# 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



**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 | OPERATING INCOME | ADJUSTED EBITDA[1] | ADJUSTED EBITDA MARGIN[1] (%) |
|---|---|---|---|
| **$54,705** | **$2,888** | **$5,607** | **10.2%** |
| **+9.2%** vs. 2019 | **-2.4%** vs. 2019 | **+2.3%** vs. 2019 | **-70bps** vs. 2019 |

| NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS | ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS[1] | DILUTED NET EARNINGS PER COMMON SHARE ($) | ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE[1] ($) |
|---|---|---|---|
| **$919** | **$1,055** | **$5.96** | **$6.85** |
| **+364.1%** vs. 2019 | **-5.6%** vs. 2019 | **+373.0%** vs. 2019 | **-5.4%** vs. 2019 |

### GWL Corporate[2]

| CASH FLOW FROM OPERATING BUSINESSES[1] | GWL CORPORATE FREE CASH FLOW[1] | ANNUALIZED DIVIDENDS DECLARED PER SHARE ($) | ADJUSTED RETURN ON CAPITAL[1] (%) |
|---|---|---|---|
| **$603** | **$811** | **$2.20** | **10.8%** |
| **+11.9%** vs. 2019 | **+97.3%** vs. 2019 | **+4.8%** vs. 2019 | **+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 Loblaws 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.

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

## 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.

# 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.

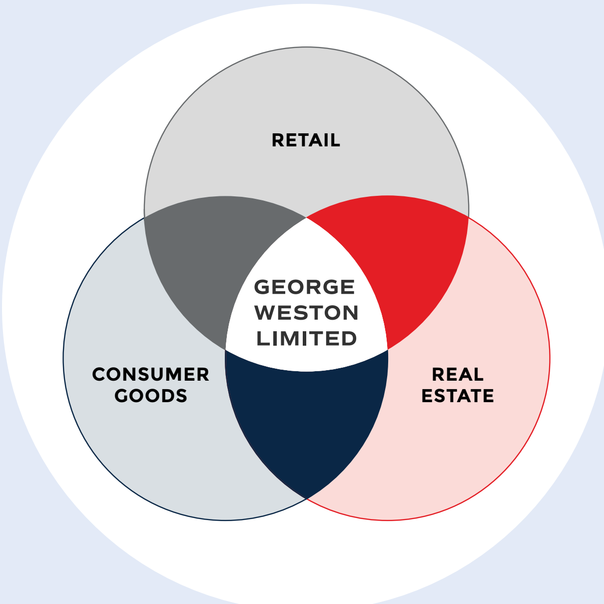
The Company is committed to supporting its portfolio of companies, providing expertise and decision support. This includes support in areas such as strategy, talent development, capital allocation and mergers and acquisitions.

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




**ACTIVELY MANAGED PORTFOLIO**

**BUILD GENERATIONAL VALUE**

## 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.

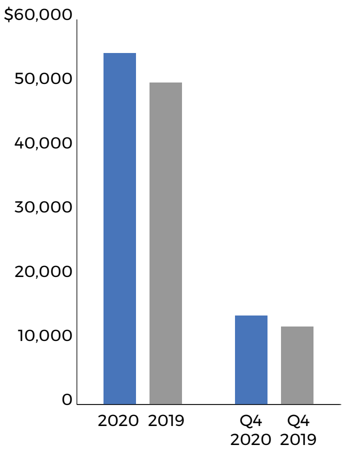
**TALENT**
Our talent is central to achieving our long-term goals. We see our investment in growing, as well as recruiting exceptional leaders, as a strategic imperative and are proud to offer challenging and rewarding careers.

**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

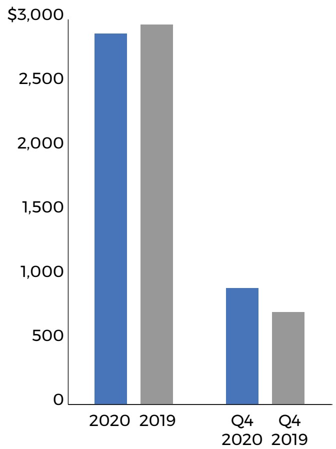



| | | |
|---|---|---|
| **2020** | **54,705** | **+9.2%** |
| 2019 | 50,109 | |
| **Q4 2020** | **13,806** | **+14.0%** |
| Q4 2019 | 12,107 | |

**Performance in 2020**

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

### OPERATING INCOME

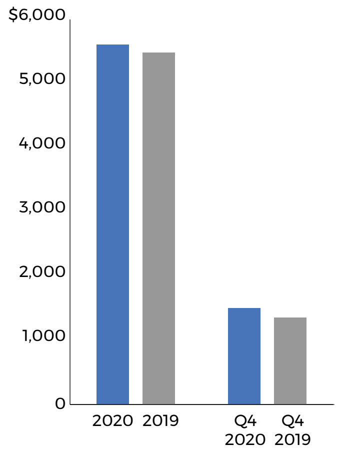



| | | |
|---|---|---|
| **2020** | **2,888** | **-2.4%** |
| 2019 | 2,958 | |
| **Q4 2020** | **906** | **+26.2%** |
| Q4 2019 | 718 | |

