

Financial Results

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Management's Statement of Responsibility for Financial Reporting

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

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

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

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

Toronto, Canada
February 24, 2016

[signed]

Galen G. Weston

Executive Chairman and President

[signed]

Richard Dufresne

Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line.

Toronto, Canada
February 24, 2016

Chartered Professional Accountants, Licensed Public Accountants

Consolidated Statements of Earnings

For the years ended January 2, 2016 and January 3, 2015
(millions of Canadian dollars except where otherwise indicated)

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended January 2, 2016 and January 3, 2015

(millions of Canadian dollars)

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

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

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

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

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

(i) Certain comparative figures have been restated. See note 2 and note 5.
Contingent Liabilities (note 32).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended January 2, 2016 and January 3, 2015

(millions of Canadian dollars)

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

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

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, the nation's largest retailer and the majority unitholder of Choice Properties Real Estate Investment Trust ("Choice Properties"). Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise and financial and wireless mobile products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to, in these consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston") which owns approximately 46% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments, Limited ("Wittington"). The remaining common shares are widely held.

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

Note 2. Significant Accounting Policies

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

These consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on February 24, 2016.

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

- defined benefit pension plan assets with the obligations related to these pension plans measured at their discounted present value as described in note 27;
- liabilities for cash-settled equity-based compensation arrangements as described in note 26; and
- certain financial instruments as described in note 30.

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

The consolidated financial statements are presented in Canadian dollars.

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended January 2, 2016 and January 3, 2015 contained 52 weeks and 53 weeks, respectively.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Income Taxes Current and deferred taxes are recognized in the consolidated statement of earnings, except when it relates to a business combination, or items recognized in equity or to other comprehensive income.

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

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

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

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

Choice Properties qualifies as a “mutual fund trust” under the Income Tax Act (Canada). The Trustees intend to distribute all taxable income directly earned by Choice Properties to unitholders and to deduct such distributions for income tax purposes. Legislation relating to the federal income taxation of Specified Investment Flow Through trusts or partnerships (“SIFT”) provide that certain distributions from a SIFT will not be deductible in computing the SIFT’s taxable income and that the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as return of capital should generally not be subject to tax.

Under the SIFT rules, the taxation regime will not apply to a real estate investment trust (“REIT”) that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”). Choice Properties has reviewed the SIFT rules and has assessed its interpretation and application to the REIT’s assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, Choice Properties has determined that it meets the REIT Conditions.

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

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

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

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

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

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

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

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

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

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

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

Cost includes the costs of purchases net of vendor allowances plus other costs, such as transportation, that are directly incurred to bring inventories to their present location and condition. The cost of inventories at retail stores and distribution centres are measured at weighted average cost. Shoppers Drug Mart inventories are measured on a first-in first-out basis.

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

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

Certain exceptions apply if the consideration is a payment for assets or services delivered to the vendor or for reimbursement of selling costs incurred to promote the vendor’s products. The consideration is then recognized as a reduction of the cost incurred in the consolidated statement of earnings.

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

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

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

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

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

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

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

(ii) Same basis as owned assets.

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

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

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

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

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

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

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

Intangible Assets Intangible assets with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses. These intangible assets are amortized on a straight-line basis over their estimated useful lives, ranging from three to 18 years, and are tested for impairment as described in the Impairment of Non-Financial Assets policy. Useful lives, residual values and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

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

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

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

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

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

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

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

Bank Indebtedness Bank indebtedness is comprised of balances outstanding on bank lines of credit.

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

Financial Instruments and Derivative Financial Instruments Financial assets and liabilities are recognized when the Company becomes party to the contractual provisions of the financial instrument. Financial instruments, including derivatives and embedded derivatives in certain contracts, upon initial recognition are measured at fair value and classified as either financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, loans and receivables or other financial liabilities. Loans and receivables, and other financial liabilities are subsequently measured at cost or amortized cost. Derivatives and non-financial derivatives must be recorded at fair value on the consolidated balance sheet. Fair values are based on quoted market prices where available from active markets, otherwise fair values are estimated using valuation methodologies, primarily discounted cash flows taking into account external market inputs where possible.

Financial derivative instruments in the form of forwards and futures, as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts, are recorded at fair value on the consolidated balance sheet. The Company does not use derivative instruments for speculative purposes. Any embedded derivative instruments that may be identified are separated from their host contract and recorded on the consolidated balance sheet at fair value. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair values of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging item in a designated hedging relationship. The Company has cash flow hedges which are used to manage exposure to fluctuations in foreign currency exchange and interest rates. The effective portion of the change in fair value of the hedging item is recorded in other comprehensive income. If the change in fair value of the hedging item is not completely offset by the change in fair value of the hedged item, the ineffective portion of the hedging relationship is recorded in net earnings. Amounts accumulated in other comprehensive income are reclassified to net earnings when the hedged item is recognized in net earnings.

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

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

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

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

(iii) Measured at fair value through other comprehensive income until realized through disposal or impairment.

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

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

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

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

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

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

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

Type	Valuation Approach
Cash and cash equivalents, short term investments, security deposits, accounts receivable, credit card receivables, bank indebtedness, trade payables and other liabilities and short term debt	The carrying amount approximates fair value due to the short term maturity of these instruments.
Franchise loans receivable	The carrying amount approximates fair value as fluctuations in the forward interest rates would not have significant impacts on the valuation and the provisions recorded for all impaired receivables.
Derivatives	Specific valuation techniques used to value derivative financial instruments include: • Quoted market prices or dealer quotes for similar instruments; and • The fair value of other derivative instruments are determined based on observable market information as well as valuations determined by external valutors with experience in financial markets.
Long term debt, Trust Unit Liability, capital securities and certain other financial instruments	The fair value is based on the present value of contractual cash flows, discounted at the Company's current incremental borrowing rate for similar types of borrowing arrangements or, where applicable, quoted market prices.

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

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

Impairment of Financial Assets An assessment of whether there is objective evidence that a financial asset or a group of financial assets is impaired is performed at each balance sheet date. A financial asset or group of financial assets is considered to be impaired if one or more loss events that have an impact on the estimated future cash flows occur after their initial recognition and the loss can be reliably measured. If such objective evidence has occurred, the loss is based on the difference between the carrying amount of the financial asset, or portfolio of financial assets, and the respective estimated future cash flows discounted at the financial assets' original effective interest rate. Impairment losses are recorded in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock options may have a five to ten year term, vest 20% or 33% cumulatively on each anniversary date of the grant and are exercisable at the designated common share price, which is based on the greater of the volume weighted average trading price of the Company's common share for either the five trading days prior to the date of grant or the trading day immediately preceding the grant date. The fair value of each tranche of options granted is measured separately at the grant date using a Black-Scholes option pricing model, and includes the following assumptions:

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

RSUs and PSUs vest after the end of a performance period, ranging from three to five years. The number of PSUs that vest is based on the achievement of specified performance measures. The fair value of each RSU and PSU granted is measured separately at the grant date based on the market value of a Loblaw common share less the net present value of the expected dividend stream at the date on which RSUs and PSUs are awarded to each participant.

