—
Elimination of lease surrender	(5)	—	—	(3)	—	—
Loblaw's net gain on sale leaseback of property to Choice Properties	—	—	—	—	(7)	—
Recognition of depreciation on Choice Properties' investment properties classified as fixed assets by the Company and measured at cost	—	(45)	—	—	(37)	—
Fair value adjustment on investment properties	—	72	—	—	(85)	—
Elimination of fair value adjustment on Choice Properties' Exchangeable Units	—	—	354	—	—	(932)
Fair value adjustment on Trust Unit liability	—	—	(239)	—	—	550
Elimination of unit distributions on Exchangeable Units paid by Choice Properties to GWL	—	—	(289)	—	—	(289)
Unit distributions on Trust Units paid by Choice Properties, excluding amounts paid to GWL	—	—	223	—	—	203
Elimination of intercompany sales	(623)	—	—	(629)	—	—
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	—	—	(47)	—	—	69
Choice Properties issuance costs	—	—	—	—	—	14
Asset impairments, net of recoveries	—	(6)	—	—	38	—
Gain on sale of a property	—	15	—	—	—	—
Other	—	(34)	49	—	(27)	39
Total Consolidated	\$ (1,342)	\$ (94)	\$ (83)	\$ (1,372)	\$ (266)	\$ (516)

(\$ millions)	As at	
	Dec. 31, 2020	Dec. 31, 2019
Total Assets		
Loblaw	\$ 36,018	\$ 36,451
Choice Properties	15,647	15,575
Weston Foods	4,540	4,261
Other ⁽ⁱ⁾	31	28
Intersegment	(8,161)	(8,502)
Consolidated	\$ 48,075	\$ 47,813

(i) Other includes cash and cash equivalents and short-term investments held by foreign operations.

(\$ millions)	2020	2019
Additions to Fixed Assets, Investment Properties and Intangible Assets		
Loblaw ⁽ⁱ⁾	\$ 1,224	\$ 1,206
Choice Properties ⁽ⁱⁱ⁾	506	163
Weston Foods	162	194
Other	9	8
Consolidated	\$ 1,901	\$ 1,571

(i) During 2020, additions to fixed assets in Loblaw includes prepayments that were made in 2019 and transferred from other assets in 2020 of \$66 million. During 2019, additions to fixed assets in Loblaw includes prepayments that were made in 2018 and transferred from other assets in 2019 of \$13 million.

(ii) During 2020, additions to investment properties in Choice Properties includes non-cash consideration of \$243 million (2019 - \$25 million).

The Company operates primarily in Canada and United States.

(\$ millions)	2020	2019
Revenue (excluding intersegment)		
Canada	\$ 53,534	\$ 48,897
United States	1,171	1,212
Consolidated	\$ 54,705	\$ 50,109

(\$ millions)	As at	
	2020	2019
Fixed Assets, Goodwill and Intangible Assets		
Canada	\$ 22,862	\$ 23,127
United States	885	909
Consolidated	\$ 23,747	\$ 24,036

Note 39. Subsequent Events

Investment Property Transactions Subsequent to the end of 2020, Choice Properties completed the disposition of its 50% equity accounted joint venture interest in land held for development for aggregate proceeds of \$66 million, net of transaction and estimated closing costs.

Three Year Summary

CONSOLIDATED INFORMATION⁽ⁱ⁾

As at or for the years ended December 31

(\$ millions except where otherwise indicated)