**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**

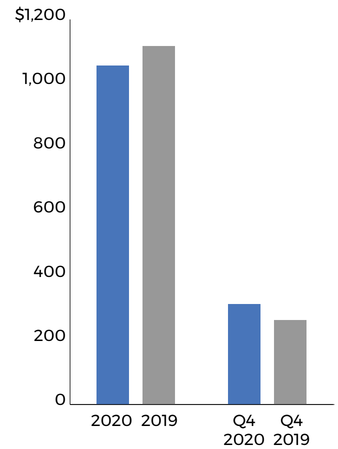
Adjusted EBITDA[1] increased by $124 million, driven by an improvement in the underlying operating performance of Loblaw, partially offset by declines in Choice Properties and Weston Foods. The three operating segments were negatively impacted by COVID-19 related costs.

**ADJUSTED EBITDA MARGIN[1] (%)**

**10.2%** 2020 — **-70bps** vs. 2019

**10.9%** Q4 2020 — **-30bps** vs. Q4 2019

### 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.

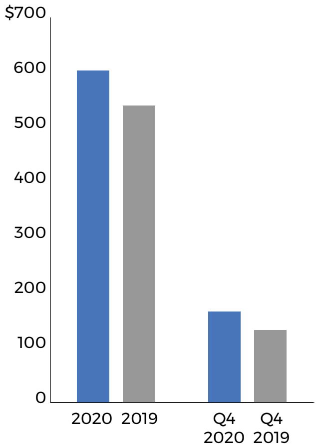
**ADJUSTED DILUTED NET EARNINGS PER SHARE[1] ($)**

**$6.85** 2020 — **-5.4%** vs. 2019

**$2.03** Q4 2020 — **+20.1%** vs. Q4 2019

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]



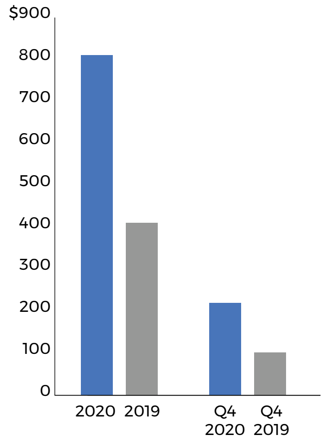

| | | |
|---|---|---|
| 2020 | 603 | +11.9% |
| 2019 | 539 | |
| Q4 2020 | 165 | +26.0% |
| Q4 2019[4] | 131 | |

**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]



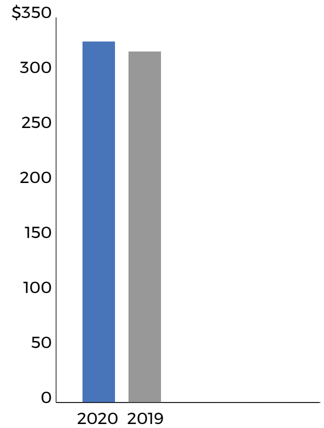

| | | |
|---|---|---|
| 2020 | 811 | +97.3% |
| 2019 | 411 | |
| Q4 2020 | 220 | +115.7% |
| Q4 2019[4] | 102 | |

**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**

**-90.0%**
vs. 2019

$429
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.

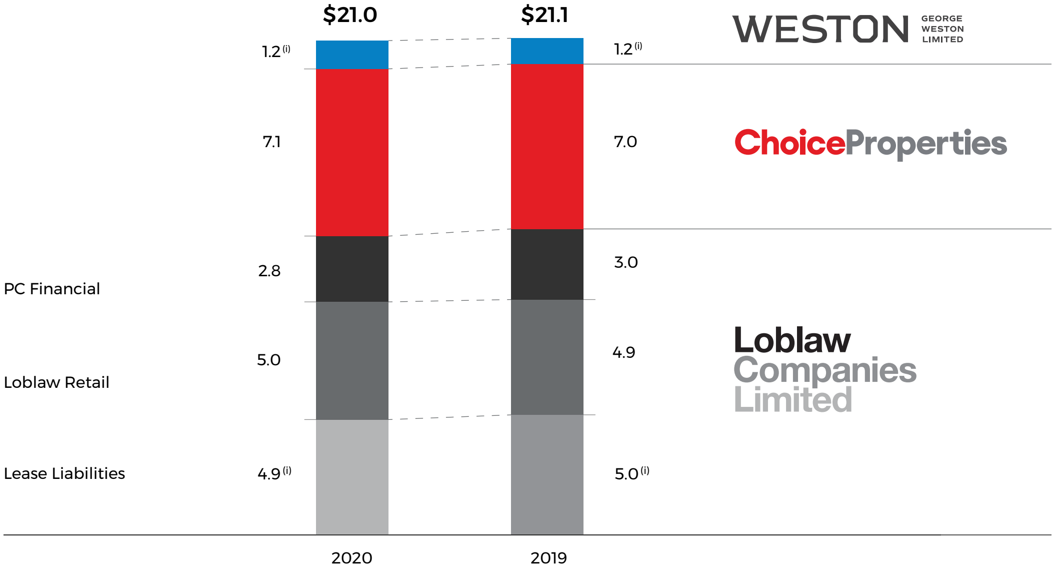
2 GWL Corporate refers to the non-consolidated financial results and metrics of GWL. GWL Corporate is a subset of Other and Intersegment.