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

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

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

Upon exercise of options, the amount recognized in contributed surplus for the award plus the cash received upon exercise is recognized as an increase in share capital. Upon settlement of RSUs and PSUs, the amount recognized in contributed surplus for the award is reclassified to share capital, with any premium or discount applied to retained earnings.

Cash-Settled Equity-Based Compensation Plans Unit Options, Restricted Units ("RUs") and Trustee Deferred Units ("DUs") issued by Choice Properties, and certain DSUs are accounted for as cash-settled awards.

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

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

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

Members of the Choice Properties' Board of Trustees, who are not management of Choice Properties, are required to receive a portion of their annual retainer in the form of DUs and may also elect to receive up to 100% of their remaining fees in DUs. Distributions paid earn fractional DUs, which are treated as additional awards. DUs vest upon grant.

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

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

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

Changes to Significant Accounting Policies

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

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

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

Note 3. Critical Accounting Estimates and Judgments

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

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

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

Consolidation

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

Inventories

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

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

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

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

Franchise Loans Receivable and Certain Other Financial Assets

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

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

Customer Loyalty Awards Programs

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

Income and Other Taxes

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

Segment Information

Judgments Made in Relation to Determining the Aggregation of Operating Segments The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. The Retail reportable operating segment consists of several operating segments comprised primarily of food retail and Associate-owned drug stores, and also includes in-store pharmacies and other health and beauty products, gas bars, apparel and other general merchandise. The Company has aggregated its retail operating segments on the basis of their similar economic characteristics, customers and nature of products. This similarity in economic characteristics reflects the fact that the Company's retail operating segments operate primarily in Canada and are therefore subject to the same economic market pressures and regulatory environment. The Company's retail operating segments are subject to similar competitive pressures such as price and product innovation and assortment from existing competitors and new entrants into the marketplace. The similar economic characteristics also include the provision of centralized, common functions such as marketing and IT across all retail operating segments.

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

Note 4. Future Accounting Standards

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

In 2014, the IASB issued IFRS 15, replacing IAS 18, "Revenue", IAS 11, "Construction Contracts", and related interpretations. The new standard provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The Company is currently assessing the impact of the new standard on its consolidated financial statements.

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

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

Note 5. Business Acquisitions

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

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

(millions of Canadian dollars)

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

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

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

Intangible assets are comprised of the following:

(millions of Canadian dollars except where otherwise indicated)

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

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

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

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

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

(millions of Canadian dollars)

Net Assets Acquired:	
Cash and cash equivalents	\$ 33
Inventories	46
Fixed assets	52
Trade payables and other liabilities ⁽ⁱ⁾	(33)
Other liabilities ⁽ⁱ⁾	(84)
Non-controlling interests	(14)
Total Net Assets Acquired	\$ —

(i) On consolidation, Trade payables and other liabilities and Other Liabilities eliminate against existing Accounts receivable, Franchise Loans Receivable and franchise investments held by the Company.

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

Note 6. Net Interest Expense and Other Financing Charges

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

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

Note 7. Income Taxes

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

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

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

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

The effective income tax rate in the consolidated statement of earnings was reported at rates different than the weighted average basic Canadian federal and provincial statutory income tax rates for the following reasons:

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

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

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

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

The income tax losses expire in the years 2027 to 2035. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

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

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

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

Note 8. Basic and Diluted Net Earnings per Common Share

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

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

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

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

Cash and Cash Equivalents

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

Short Term Investments

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

Security Deposits

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

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

Note 10. Accounts Receivable

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

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

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

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

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

Note 11. Credit Card Receivables

The components of credit card receivables were as follows:

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

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

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

During 2015, PC Bank decreased its co-ownership interest in securitized receivables held with *Eagle* by \$100 million. In addition, PC Bank

recorded a \$55 million net reduction of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts. Subsequent to the end of 2015, PC Bank reduced \$100 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts.

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

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

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

(millions of Canadian dollars)	As at January 2, 2016				As at January 3, 2015			
	Current	1-90 days past due	> 90 days past due	Total	Current	1-90 days past due	> 90 days past due	Total
Gross credit card receivables	\$ 2,652	\$ 162	\$ 30	\$ 2,844	\$ 2,505	\$ 150	\$ 29	\$ 2,684

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

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

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

Note 12. Inventories

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

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

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

Note 13. Assets Held for Sale

The Company holds certain assets, primarily land and buildings that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in the Company's retail business segment. In 2015, the Company recorded a \$1 million gain (2014 – \$4 million) from the sale of these assets, excluding the impact of completed divestitures related to the acquisition of Shoppers Drug Mart (see note 5). There were no impairment or other charges recognized on these properties during 2015 (2014 – nil).

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

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

Note 14. Fixed Assets

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

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

2014⁽ⁱ⁾

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

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

Assets Held under Finance Leases The Company leases various land and buildings, and equipment and fixtures under a number of finance lease arrangements. As at January 2, 2016, the net carrying amount of leased land and buildings was \$479 million (January 3, 2015 – \$466 million), and the net carrying amount of leased equipment and fixtures was \$66 million (January 3, 2015 – \$56 million).

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

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

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

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

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

When determining the value in use of a retail location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant assets within the CGU. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which are consistent with strategic plans presented to the Company's Board. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at January 2, 2016 (January 3, 2015 – 8.0% to 8.5%).

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

Additional impairment losses of \$9 million (2014 – \$14 million) were incurred related to store closures, renovations and conversions of retail locations. Impairment losses are recorded where the carrying amount of the retail location exceeds its recoverable amount.

Note 15. Investment Properties

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

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

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

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

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

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. At January 2, 2016, the pre-tax discount rates used in the valuations for investment properties ranged from 7.75% to 9.50% (January 3, 2015 – 6.00% to 9.75%) and the terminal capitalization rates ranged from 6.75% to 8.75% (January 3, 2015 – 5.50% to 8.50%).

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

Note 16. Intangible Assets

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

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

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

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

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

Indefinite Life Intangible Assets Indefinite life intangible assets are comprised of brand names, trademarks, and import purchase quota. The brand names and trademarks are a result of the Company's acquisition of Shoppers Drug Mart and T&T Supermarket Inc. The Company expects to renew the registration of the brand names, trademarks, and import purchase quota at each expiry date indefinitely, and expects these assets to generate economic benefit in perpetuity. As such, the Company assessed these intangibles to have indefinite useful lives.