	2020 (53 weeks)	2019 ⁽ⁱⁱ⁾ (52 weeks)	2018 (52 weeks)
Operating Results			
Revenue	54,705	50,109	48,568
Operating income	2,888	2,958	2,585
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	5,607	5,483	4,528
Depreciation and amortization ^(iv)	2,427	2,318	1,746
Net interest expense and other financing charges	831	1,704	948
Adjusted net interest expense and other financing charges ⁽ⁱⁱⁱ⁾	1,117	1,071	762
Income taxes	475	431	639
Adjusted income taxes ⁽ⁱⁱⁱ⁾	679	653	680
Net earnings	1,582	823	998
Net earnings attributable to shareholders of the Company	963	242	574
Net earnings available to common shareholders of the Company	919	198	530
Adjusted net earnings available to common shareholders of the Company ⁽ⁱⁱⁱ⁾	1,055	1,117	908
Financial Position			
Fixed assets	11,943	11,773	12,101
Goodwill and intangible assets	11,804	12,263	12,739
Total assets	48,075	47,813	43,814
Cash and cash equivalents, short-term investments and security deposits	3,231	2,139	1,889
Total debt including lease liabilities	21,000	21,131	16,445
Total equity attributable to shareholders of the Company	7,811	7,609	8,040
Total equity	13,418	13,175	14,204
Cash Flows			
Cash flows from operating activities	5,521	4,555	2,719
Capital investments	1,658	1,571	1,593
Free cash flow ⁽ⁱⁱⁱ⁾	2,128	1,367	134
Per Common Share (\$)			
Diluted net earnings	5.96	1.26	3.99
Adjusted diluted net earnings ⁽ⁱⁱⁱ⁾	6.85	7.24	6.85
Financial Measures and Ratios			
Adjusted EBITDA margin ⁽ⁱⁱⁱ⁾ (%)	10.2	10.9	9.3
Adjusted return on average equity attributable to common shareholders of the company ⁽ⁱⁱⁱ⁾ (%)	15.3	16.1	12.7
Adjusted return on capital ⁽ⁱⁱⁱ⁾ (%)	10.8	10.3	12.0

(i) For financial definitions and ratios refer to the Glossary beginning on page 170.

(ii) Certain comparative figures have been restated to conform with current year presentation.

(iii) See non-GAAP financial measures beginning on page 75.

(iv) Includes \$509 million (2019 - \$508 million; 2018 - \$521 million) of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation, recorded by Loblaw and \$30 million (2019 - \$9 million; 2018 - \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

SEGMENT INFORMATION⁽ⁱ⁾

As at or for the years ended December 31

(\$ millions except where otherwise indicated)

		2020 (53 weeks)	2019 (52 weeks)	2018 ⁽ⁱⁱ⁾ (52 weeks)
OPERATING RESULTS				
Revenue	Loblaw	52,714	48,037	46,693
	Choice Properties	1,271	1,289	1,148
	Weston Foods	2,062	2,155	2,122
	Other & Intersegment	(1,342)	(1,372)	(1,395)
	Consolidated	54,705	50,109	48,568
Operating income	Loblaw	2,357	2,262	1,915
	Choice Properties	622	890	593
	Weston Foods	3	72	92
	Other & Intersegment	(94)	(266)	(15)
	Consolidated	2,888	2,958	2,585
Adjusted EBITDA⁽ⁱⁱⁱ⁾	Loblaw	5,033	4,904	3,520
	Choice Properties	879	914	824
	Weston Foods	200	223	233
	Other & Intersegment	(505)	(558)	(49)
	Consolidated	5,607	5,483	4,528
Adjusted EBITDA Margin (%)⁽ⁱⁱⁱ⁾	Loblaw	9.6	10.2	7.5
	Weston Foods	9.7	10.3	11.0
	Consolidated	10.2	10.9	9.3
Depreciation and Amortization^(iv)	Loblaw	2,596	2,524	1,497
	Choice Properties	3	1	1
	Weston Foods	175	147	130
	Other & Intersegment	(347)	(354)	118
	Consolidated	2,427	2,318	1,746
FINANCIAL POSITION				
Total Assets	Loblaw	36,018	36,451	30,228
	Choice Properties	15,647	15,575	15,518
	Weston Foods	4,540	4,261	3,001
	Other ^(v)	31	28	305
	Intersegment	(8,161)	(8,502)	(5,238)
	Consolidated	48,075	47,813	43,814
CASH FLOWS				
Capital Expenditures	Loblaw	1,224	1,206	1,070
	Choice Properties	263	163	311
	Weston Foods	162	194	212
	Other & Intersegment	9	8	–
	Consolidated	1,658	1,571	1,593

(i) For financial definitions and ratios refer to the Glossary beginning on page 170.