# 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[(2)] 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]

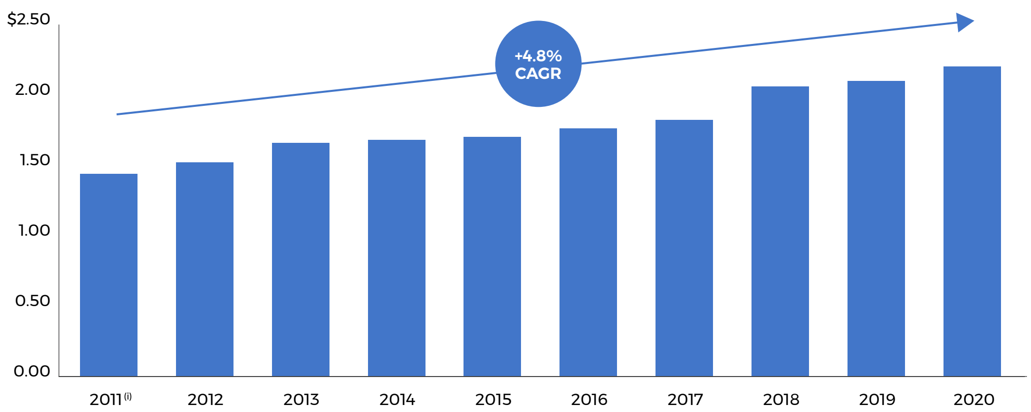
GWL Corporate free cash flow[1] is generated from the dividends received from Loblaw, distributions received from Choice Properties, net cash flow contributions from Weston Foods and proceeds from participation in Loblaw's Normal Course Issuer Bid, less corporate expenses, interest and income taxes paid.

| 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[i] | **(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.

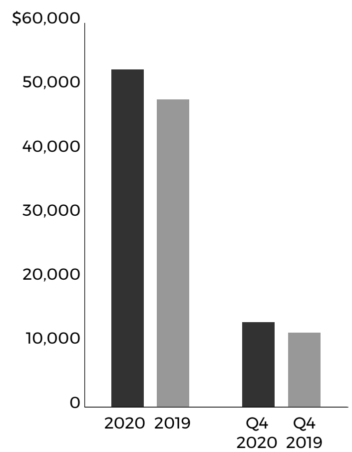
**LOBLAW OFFERINGS**

| **Divisions:** | **Brands:** |
|---|---|
| Discount | President's Choice |
| Market | No Name |
| Shoppers Drug Mart | Life Brand |
| PC Financial | PC Optimum |
| Joe Fresh | PC Money |

## Key performance indicators

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

**REVENUE**

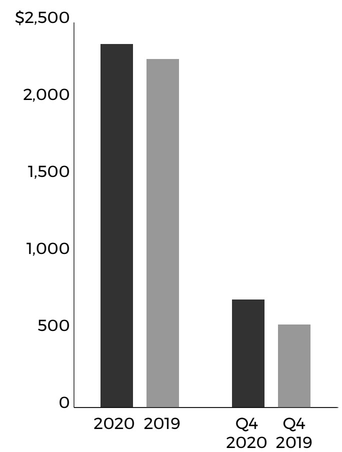



| | | |
|---|---|---|
| **2020** | **52,714** | **+9.7%** |
| 2019 | 48,037 | |
| **Q4 2020** | **13,286** | **+14.6%** |
| Q4 2019 | 11,590 | |

**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**

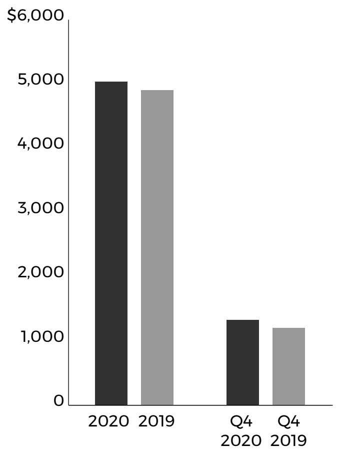



| | | |
|---|---|---|
| **2020** | **2,357** | **+4.2%** |
| 2019 | 2,262 | |
| **Q4 2020** | **700** | **+29.9%** |
| Q4 2019 | 539 | |