The Company completed its annual impairment tests for indefinite life intangible assets and concluded that there was no impairment.

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are consistent with the assumptions used to calculate fair value less costs to sell for goodwill (see note 17).

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

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

Note 17. Goodwill

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

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

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

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

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

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

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

Key Assumptions The key assumptions used to calculate the fair value less costs to sell are those regarding discount rates, growth rates and expected changes in margins. These assumptions are considered to be Level 3 in the fair value hierarchy.

The weighted average cost of capital was determined to be in the range of 6.0% to 7.0% (January 3, 2015 – 6.0% to 6.5%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company.

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

The Company included a minimum of three years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the three year period using estimated long term growth rate of 2.0% (January 3, 2015 – 2.0%). The budgeted EBITDA⁽¹⁾ growth is based on the Company's three year strategic plan approved by the Board.

Note 18. Other Assets

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

Note 19. Customer Loyalty Awards Program Liability

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

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

Note 20. Short Term Debt

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

The securitization agreements between PC Bank and the Other Independent Securitization Trusts are renewed and extended on an annual basis. The existing agreements were renewed in 2015, with their respective maturity dates extended to 2017 and with all other terms and conditions remaining substantially the same.

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

Note 21. Provisions

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

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

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

Note 22. Long Term Debt

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015
Unsecured Term Loan Facility		
1.13% + Bankers' Acceptance, due 2019	\$ 250	\$ —
1.45% + Bankers' Acceptance, due 2019	48	1,229
Debentures and Medium Term Notes		
Loblaw Companies Limited Notes		
7.10%, due 2016	300	300
3.75%, due 2019	800	800
5.22%, due 2020	350	350
4.86%, due 2023	800	800
6.65%, due 2027	100	100
6.45%, due 2028	200	200
6.50%, due 2029	175	175
11.40%, due 2031		
Principal	151	151
Effect of coupon repurchase	(46)	(57)
6.85%, due 2032	200	200
6.54%, due 2033	200	200
8.75%, due 2033	200	200
6.05%, due 2034	200	200
6.15%, due 2035	200	200
5.90%, due 2036	300	300
6.45%, due 2039	200	200
7.00%, due 2040	150	150
5.86%, due 2043	55	55
Shoppers Drug Mart Notes		
2.01%, due 2016	225	225
2.36%, due 2018	275	275
Choice Properties Senior Unsecured Debentures		
Series A 3.55%, due 2018	400	400
Series B 4.90%, due 2023	200	200
Series C 3.50%, due 2021	250	250
Series D 4.29%, due 2024	200	200
Series E 2.30%, due 2020	250	—
Series F 4.06%, due 2025	200	—
Series 5 3.00%, due 2016	300	300
Series 6 3.00%, due 2017	200	200
Series 7 3.00%, due 2019	200	200
Series 8 3.60%, due 2020	300	300
Series 9 3.60%, due 2021	200	200
Series 10 3.60%, due 2022	300	300
Long Term Debt Secured by Mortgage		
3.15% — 7.42%, due 2017 — 2029 (note 14)	82	86
Guaranteed Investment Certificates		
1.10% — 3.78%, due 2016 — 2020	809	634
Independent Securitization Trust		
3.58%, due 2015	—	350
2.91%, due 2018	400	400
2.23%, due 2020	250	—
Independent Funding Trusts	529	498
Finance Lease Obligations	629	600
Choice Properties Credit Facility	—	122
Transaction costs and other	(21)	(31)
Total long term debt	\$ 11,011	\$ 11,462
Less amount due within one year	998	420
Long Term Debt	\$ 10,013	\$ 11,042

Significant long term debt transactions are described below.

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

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

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

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

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

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

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 23. Other Liabilities

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

Note 24. Share Capital

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

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

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

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

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

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

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

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

Dividends The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Board, which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to reduce debt and finance future growth. In the second quarter of 2015 and 2014, the Board raised the quarterly dividend by \$0.005 to \$0.25 and \$0.245 per common share, respectively.

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

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

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

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

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

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

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

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

Note 25. Capital Management

In order to manage its capital structure, the Company, among other activities, may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to its NCIB, issue new shares or issue or repay long term debt with the objective of:

- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future development of the business;
- minimizing the after-tax cost of its capital while taking into consideration current and future industry, market and economic risks and conditions;
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to manage the long term capital investments of the business;
- returning an appropriate amount of capital to shareholders; and
- targeting an appropriate leverage and capital structure for the Company and each of its reportable operating segments.

The Company has policies in place which govern debt financing plans and risk management strategies for liquidity, interest rates and foreign exchange. These policies outline measures and targets for managing capital, including a range for leverage consistent with the desired credit rating. Management and the Audit Committee regularly review the Company's compliance with, and performance against, these policies. In addition, management regularly reviews these policies to ensure they remain consistent with the risk tolerance acceptable to the Company.

The following table summarizes the Company's total capital under management:

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015
Bank indebtedness	\$ 143	\$ 162
Short term debt	550	605
Long term debt due within one year	998	420
Long term debt	10,013	11,042
Capital securities	—	225
Certain other liabilities	30	28
Total debt	11,734	12,482
Equity attributable to shareholders of the Company	13,151	12,779
Total capital under management	\$ 24,885	\$ 25,261

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

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

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

Covenants and Regulatory Requirements The Company is subject to certain key financial and non-financial covenants under its existing Credit Facility, unsecured term loan facilities, certain MTNs and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at January 2, 2016 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

Choice Properties has certain key financial and non-financial covenants in its Debentures and the Choice Properties Credit Facility, which include debt service ratios and leverage ratios. These ratios are measured by Choice Properties on a quarterly basis to ensure compliance. As at January 2, 2016 and throughout the year, Choice Properties was in compliance with the covenants under these agreements.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework which includes a common equity Tier 1 capital ratio of 4.5%, a Tier 1 capital ratio of 6.0% and a total capital ratio of 8%. In addition to the regulatory capital ratios requirement, PC Bank is subject to the Basel III Leverage ratio effective January 1, 2015. As at the end of 2015 and throughout the year, PC Bank has met all applicable regulatory requirements.

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

Note 26. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, RSU, PSU, DSU, EDSU plans, and the unit-based compensation plans of Choice Properties, was \$71 million during 2015 (2014 – \$73 million). The expense was recognized in operating income.

The carrying amount of the Company's equity-based compensation arrangements including Loblaw Stock Option, RSU, PSU, DSU, EDSU plans, and the unit-based compensation plans of Choice Properties, are recorded on the consolidated balance sheet as follows:

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

The following are details related to the equity-based compensation plans of the Company:

Stock Option Plan The Company maintains a stock option plan for certain employees. Under this plan, the Company may grant options for up to 28,137,162 common shares which is the Company's guideline for the number of stock option grants.