(ii) Certain comparative figures have been restated to conform with current year presentation.

(iii) See non-GAAP financial measures beginning on page 75.

(iv) Includes \$509 million (2019 – \$508 million; 2018 – \$521 million) of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation, recorded by Loblaw and \$30 million (2019 – \$9 million; 2018 – \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

(v) Other includes cash and cash equivalents and short-term investments held by foreign operations.

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 14, "Non-GAAP Financial Measures", of the Company's Management's Discussion and Analysis).
Adjusted EBITDA	Adjusted operating income before depreciation and amortization (see Section 14, "Non-GAAP Financial Measures", of the Company's Management's Discussion and Analysis).
Adjusted EBITDA margin	Adjusted EBITDA divided by sales (see Section 14, "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 14, "Non-GAAP Financial Measures", of the Company's Management's Discussion and Analysis).
Adjusted effective tax rate	Adjusted income taxes divided by adjusted operating income less adjusted net interest and other financing charges (see Section 14, "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 14, "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 14, "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 14, "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 14, "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 14, "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 14, "Non-GAAP Financial Measures", of the Company's Management's Discussion and Analysis).
Average article price	The year over year growth in Loblaw food retail revenue over the average number of article sold in Loblaw's stores in the quarter. Average Article Price is calculated by dividing Sales in Scope by Article Count for the timeframe chosen.
Basic net earnings per common share	Net earnings available to common shareholders 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, investment properties 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 14, "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.

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 intangible asset additions, fixed asset and investment properties purchases, interest paid, and net lease payments (see Section 14, "Non-GAAP Financial Measures", of the Company's Management's Discussion and Analysis).
Net earnings attributable to shareholders of the Company	Net earnings less non-controlling interests.
Net earnings available to common shareholders of the Company	Net earnings attributable to shareholders of the Company less preferred dividends.
Operating income	Net earnings before net interest expense and other financing charges and income taxes.
Renovation	A capital investment in a store resulting in no significant change to the store square footage.
Retail debt to adjusted EBITDA	Loblaw retail total debt divided by Loblaw retail adjusted EBITDA.
Retail gross profit	Loblaw retail sales less cost of merchandise inventories sold.
Retail square footage	Retail square footage includes Loblaw's corporate stores, franchised stores and associate-owned drug stores.
Same-store sales	Loblaw 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. The years ended December 31, 2020 and December 31, 2019 contained 53 weeks and 52 weeks, respectively.

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 and Director President's Choice Bank; Chairman, Wittington Investments, Limited; Chairman, Choice Properties Real Estate Investment Trust; Director, Selfridges Group Limited; President, W. Garfield Weston Foundation.

Paviter S. Binning^(2, 4*)

President and Director of Wittington Investments Limited; former President and, Chief Executive Officer and Chief Financial Officer of the Corporation; Director, Loblaw Companies Limited; former Chief Financial Officer and Chief Restructuring Officer, Nortel Networks Corporation; former Chief Financial Officer, Hanson plc and Marconi Corporation plc.

Andrew Ferrier^(1, 2*)

Executive Chairman of Canz Capital Limited; Chair, New Zealand Trade and Enterprise; former Chief Executive Officer of Fonterra Co-operative Group Limited; former President and Chief Executive Officer, GSW Inc.; former Director, Orion Health Group Limited and Bunge Limited.

(1) Audit Committee

(2) Weston Foods Committee

(3) Governance, Human Resource, Nominating and Compensation Committee

(4) Pension Committee

* Chair of the Committee

Nancy H.O. Lockhart, O. Ont.^(3, 4)

Corporate Director; Trustee, Choice Properties Real Estate Investment Trust; Chair of Alignvest Student Housing; Director, Atrium Mortgage Investment Corporation, The Royal Conservatory of Music; Member, Sotheby's Canada Advisory Board; Chair Emeritus, Crow's Theatre Company; former Chief Administrative Officer, Frum Development Group, former Vice President, Shoppers Drug Mart Corporation; former Chair, Ontario Science Centre and Canadian Film Centre; former President, Canadian Club of Toronto; former Director, Loblaw Companies Limited, Gluskin Sheff & Associates Inc., Barrick Gold Corporation, Canada Deposit Insurance Corporation, Centre for Addiction and Mental Health Foundation, and the Loran Scholars Foundation.