**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]



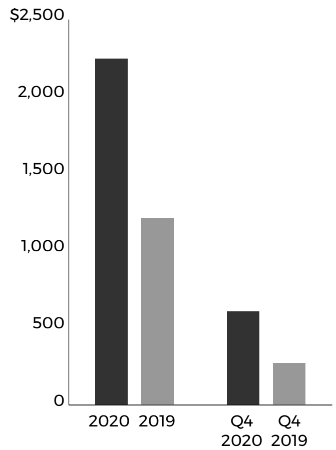

| | | |
|---|---|---|
| **2020** | **5,033** | **+2.6%** |
| 2019 | 4,904 | |
| **Q4 2020** | **1,330** | **+10.6%** |
| Q4 2019 | 1,203 | |

**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%** vs. 2019

**2020**

**ADJUSTED EBITDA MARGIN[1] (%)**

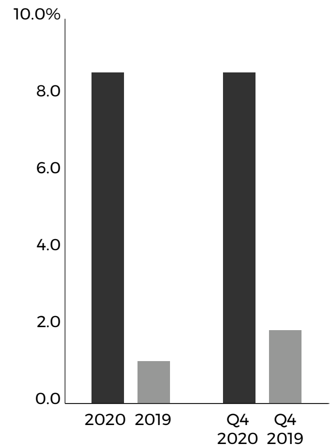
**9.6%** **-60bps** vs. 2019

**2020**

**10.0%** **-40bps** vs. Q4 2019

**Q4 2020**

### FOOD RETAIL SAME-STORE SALES GROWTH[i] (%)




| | | |
|---|---|---|
| **2020** | **8.6%** | **+750bps** |
| 2019 | 1.1% | |
| **Q4 2020** | **8.6%** | **+670bps** |
| Q4 2019 | 1.9% | |

**Performance in 2020**

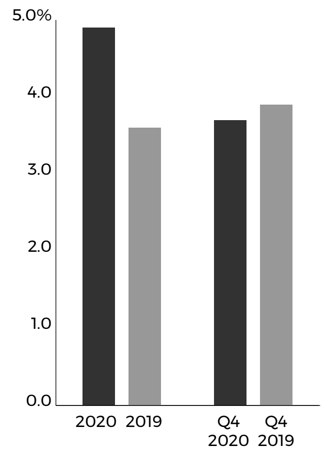
Food retail same-store sales grew by 8.6%, positively impacted by COVID-19. Food retail basket size increased and traffic decreased.

**RETAIL DEBT TO RETAIL ADJUSTED EBITDA[1][i]**

**2.8x** **-0.2x** vs. 2019

**2020**

### DRUG RETAIL SAME-STORE SALES GROWTH[i] (%)




| | | |
|---|---|---|
| **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.

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

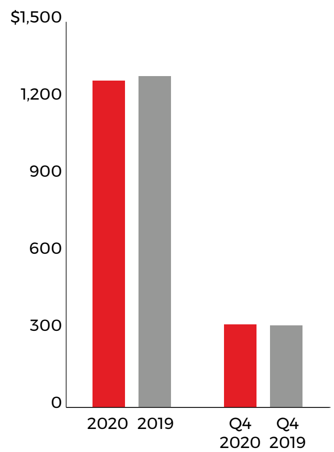
**TOP 10 TENANTS**

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**

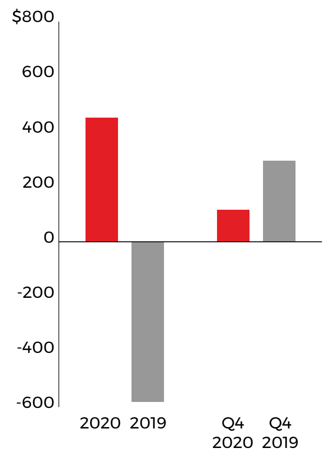



| | | |
|---|---|---|
| **2020** | **1,271** | **-1.4%** |
| 2019 | 1,289 | |
| **Q4 2020** | **322** | **+1.3%** |
| Q4 2019 | 318 | |