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

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

	2015 Outstanding Options			2015 Exercisable Options	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
\$30.99 – \$36.26	2,311,974	3	\$ 34.56	1,138,051	\$ 34.20
\$36.27 – \$47.03	2,547,326	3	\$ 39.19	1,553,901	\$ 38.62
\$47.04 – \$69.83	2,552,105	6	\$ 56.69	170,593	\$ 47.78
	7,411,405		\$ 43.77	2,862,545	\$ 37.41

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

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

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

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

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

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

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

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

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

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

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

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

Settlement of Awards from Shares Held in Trust During 2015, the Company settled RSUs and PSUs totaling 883,838 (2014 – 512,277), of which 883,488 (2014 – 512,277) were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 24). The settlements resulted in a \$12 million (2014 – \$3 million) increase to share capital and a \$37 million (2014 – \$18 million) increase to retained earnings.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Number of awards)	2015	2014
Outstanding RUs, beginning of year	184,154	108,746
Granted	90,813	100,523
Reinvested	14,140	10,804
Settled	(5,433)	—
Forfeited	(15,953)	(35,919)
Outstanding RUs, end of year	267,721	184,154

RUs vest over a period of three years. There were no RUs vested as at January 2, 2016 (January 3, 2015 – nil).

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

(Number of awards)	2015	2014
Outstanding DUs, beginning of year	99,230	31,936
Granted	52,736	64,150
Reinvested	6,812	3,144
Outstanding DUs, end of year	158,778	99,230

All the DUs vest when issued, however, they cannot be settled while Trustees are members of the Board.

Note 27. Post-Employment and Other Long Term Employee Benefits

The Company sponsors a number of pension plans, including registered defined benefit pension plans, registered defined contribution pension plans and supplemental unfunded arrangements providing pension benefits in excess of statutory limits. Certain obligations of the Company under these supplemental pension arrangements are secured by a standby letter of credit issued by a major Canadian chartered bank.

The Company's Pension Committee ("The Committee") oversees the Company's pension plans. The Committee is responsible for assisting the Board in fulfilling its general oversight responsibilities for the plans. The Committee assists the Board with oversight of management's administration of the plans, pension investment and monitoring responsibilities, and compliance with legal and regulatory requirements.

The Company's defined benefit pension plans are primarily funded by the Company, predominantly non-contributory and the benefits are, in general, based on career average earnings subject to limits. The funding is based on a solvency valuation for which the assumptions may differ from the assumptions used for accounting purposes as detailed in this note.

The Company also offers certain other defined benefit plans other than pension plans. These other defined benefit plans are generally not funded, are mainly non-contributory and include health care, life insurance and dental benefits. Employees eligible for these other defined benefits are those who retire at certain ages having met certain service requirements. The majority of other defined benefit plans for current and future retirees include a limit on the total benefits payable by the Company.

The Company's defined benefit pension plans and other defined benefit plans expose it to a number of actuarial risks, such as longevity risk, interest rate risk and market risk.

In Canada, the Company also has a national defined contribution plan for salaried employees. All newly hired salaried employees are only eligible to participate in this defined contribution plan.

The Company also contributes to various MEPPs, which are administered by independent boards of trustees generally consisting of an equal number of union and employer representatives. The Company's responsibility to make contributions to these plans is limited by amounts established pursuant to its collective agreements.

The Company expects to make contributions in 2016 to its defined benefit and defined contribution plans and the MEPPs in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

Other Long Term Employee Benefits

The Company offers other long term employee benefit plans that include long term disability benefits and continuation of health care and dental benefits while on disability.

Defined Benefit Pension Plans and Other Defined Benefit Plans

Information on the Company's defined benefit pension plans and other defined benefit plans, in aggregate, is summarized as follows:

	2015		2014	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
(millions of Canadian dollars)				
Present value of funded obligations	\$ (1,990)	\$ —	\$ (2,077)	\$ —
Present value of unfunded obligations	(134)	(161)	(81)	(197)
Total present value of defined benefit obligation	\$ (2,124)	\$ (161)	\$ (2,158)	\$ (197)
Fair value of plan assets	2,167	—	2,136	—
Total funded status of surpluses (obligations)	\$ 43	\$ (161)	\$ (22)	\$ (197)
Assets not recognized due to asset ceiling	(4)	—	(2)	—
Total net defined benefit plan surplus (obligation)	\$ 39	\$ (161)	\$ (24)	\$ (197)
Recorded on the consolidated balance sheet as follows:				
Other Assets (note 18)	\$ 190	\$ —	\$ 90	\$ —
Other Liabilities (note 23)	(151)	(161)	(114)	(197)

The following are the continuities of the fair value of plan assets and the present value of the defined benefit plan obligations:

	2015			2014		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Changes in the fair value of plan assets						
Fair value, beginning of year	\$ 2,136	\$ —	\$ 2,136	\$ 1,709	\$ —	\$ 1,709
Additions from the acquisition of Shoppers Drug Mart	—	—	—	161	—	161
Employer contributions ⁽ⁱ⁾	(15)	—	(15)	55	—	55
Employee contributions	3	—	3	3	—	3
Benefits paid	(86)	—	(86)	(83)	—	(83)
Interest Income	84	—	84	86	—	86
Actuarial gains in other comprehensive income	117	—	117	210	—	210
Settlements ⁽ⁱⁱ⁾	(65)	—	(65)	—	—	—
Other	(7)	—	(7)	(5)	—	(5)
Fair value, end of year	\$ 2,167	\$ —	\$ 2,167	\$ 2,136	\$ —	\$ 2,136
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	\$ 2,158	\$ 197	\$ 2,355	\$ 1,668	\$ 167	\$ 1,835
Additions from the acquisition of Shoppers Drug Mart	—	—	—	173	6	179
Current service cost	61	7	68	51	7	58
Interest cost	87	8	95	86	8	94
Benefits paid	(93)	(6)	(99)	(87)	(6)	(93)
Employee contributions	3	—	3	3	—	3
Actuarial (gains) losses in other comprehensive income (loss)	(35)	(45)	(80)	261	15	276
Settlements ⁽ⁱⁱ⁾	(57)	—	(57)	—	—	—
Contractual termination benefits ⁽ⁱⁱⁱ⁾	—	—	—	1	—	1
Special termination benefits ⁽ⁱⁱⁱ⁾	—	—	—	2	—	2
Balance, end of year	\$ 2,124	\$ 161	\$ 2,285	\$ 2,158	\$ 197	\$ 2,355

(i) 2015 employer contributions are offset by a \$50 million refund of employer contributions from the assets of one of the Company's supplemental plans.