Sarabjit (Sabi) S. Marwah^(1, 3)

Senator with the Senate of Canada; former Vice-Chairman and Chief Operating Officer of The Bank of Nova Scotia; Director, Cineplex Inc.; former Director, TELUS Corporation; former Trustee and Chair, Hospital for Sick Children; former Chair, Humber River Regional Hospital; former member of the Board of Directors, C.D.Howe Institute and Toronto International Film Festival.

Gordon M. Nixon, C.M., O.Ont.⁽⁵⁾

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.^(3*, 4)

Non-Executive Chair, Torsys LLP; former Chair, Bank of Montreal; Director, Onex Corporation; Director, Alamos Gold Inc.; President Emeritus, University of Toronto; Chair and Trustee, Hospital for Sick Children; former Chair, President and Chief Executive Officer, Metrolinx; former Director, President and Chief Executive Officer, Torstar Corporation.

Robert Sawyer⁽¹⁾

Corporate Director; Director, Walter Group and Oatbox; Director of Mira Foundation; former Director and President and Chief Executive Officer, RONA Inc.; former Executive Vice President and Chief Operating Officer of Metro Inc; former Board member, Accueil Bonneau; former President, La Maison Du Pere and Moisson Montreal.

Christi Strauss^(1, 2)

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 Partners International; past Chair, Advertising Standards Canada; past Chair, Canadian Food Information Council; former Board member; The Stratford Festival and Food and Consumer Products of Canada.

Barbara Stymiest, F.C.A., F.C.P.A.^(1*, 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., former Executive Vice-President and Chief Financial Officer, BMO Capital Markets; former Partner, Ernst & Young LLP; Director, Canadian Institute for Advanced Research; A Vice Chair, University Health Network; Director, Advisory Council for the Ivey Institute for Leadership.

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

Khush Dadyburjor

Chief Strategy Officer

Jeff Gobeil

Group Head, Tax

Wendy Mizuno

Group Head, Pensions & Benefits

Lina Taglieri

Group Head, Controller

John Williams

Group Treasurer and Head of Corporate Finance

Andrew Bunston

Vice President, General Counsel and Secretary

Anemona Turcu

Vice President, Chief Risk Officer

Shareholder and Corporate Information

Executive Office

George Weston Limited
22 St. Clair Avenue East
Toronto, Canada M4T 2S5
Tel: 416.922.2500
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 2020, there were 152,374,416 common shares issued and outstanding.

The average 2020 daily trading volume of the Company's common shares was 219,796.

Preferred Shares

As at year end 2020, 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 2020 daily trading volume of the Company's preferred shares was:

Series I:	5,989
Series III:	8,399
Series IV:	6,136
Series V:	4,362

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 2021 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 2021 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.tc.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 2021 Annual Meeting of Shareholders of George Weston Limited will be held virtually via a live webcast on Tuesday, May 11, 2021, at 11:00 a.m. (EDT).

Trademarks

George Weston Limited, Loblaw Companies Limited, Choice Properties Real Estate Investment Trust and their respective subsidiaries own a number of trademarks. These trademarks are the exclusive property of George Weston Limited, Loblaw Companies Limited, Choice Properties Real Estate Investment Trust 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 Tara Speers, Senior Director, 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, and Choice Properties Real Estate Investment Trust, a public entity with units, both of which are traded on the Toronto Stock Exchange.

Ce rapport est disponible en français.

GEORGE WESTON LIMITED

22 St Clair Ave E,
Toronto, ON M4T 2S5

Tel: (416) 922-2500
www.weston.ca