**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 | |

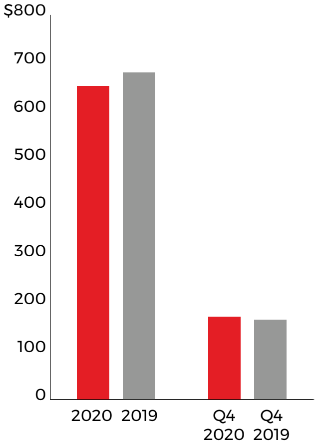
**Performance in 2020**

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]**

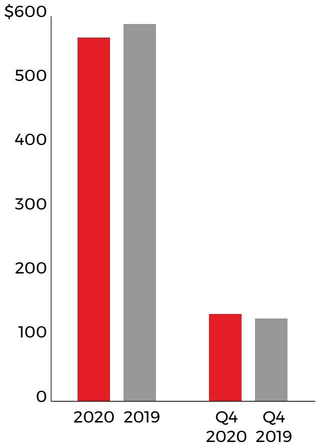



| | | |
|---|---|---|
| **2020** | **652** | **-4.1%** |
| 2019 | 680 | |
| **Q4 2020** | **172** | **+3.6%** |
| Q4 2019 | 166 | |

**Performance in 2020**

FFO[i] 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[i]**

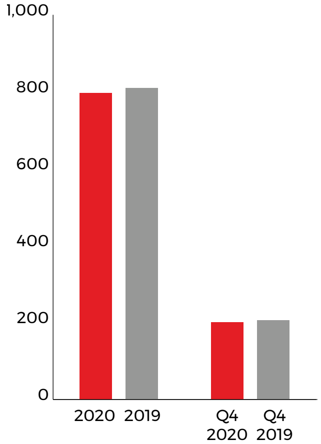



| | | |
|---|---|---|
| **2020** | **567** | **-3.6%** |
| 2019 | 588 | |
| **Q4 2020** | **136** | **+5.4%** |
| Q4 2019 | 129 | |

**Performance in 2020**

AFFO[i] 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[i]**

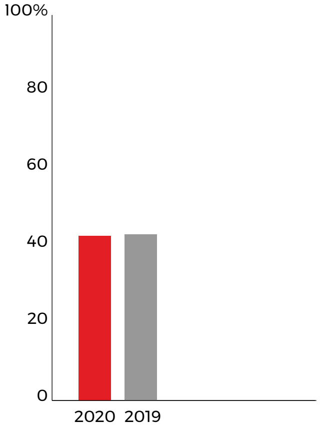



| | | |
|---|---|---|
| **2020** | **796** | **-1.6%** |
| 2019 | 809 | |
| **Q4 2020** | **201** | **-2.3%** |
| Q4 2019 | 206 | |

**Performance in 2020**

Same-asset NOI, cash basis[i], 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[i] (%)**




| | | |
|---|---|---|
| **2020** | **42.7%** | **-40bps** |
| 2019 | 43.1% | |

**Performance in 2020**

Debt to total assets[i] 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[i]**

**7.6x** **2020** **+0.1x** vs. 2019

**DEBT SERVICE COVERAGE[i]**

**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.

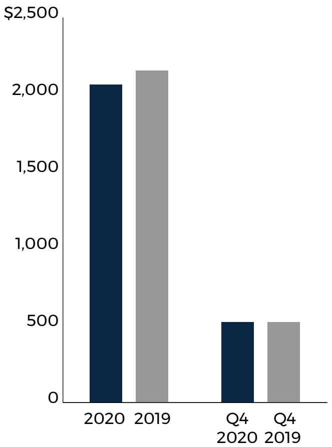
During 2020, Weston Foods completed its transformation program and invested in organizational improvements for longer term growth, including deploying its enterprise resource planning system across significant aspects of its Canadian and corporate operations.

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

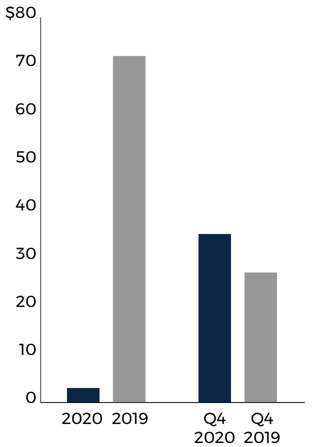



| | | |
|---|---|---|
| **2020** | **2,062** | **-4.3%** |
| 2019 | 2,155 | |
| **Q4 2020** | **523** | **+0.2%** |
| Q4 2019 | 522 | |

**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

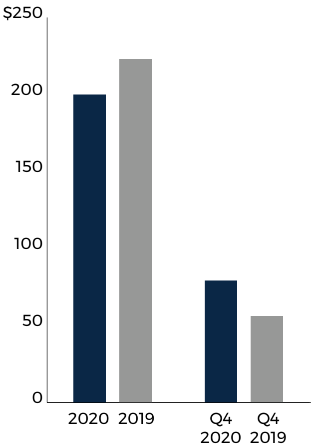



| | | |
|---|---|---|
| **2020** | **3** | **-95.8%** |
| 2019 | 72 | |
| **Q4 2020** | **35** | **+29.6%** |
| Q4 2019 | 27 | |

**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**

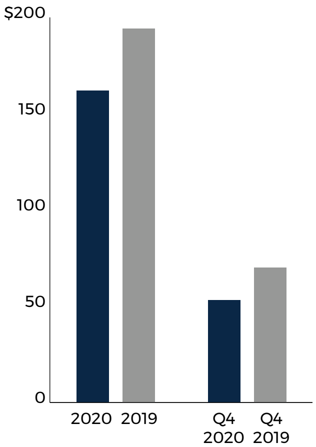
Adjusted EBITDA[1] decreased by $23 million compared to 2019 driven by the decline in sales and COVID-19 related costs, partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program and cost savings.