(ii) Settlements relate to annuity purchases and pension buy-outs completed in 2015.

(iii) Includes \$3 million of contractual and special termination benefits in 2014 related to the reduction of head office and administrative positions.

In 2015, the Company completed several annuity purchases and pension buy-outs with respect to former employees. These activities are designed to reduce the Company's defined benefit pension plan obligations and decrease future risks and volatility associated with these obligations. The Company paid \$65 million from the impacted plans' assets to settle \$57 million of pension obligations and recorded settlement charges of \$8 million in SG&A. The settlement charges resulted from the discount rates used to value the annuity purchases and pension buy-outs being lower than the discount rates used to value the Company's defined benefit plan obligations.

For the fiscal year ended 2015, the actual return on plan assets was \$201 million (2014 – \$296 million).

The net defined benefit obligation can be allocated to the plans' participants as follows:

- Active plan participants 47% (2014 – 46%)
- Deferred plan participants 10% (2014 – 11%)
- Retirees 43% (2014 – 43%)

Notes to the Consolidated Financial Statements

During 2016, the Company expects to contribute approximately \$29 million (2015 – contributed \$35 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

The net cost recognized in earnings before income taxes for the Company's defined benefit pension plans and other defined benefit plans was as follows:

	2015			2014		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Current service cost	\$ 61	\$ 7	\$ 68	\$ 51	\$ 7	\$ 58
Interest cost on net defined benefit plan obligations	3	8	11	—	8	8
Settlement charges ⁽ⁱ⁾	8	—	8	—	—	—
Contractual and special termination benefits ⁽ⁱⁱ⁾	—	—	—	3	—	3
Other	7	—	7	5	—	5
Net post-employment defined benefit cost	\$ 79	\$ 15	\$ 94	\$ 59	\$ 15	\$ 74

(i) Relates to annuity purchases and pension buy-outs completed in 2015.

(ii) Includes \$3 million of contractual and special termination benefits in 2014 related to the reduction in head office and administrative positions (see note 35)

The actuarial (gains) losses recognized in other comprehensive income (loss) net of taxes for defined benefit plans were as follows:

	2015			2014		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Return on plan assets, excluding amounts included in net interest expense and other financing charges	\$ (117)	\$ —	\$ (117)	\$ (210)	\$ —	\$ (210)
Experience adjustments	(7)	(44)	(51)	11	(1)	10
Actuarial (gains) losses from change in demographic assumptions	(20)	(1)	(21)	23	3	26
Actuarial (gains) losses from change in financial assumptions	(8)	—	(8)	227	13	240
Change in liability arising from asset ceiling	2	—	2	(4)	—	(4)
Total net actuarial (gains) losses recognized in other comprehensive income (loss) before income taxes	\$ (150)	\$ (45)	\$ (195)	\$ 47	\$ 15	\$ 62
Income tax expenses (recoveries) on actuarial (gains) losses (note 7)	40	12	52	(12)	(4)	(16)
Actuarial (gains) losses net of income tax expense (recoveries)	\$ (110)	\$ (33)	\$ (143)	\$ 35	\$ 11	\$ 46

The cumulative actuarial (gains) losses before income taxes recognized in equity for the Company's defined benefit plans were as follows:

	2015			2014		
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
(millions of Canadian dollars)						
Cumulative amount, beginning of year	\$ 170	\$ (16)	\$ 154	\$ 123	\$ (31)	\$ 92
Net actuarial (gains) losses recognized in the year before income taxes	(150)	(45)	(195)	47	15	62
Cumulative amount, end of year	\$ 20	\$ (61)	\$ (41)	\$ 170	\$ (16)	\$ 154

Composition of Plan Assets The defined benefit pension plan assets are held in trust and consisted of the following asset categories:

(millions of Canadian dollars, except where otherwise indicated)	2015		2014	
Equity securities				
Canadian:				
- pooled funds	\$ 92	4%	\$ 303	14%
Foreign:				
- pooled funds	825	38%	511	24%
Total Equity Securities	\$ 917	42%	\$ 814	38%
Debt securities				
Fixed income securities:				
- government	\$ 577	27%	\$ 665	31%
- corporate	187	9%	239	11%
Fixed income pooled funds ⁽ⁱ⁾ :				
- government	378	17%	314	15%
- corporate	20	1%	19	1%
Total Debt Securities	\$ 1,162	54%	\$ 1,237	58%
Other investments	\$ 70	3%	\$ 54	3%
Cash and cash equivalents	18	1%	16	1%
Refundable tax on account with CRA	—	—%	15	—%
Total	\$ 2,167	100%	\$ 2,136	100%

(i) Both government and corporate securities may be included within the same fixed income pooled fund.

As at January 2, 2016 and January 3, 2015, the defined benefit pension plans did not directly include any of the Company's securities.

All equity and debt securities and other investments are valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities or based on inputs other than quoted prices in active markets that are observable for the asset or liability, either directly as prices or indirectly, either derived from prices or as per agreements for contractual returns.

The Company's asset allocation reflects a balance of interest-rate sensitive investments, such as fixed income investments and equities, which are expected to provide higher returns over the long term. The Company's targeted asset allocations are actively monitored and adjusted on a plan by plan basis to align the asset mix with the liability profiles of the plans.

Principal Actuarial Assumptions The principal actuarial assumptions used in calculating the Company's defined benefit plan obligations and net defined benefit plan cost for the year were as follows (expressed as weighted averages):

	2015		2014	
	Defined Benefit Pension Plans	Other Defined Benefit Plans	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	4.00%	4.00%	4.00%	4.00%
Rate of compensation increase	3.50%	n/a	3.50%	n/a
	CPM-RPP2014 Pub/Priv Generational	CPM-RPP2014 Pub/Priv Generational	CPM-RPP2014 Pub/Priv Generational	CPM-RPP2014 Pub/Priv Generational
Mortality table ⁽ⁱ⁾				
Net Defined Benefit Plan Cost				
Discount rate	4.00%	4.00%	4.75%	4.50%
Rate of compensation increase	3.50%	n/a	3.50%	n/a
	CPM-RPP2014 Pub/Priv Generational	CPM-RPP2014 Pub/Priv Generational	CPM-RPP2014 Priv Generational	CPM-RPP2014 Priv Generational
Mortality table ⁽ⁱ⁾				

n/a – not applicable

(i) Public or private sector mortality table is used depending on the prominent demographics of each plan.

The weighted average duration of the defined benefit obligation as at January 2, 2016 is 16.9 years (January 3, 2015 – 15.8 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at the end of the year was estimated at 4.50% and is expected to remain at 4.50% at the end of 2016 and thereafter.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2015 (expressed as weighted averages) and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan cost.