**ADJUSTED EBITDA MARGIN[1] (%)**

**9.7%** 2020 — **-60bps** vs. 2019

**15.1%** Q4 2020 — **+440bps** 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

## 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)<br>For the years ended as indicated | | 2020<br>(53 weeks) | | 2019<br>(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.

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) | Loblaw | 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)<br>For the years ended as indicated | 2020<br>(53 weeks) | 2019<br>(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)<br>For the years ended as indicated | 2020<br>(53 weeks) | 2019<br>(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.

- 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)<br>For the years ended as indicated | | 2020<br>(53 weeks) | | 2019<br>(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)<br>For the years ended as indicated | | 2020<br>(53 weeks) | | 2019<br>(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.

**INCOME TAXES**

| ($ millions except where otherwise indicated)<br>For the years ended as indicated | | 2020<br>(53 weeks) | | 2019<br>(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<br>($ millions except where otherwise indicated) | | 2020<br>(53 weeks) | | 2019<br>(52 weeks) | | 2018<br>(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* 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)<br>($ millions) | Quarter Ended<br>Dec. 31, 2020<br>(13 weeks) | Year Ended<br>Dec. 31, 2020<br>(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.

**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:

| | Quarters Ended | | Years Ended | |
|---|---|---|---|---|
| (unaudited) ($ millions) | **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[(1)] | **$** | **5,033** | $ | 4,904 | $ | 129 | 2.6% |
| Adjusted EBITDA margin[(1)] | | **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;

- 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 Dec. 31, 2020 (13 weeks) | Quarters Ended Dec. 31, 2019[4] (12 weeks) | Years Ended Dec. 31, 2020 (53 weeks) | Years Ended 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.

**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[1]** Funds from Operations[1] 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)<br>For the years ended as indicated | | 2020<br>(53 weeks) | | 2019<br>(52 weeks) | | $ Change | % Change |
|---|---|---|---|---|---|---|---|
| Sales | **$** | **2,062** | $ | 2,155 | $ | (93) | (4.3)% |
| Operating income | **$** | **3** | $ | 72 | $ | (69) | (95.8)% |
| Adjusted EBITDA[1] | **$** | **200** | $ | 223 | $ | (23) | (10.3)% |
| Adjusted EBITDA margin[1] | | **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[1]** Weston Foods adjusted EBITDA[1] 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[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.

Weston Foods adjusted EBITDA margin[1] decreased to 9.7% compared to 10.3% in 2019. The decline in adjusted EBITDA margin[1] 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)<br>For the years ended as indicated | 2020<br>(53 weeks) | 2019<br>(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)<br>For the years ended as indicated | 2020<br>(53 weeks) | 2019[(4)]<br>(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.

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

**FREE CASH FLOW[1]**

| ($ millions)<br>For the years ended as indicated | | 2020<br>(53 weeks) | | 2019[4]<br>(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) | Loblaw | Choice Properties | Weston Foods | Other/ Intersegment | Total | Loblaw | Choice Properties | Weston Foods | Other/ Intersegment | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| As at | | | | | Dec. 31, 2020 | | | | | Dec. 31, 2019 |
| 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[(ii)] | **$ 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.

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 Principal Amount | 2019 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 Principal Amount | 2019 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.

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

| | | As at Dec. 31, 2020 | | Dec. 31, 2019 | |
|---|---|---|---|---|---|
| ($ millions) | Maturity Date | 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:

| | | As at | | |
|---|---|---|---|---|
| **($ millions)** | | **Dec. 31, 2020** | | Dec. 31, 2019 |
| Securitized to independent securitization trusts: | | | | |
| Securitized to *Eagle Credit Card Trust* | **$** | **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:

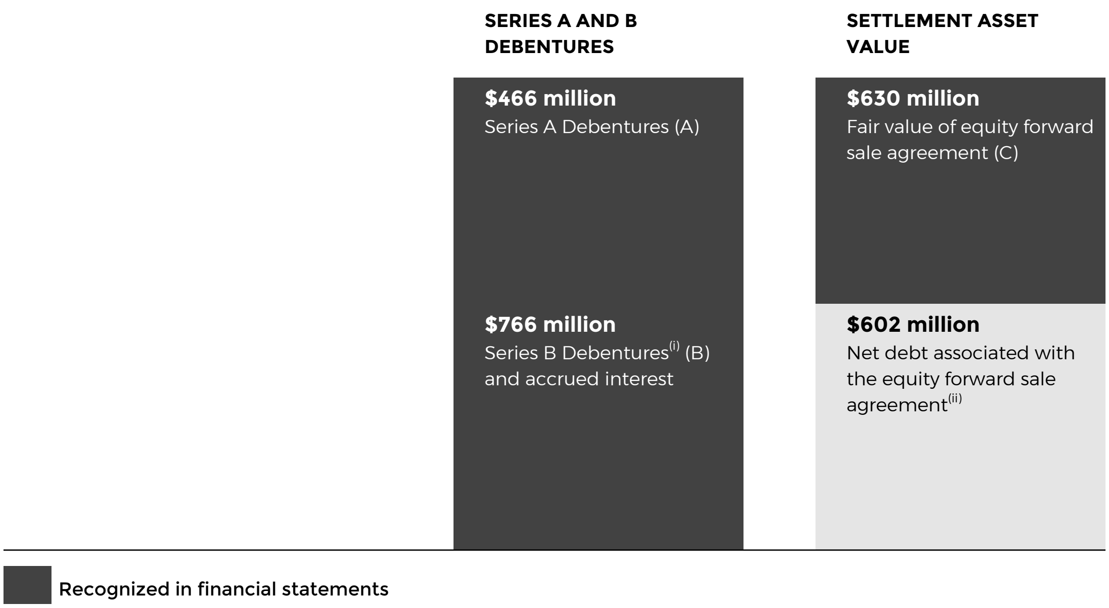
| **($ millions)** | | **2020** | | 2019 |
|---|---|---|---|---|
| Balance, beginning of year | **$** | **1,311** | $ | 1,141 |
| GICs issued | | **410** | | 453 |
| GICs matured | | **(536)** | | (283) |
| Balance, end of year | **$** | **1,185** | $ | 1,311 |

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

**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**




(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:

| | | As at | |
|---|---|---|---|
| ($ millions) | Maturity Date | **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:

| | Dominion Bond Rating Service | | Standard & Poor's | |
|---|---|---|---|---|
| Credit Ratings (Canadian Standards) | Credit Rating | Trend | Credit Rating | Outlook |
| Issuer rating | BBB | Stable | BBB | Stable |
| Medium term notes | BBB | Stable | BBB | n/a |
| Other notes and debentures | BBB | Stable | BBB | n/a |
| 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:

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

During 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:

| | Dominion Bond Rating Service | | Standard & Poor's | |
|---|---|---|---|---|
| Credit Ratings (Canadian Standards) | 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.

## 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.

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**

| | Payments due by year | | | | | | |
|---|---|---|---|---|---|---|---|
| ($ millions) | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total |
| 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.

## 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**

| | | | | | 2020 | | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions except where otherwise indicated) | 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[(1)] | **$ 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[(1)] ($) | **$ 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.

## 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.

| | Quarters Ended | | | |
|---|---|---|---|---|
| (unaudited)<br>($ millions except where otherwise indicated) | **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);

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**

| | Quarters Ended | | | |
|---|---|---|---|---|
| (unaudited)<br>($ millions except where otherwise indicated) | **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)<br>($ millions except where otherwise indicated) | Quarters Ended<br>Dec. 31, 2020<br>(13 weeks) | Dec. 31, 2019<br>(12 weeks) | $ Change | % Change |
|---|---|---|---|---|
| Loblaw | **$ 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)<br>($ millions except where otherwise indicated) | Quarters Ended<br>Dec. 31, 2020<br>(13 weeks) | Dec. 31, 2019<br>(12 weeks) | $ Change | % Change |
|---|---|---|---|---|
| Loblaw | **$ 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.

**DEPRECIATION AND AMORTIZATION**

| (unaudited)<br>($ millions except where otherwise indicated) | Quarters Ended<br>Dec. 31, 2020<br>(13 weeks) | Dec. 31, 2019<br>(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)<br>($ millions except where otherwise indicated) | Quarters Ended<br>Dec. 31, 2020<br>(13 weeks) | Dec. 31, 2019<br>(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)<br>($ millions except where otherwise indicated) | Quarters Ended<br>Dec. 31, 2020<br>(13 weeks) | Dec. 31, 2019<br>(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)<br>($ millions) | Quarters Ended<br>Dec. 31, 2020<br>(13 weeks) | Dec. 31, 2019<br>(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.