The sensitivity analysis provided in the table is hypothetical and should be used with caution. The sensitivities of each key assumption have been calculated independently of any changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Changes in one factor may result in changes in another, which could amplify or reduce the impact of such assumptions.

	2015			
	Defined Benefit Pension Plans		Other Defined Benefit Plans	
Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost ⁽ⁱ⁾	Defined Benefit Plan Obligations	Net Defined Benefit Plan Cost ⁽ⁱ⁾
Discount rate	4.00%	4.00%	4.00%	4.00%
Impact of:				
1% increase	\$ (331)	\$ (29)	\$ (20)	\$ —
1% decrease	\$ 393	\$ 28	\$ 25	\$ 1
Expected growth rate of health care costs			4.50%	4.50%
Impact of:				
1% increase	n/a	n/a	\$ 18	\$ 2
1% decrease	n/a	n/a	\$ (15)	\$ (2)

n/a – not applicable

(i) Discount rate and expected growth rate of health care costs sensitivity is for current service and interest costs only.

Multi-Employer Pension Plans

During 2015, the Company recognized an expense of \$60 million (2014 – \$55 million) in operating income, which represents the contributions made in connection with MEPPs. During 2016, the Company expects to continue to make contributions into these MEPPs.

The Company, together with its franchises, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 52,000 (2014 – 52,000) employees as members. Included in the 2015 expense described above are contributions of \$59 million (2014 – \$54 million) to CCWIPP.

Post-Employment and Other Long Term Employee Benefit Costs

The net cost recognized in net earnings before income taxes for the Company's post-employment and other long term employee benefit plans was as follows:

(millions of Canadian dollars)	2015	2014
Net post-employment defined benefit cost ⁽ⁱ⁾	\$ 94	\$ 74
Defined contribution costs ⁽ⁱⁱ⁾	21	20
Multi-employer pension plan costs ⁽ⁱⁱⁱ⁾	60	55
Total net post-employment benefit costs	\$ 175	\$ 149
Other long term employee benefit costs ^(iv)	27	28
Net post-employment and other long term employee benefit costs	\$ 202	\$ 177
Recorded on the consolidated statement of earnings as follows:		
Selling, general and administrative expenses	\$ 189	\$ 165
Net interest expense and other financing charges	13	12
Net post-employment and other long term employee benefit costs	\$ 202	\$ 177

(i) Includes settlement charges of \$8 million related to annuity purchases and pension buy-outs completed in 2015.

(ii) Amounts represent the Company's contributions made in connection with defined contribution plans.

(iii) Amounts represent the Company's contributions made in connection with MEPPs.

(iv) Other long term employee benefit costs include \$2 million (2014 – \$4 million) of net interest expense and other financing charges.

Note 28. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2015	2014
Wages, salaries and other short term employment benefits	\$ 4,958	\$ 4,494
Post-employment benefits	164	141
Other long term employee benefits	25	24
Equity-based compensation	69	71
Capitalized to fixed assets	(37)	(30)
Total employee costs	\$ 5,179	\$ 4,700

Note 29. Leases

The Company leases certain of its retail stores, distribution centres, corporate offices, and other assets under operating or finance lease arrangements. Substantially all of the retail store leases have renewal options for additional terms. The contingent rents under certain of the retail store leases are based on a percentage of retail sales. The Company also has properties which are sub-leased to third parties.

Determining whether a lease arrangement is classified as finance or operating requires judgment with respect to the fair value of the leased asset, the economic life of the lease, the discount rate and the allocation of leasehold interests between the land and building elements of property leases.

Operating Leases – As Lessee Future minimum lease payments relating to the Company's operating leases are as follows:

Payments due by year							As at January 2, 2016	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total	Total
Operating lease payments	\$ 682	\$ 658	\$ 617	\$ 571	\$ 504	\$ 2,606	\$ 5,638	\$ 5,868
Sub-lease income	(54)	(45)	(38)	(28)	(18)	(79)	(262)	(295)
Net operating lease payments	\$ 628	\$ 613	\$ 579	\$ 543	\$ 486	\$ 2,527	\$ 5,376	\$ 5,573

During 2015, the Company recorded \$686 million (2014 – \$572 million) as an expense included in the statement of earnings in respect of operating leases. In addition, contingent rent recognized as an expense in respect of operating leases totaled \$1 million (2014 – \$1 million) and sub-lease income earned totaled \$62 million (2014 – \$58 million), which is recognized in operating income. Contingent rent recognized as income in respect of sub-leased operating leases in 2015 was \$6 million (2014 – \$3 million).

Operating Leases – As Lessor Future minimum lease payments to be received by the Company relating to properties that are leased to third parties are as follows:

Payments to be received by year							As at January 2, 2016	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total	Total
Net operating lease income	\$ 127	\$ 105	\$ 90	\$ 69	\$ 55	\$ 163	\$ 609	\$ 647

As at January 2, 2016, the Company leased certain owned land and buildings with a cost of \$2,591 million (January 3, 2015 – \$2,578 million) and related accumulated depreciation of \$698 million (January 3, 2015 – \$718 million). For the year ended January 2, 2016, rental income was \$141 million (2014 – \$148 million) and contingent rent was \$5 million (2014 – \$3 million), both of which were recognized in operating income.

Finance Leases – As Lessee Future minimum lease payments relating to the Company's finance leases are as follows:

Payments due by year							As at January 2, 2016	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total	Total
Finance lease payments	\$ 89	\$ 82	\$ 69	\$ 62	\$ 58	\$ 700	\$ 1,060	\$ 1,091
Less future finance charges	(33)	(31)	(28)	(26)	(25)	(288)	(431)	(491)
Present value of minimum lease payments	\$ 56	\$ 51	\$ 41	\$ 36	\$ 33	\$ 412	\$ 629	\$ 600

During 2015, contingent rent recognized by the Company as an expense in respect of finance leases was \$1 million (2014 – \$1 million).

Certain assets classified as finance leases have been sub-leased by the Company to third parties. The future sub-lease income relating to the these sub-lease agreements are as follows:

Payments to be received by year							As at January 2, 2016	As at January 3, 2015
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total	Total
Sub-lease income	\$ 15	\$ 13	\$ 12	\$ 12	\$ 11	\$ 35	\$ 98	\$ 89

At January 2, 2016, the sub-lease income earned under finance leases was \$15 million (January 3, 2015 – \$16 million).

Note 30. Financial Instruments

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature:

(millions of Canadian dollars)	As at January 2, 2016				As at January 3, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash and cash equivalents	\$ 922	\$ 96	\$ —	\$ 1,018	\$ 984	\$ 15	\$ —	\$ 999
Short term investments	62	2	—	64	19	2	—	21
Security deposits	2	—	—	2	7	—	—	7
Franchise loans receivable	—	—	329	329	—	—	399	399
Certain other assets ⁽ⁱ⁾	25	2	59	86	—	8	64	72
Derivatives included in prepaid expenses and other assets	—	37	—	37	—	10	—	10
Financial liabilities:								
Derivatives included in trade payables and other liabilities	6	—	7	13	—	11	4	15
Trust unit liability	821	—	—	821	722	—	—	722
Long term debt	—	12,003	—	12,003	—	12,508	—	12,508
Capital securities ⁽ⁱⁱ⁾	—	—	—	—	234	—	—	234
Certain other liabilities ⁽ⁱ⁾	—	—	20	20	—	—	28	28

(i) Certain other assets and Certain other liabilities are included in the consolidated balance sheet in Other Assets and Other Liabilities, respectively.

(ii) In 2015, the Company redeemed its \$225 million of Capital Securities, representing all of the outstanding Second Preferred Shares, Series A (see note 24). As at January 3, 2015, capital securities were classified as current liabilities.

The carrying values of the Company's financial instruments approximate their fair values except for long term debt and capital securities.

There were no transfers between levels of the fair value hierarchy.

During 2015, the Company recognized a gain of \$18 million (2014 – gain of \$11 million) in operating income on financial instruments designated as fair value through profit or loss. In addition, during 2015, a net loss of \$33 million (2014 – net loss of \$18 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Embedded Derivatives The level 3 financial instruments classified as fair value through profit or loss as at January 2, 2016 and January 3, 2015 consist of embedded derivatives on purchase orders placed in neither Canadian dollars, nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any one of the inputs could result in a significantly higher (lower) fair value measurement.

The fair value of the embedded foreign currency derivatives classified as Level 3 included in trade payables and other liabilities as at January 2, 2016 was \$7 million (January 3, 2015 – \$4 million). During 2015, a \$3 million loss (2014 – nominal loss) was recorded in operating income. As at January 2, 2016, a 1% increase (decrease) in foreign currency exchange rates would result in a \$2 million gain (loss) in fair value.

Other Derivatives The Company also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options, which are classified as fair value through profit or loss. During 2015, the Company recognized a fair value net gain of \$51 million (2014 – net loss of \$1 million) in operating income related to these derivatives.

The following table summarizes the cumulative unrealized impact of these other derivatives included in the consolidated balance sheet:

(millions of Canadian dollars)	2015	2014
Cumulative unrealized gains recorded in prepaid expenses and other assets	\$ 33	\$ 10
Cumulative unrealized losses recorded in trade payables and other liabilities	6	11

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

Trust Unit Liability As at January 2, 2016, the fair value of the Trust Unit Liability of \$821 million (January 3, 2015 – \$722 million) was recorded on the consolidated balance sheet. During 2015 the Company recorded a fair value loss of \$81 million (2014 – loss of \$17 million) in net interest expense and other financing charges related to Choice Properties' Units.

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

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of \$329 million (January 3, 2015 – \$399 million) was recorded on the consolidated balance sheet. In 2015, the Company recorded a \$1 million impairment loss (2014 – loss of \$12 million) in operating income related to these loans receivable.

The value of Loblaw franchise investments of \$54 million (January 3, 2015 – \$62 million) was recorded in other assets. During 2015, the Company recorded a net gain of \$31 million (2014 – loss of \$3 million) in operating income related to these investments.

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

The following is a description of the Company's financial instruments that qualified for hedge accounting:

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

As at January 2, 2016, an unrealized fair value gain of \$4 million (January 3, 2015 – nil) was included in prepaid expenses and other assets related to these forwards.

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

Note 31. Financial Risk Management

As a result of holding and issuing financial instruments, the Company is exposed to liquidity, credit risk and market risk. The following is a description of those risks and how the exposures are managed:

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

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

The following are the undiscounted contractual maturities of significant financial liabilities as at January 2, 2016:

	2016	2017	2018	2019	2020	Thereafter	Total ⁽ⁱ⁾
Derivative Financial Liabilities							
Foreign exchange forward contracts	\$ 441	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 441
Non-Derivative Financial Liabilities							
Bank Indebtedness	143	—	—	—	—	—	143
Short term debt ⁽ⁱⁱ⁾	550	—	—	—	—	—	550
Long term debt including interest payments ⁽ⁱⁱⁱ⁾	1,440	1,311	1,772	1,911	1,637	7,607	15,678
Other liabilities ^(iv)	14	5	3	2	3	3	30
	\$ 2,588	\$ 1,316	\$ 1,775	\$ 1,913	\$ 1,640	\$ 7,610	\$ 16,842

- (i) The Trust Unit Liability have been excluded as these liabilities do not have a contractual maturity date. The Company also excluded trade payables and other liabilities, which are due within the next 12 months.
- (ii) These are obligations owed to independent securitization trusts which are collateralized by the Company's credit card receivables (see note 11).
- (iii) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities, mortgages and finance lease obligations. Variable interest payments are based on the forward rates as of January 2, 2016.
- (iv) Contractual obligation related to certain other liabilities.

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

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

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

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

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

Market Risk Market risk is the loss that may arise from changes in factors such as interest rates, foreign currency exchange rates, commodity prices, common share and Unit price and the impact these factors may have on other counterparties.

Interest Rate Risk The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and from the refinancing of existing financial instruments. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates. The Company estimates that a 1% increase (decrease) in short term interest rates, with all other variables held constant, would result in an increase (decrease) of \$4 million to net interest expense and other financing charges.

Foreign Currency Exchange Rates The Company is exposed to foreign currency exchange rate variability, primarily on its USD denominated based purchases in trade payables and other liabilities. A depreciating Canadian dollar relative to the USD will have a negative impact on year-over-year changes in reported operating income and net earnings, while an appreciating Canadian dollar relative to the USD will have the opposite impact.

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of the Company. To manage a portion of this exposure, the Company uses purchase commitments for a portion of its need for certain consumer products that are commodities based. The Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility related to energy. The Company estimates that based on the outstanding derivative contracts held by the Company as at January 2, 2016, a 10% decrease in relevant energy prices, with all other variables held constant, would result in a net loss of \$1 million on earnings before income taxes.

Choice Properties' Unit Price The Company is exposed to market price risk as a result of Choice Properties' Units that are held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheet as they are redeemable for cash at the option of the holder. The liability is recorded at fair value at each reporting period based on the market price of Units. The change in the fair value of the liability negatively impacts net earnings when the Unit price increases and positively impacts net earnings when the Unit price declines. A one dollar increase in the market value of Units, with all other variables held constant, would result in a \$69 million increase to net interest expense and other financing charges.