**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:

| | Quarters Ended | |
|---|---|---|
| **(unaudited)** **($ millions)** | **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]**

| | Quarters Ended | | |
|---|---|---|---|
| **(unaudited)** **($ millions)** | **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)<br>($ millions except where otherwise indicated) | Quarters Ended<br>Dec. 31, 2020<br>(13 weeks) | Dec. 31, 2019<br>(12 weeks) | $ Change | % Change |
|---|---|---|---|---|
| Revenue | **$ 13,286** | $ 11,590 | $ 1,696 | 14.6% |
| Operating income | **$ 700** | $ 539 | $ 161 | 29.9% |
| Adjusted EBITDA[(1)] | **$ 1,330** | $ 1,203 | $ 127 | 10.6% |
| Adjusted EBITDA margin[(1)] | **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.

- 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 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.

| RESPONSIBILITIES / OUTCOMES | | KEY ACTIVITIES |
|---|---|---|
| Oversight of the ERM program and the alignment between strategy and risk | The Board | • Review of strategy plans, including capital allocation<br>• Review both inherent and residual risks and mitigation plans<br>• Annual approval of the ERM policy and Risk Appetite Statement |
| Responsible for managing risk and implementing risk mitigation strategies and operating within the approved risk appetite thresholds | Management | • Periodic updates to the Board by the ERM function on the status of key risks[i]<br>• Long-term risk levels are assessed to monitor potential long-term risk impacts |
| | **ERM PROGRAM** | Annual ERM assessment:<br>• Completed to update and identify risks<br>• Carried out in parallel with strategic planning<br>• Includes interviews, surveys, workshops with management and the Board<br>• Completed for each operating business and aggregated where appropriate |
| Facilitate effective corporate governance | Consolidated view of risks | |
| Focus on key risks that could impact strategic objectives[ii] | Focus on key risks | |
| Ensure risk appetite and tolerances are understood as part of the Company's ERM Framework | Defined risk appetite and tolerances | |
| Promote awareness of risk management and compliance | Risk management culture | |
| Assist in developing risk management methodologies and provide early warning signs of risks | Risk management tools and methodologies | |
| Provide early warnings of risks | Key risk indicators | |
| Mitigation of risks | Risk owners:<br>Operating Risks[ii]<br>Financial Risks[ii] | • Managing risk and implementation of risk mitigation strategies |

(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.

## 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 |
| | Franchisee Relationships |
| Distribution and Supply Chain | Associate-owned Drug Store Network and Relationships with Associates |
| Labour Relations | |
| 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.

**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.

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 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.

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.

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.

**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 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.

| | Quarters Ended | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Dec. 31, 2020 (13 weeks) | | | | | Dec. 31, 2019[ii] (12 weeks) |
| (unaudited) ($ millions) | 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) Loblaw | Choice Properties | Weston Foods | Other & Intersegment | Consolidated | Dec. 31, 2019[ii] (52 weeks) 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.

**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.

| | Quarters Ended | | Years Ended | |
|---|---|---|---|---|
| **(unaudited)**<br>**($ millions)** | **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.

**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)<br>($ millions except where otherwise indicated) | Quarters Ended<br>**Dec. 31, 2020 (13 weeks)** | <br>Dec. 31, 2019 (12 weeks) | Years Ended<br>**Dec. 31, 2020 (53 weeks)** | <br>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.

| | Quarters Ended | | Years Ended | |
|---|---|---|---|---|
| **(unaudited)**<br>**($ millions except where otherwise indicated)** | **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 (13 weeks) | | Dec. 31, 2019[ii] (12 weeks) | |
| (unaudited)<br>($ 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.

| (unaudited)<br>($ except where otherwise indicated) | Years Ended Dec. 31, 2020 (53 weeks)<br>Net Earnings Available to Common Shareholders of the Company ($ millions) | Dec. 31, 2020 (53 weeks)<br>Diluted Net Earnings Per Common Share | Dec. 31, 2019[ii] (52 weeks)<br>Net (Loss) Earnings Available to Common Shareholders of the Company ($ millions) | Dec. 31, 2019[ii] (52 weeks)<br>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.

**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 Dec. 31, 2020 (13 weeks) | Dec. 31, 2019[4] (12 weeks) | $ Change | Years Ended 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 Dec. 31, 2020 | Dec. 31, 2019 | Years Ended 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:

| | Quarters Ended | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | March 21, 2020 (12 weeks) | | | | | June 13, 2020 (12 weeks) | | | | | October 3, 2020 (16 weeks) | | | | |
| (unaudited) ($ millions) | Loblaw | Choice Properties | Weston Foods | Other | Consolidated | Loblaw | Choice Properties | Weston Foods | Other | Consolidated | Loblaw | Choice Properties | Weston Foods | Other | Consolidated |
| **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** |

| (unaudited) ($ millions) | Quarter Ended December 31, 2020 (13 weeks) Loblaw | Choice Properties | Weston Foods | Other | Consolidated | Year Ended December 31, 2020 (53 weeks) 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 (12 weeks) | | June 13, 2020 (12 weeks) | | October 3, 2020 (16 weeks) | | December 31, 2020 (13 weeks) | | December 31, 2020 (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;

- 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