Note 32. Contingent Liabilities

The Company is involved in and potentially subject to various claims by third parties arising out of the normal course and conduct of its business including product liability, labour and employment, regulatory and environmental claims. In addition, the Company is involved in and potentially subject to regular audits from federal and provincial tax authorities relating to income, capital, commodity, property and other taxes and as a result of these audits may receive assessments and reassessments. Although such matters cannot be predicted with certainty, management currently considers the Company's exposure to such claims and litigation, tax assessments and reassessments, to the extent not covered by the Company's insurance policies or otherwise provided for, not to be material to the consolidated financial statements, but may have a material impact in future periods.

Legal Proceedings The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice against the Company and certain subsidiaries, Weston and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately \$2 billion in damages. The Company believes the class action is without merit and intends to vigorously defend itself against any claims arising out of any such action.

Shoppers Drug Mart has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of \$500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Ontario Superior Court of Justice certified as a class proceeding portions of the action. The Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. While Shoppers Drug Mart continues to believe that the claim is without merit and will vigorously defend the claim, the outcome of this matter cannot be predicted with certainty.

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

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

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements, lease agreements in connection with business or asset acquisitions or dispositions, and other types of commercial agreements. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or in respect of future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. In addition, the terms of these indemnification provisions vary in amount and certain indemnification provisions do not provide for a maximum potential indemnification amount. Indemnity amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. As a result, the Company is unable to reasonably estimate its total maximum potential liability in respect of indemnification provisions. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 33. Financial Guarantees

The Company established letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and guarantees with a gross potential liability of approximately \$448 million as at January 2, 2016 (January 3, 2015 – \$293 million). In addition, the Company has provided to third parties the following significant guarantees:

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

Independent Funding Trusts The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheet of the Company (see note 22). As at January 2, 2016 the Company has agreed to provide a credit enhancement of \$53 million (January 3, 2015 – \$50 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2014 – 10%) of the principal amount of loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to the Company's franchisees. As well, each franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that a franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate, approximately \$18 million (January 3, 2015 – \$17 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of \$7 million (January 3, 2015 – \$13 million).

Glenhuron Bank Limited Surety Bond In 2015, in connection with the CRA's reassessment of the Company on certain income earned by Glenhuron (see note 32), the Company arranged for a surety bond of \$132 million to the Ministry of Finance in order to dispute the reassessments.

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at January 2, 2016, the guarantee on behalf of PC Bank to MasterCard® was USD \$190 million (January 3, 2015 – USD \$170 million).

The Company had in place an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of \$107 million (January 3, 2015 – \$91 million).

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was \$56 million (January 3, 2015 – \$61 million), which represented approximately 10% (2014 – 10%) of the securitized credit card receivables amount (see note 20). As at January 2, 2016, the aggregate gross potential liability under these arrangements for *Eagle* was \$36 million (January 3, 2015 – \$68 million), which represented approximately 6% (2014 – 9%) of the *Eagle* notes outstanding (see note 22).

Choice Properties Choice Properties issues letters of credit to support guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at January 2, 2016, the aggregate gross potential liability related to these letters of credit totaled \$28 million (January 3, 2015 – \$23 million).

The Choice Properties Credit Facility and Choice Properties debentures are guaranteed by each of the General Partner, the Partnership and any other person that becomes a subsidiary of Choice Properties (with certain exceptions). In the case of default by Choice Properties, the Indenture Trustee will be entitled to seek redress from the Guarantors for the guaranteed obligations in the same manner and upon the same terms that it may seek to enforce the obligations of Choice Properties. These guarantees are intended to eliminate structural subordination, which would otherwise arise as a consequence of Choice Properties' assets being primarily held in its various subsidiaries.

Note 34. Related Party Transactions

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

Transactions with Related Parties:

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

- (i) Associated British Foods plc is a related party by virtue of Mr. W. Galen Weston being a director of such entity's parent company. Total balance outstanding owing to Associated British Foods plc as at January 2, 2016 was \$2 million (January 3, 2015 – \$3 million).
- (ii) Weston and the Company have each entered into certain contracts with third parties for administrative and corporate services, including telecommunication services and IT related matters on behalf of itself and the related party. Through cost sharing agreements that have been established between the Company and Weston concerning these costs, the Company has agreed to be responsible to Weston for the Company's proportionate share of the total costs incurred.
- (iii) The Company and Weston have entered into an agreement whereby certain administrative services are provided by one party to the other. The services to be provided under this agreement include those related to commodity management, pension and benefits, tax, medical, travel, information system, risk management, treasury, certain accounting and control functions and legal. Payments are made quarterly based on the actual costs of providing these services. Where services are provided on a joint basis for the benefit of the Company and Weston together, each party pays the appropriate proportion of the costs. Fees paid under this agreement are reviewed each year by the Audit Committee.
- (iv) Weston is a unitholder of Choice Properties and is entitled to receive distributions declared by the trust. Unitholders who elect to participate in the Choice Properties Distribution Reinvestment Plan ("DRIP") receive a further distribution, payable in Units, equal in value to 3% of each cash distribution. In 2015, Choice Properties issued 1,317,405 Units (2014 – 1,306,847 Units) to Weston under its DRIP at a weighted average price of \$10.86 (2014 – \$10.30) per Unit.

The net balances due to Weston are comprised as follows:

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

Joint Venture In 2014, a joint venture, formed between Choice Properties and Wittington, completed the acquisition of property from Loblaw. The joint venture intends to develop the acquired site into a mixed-used property, anchored by a Loblaw food store. As at January 2, 2016, the joint venture did not have any operating activity. Choice Properties uses the equity method of accounting to record its 40% interest in the joint venture, which is included in other assets (see note 18).

Post-Employment Benefit Plans The Company sponsors a number of post-employment plans, which are related parties. Contributions made by the Company to these plans are disclosed in note 27.

Income Tax Matters From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations. In 2015, these elections and accompanying agreements did not have a material impact on the Company.

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

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

(millions of Canadian dollars)	2015	2014
Salaries, director fees and other short term employee benefits	\$ 6	\$ 9
Equity-based compensation	4	3
Total compensation	\$ 10	\$ 12

Note 35. Restructuring and Other Related Costs

The following is a discussion of the Company's significant restructuring activities in 2015 and 2014.

During 2015, the Company recorded \$124 million of restructuring and other related costs in operating income associated with the announced closures of approximately 52 unprofitable retail locations across a range of banners and formats. Of this amount, \$92 million related to severance and other store closure costs and \$32 million related to impairment of assets. As at January 2, 2016, there were 33 retail location closures. The Company expects that the remaining closures will be completed by the end of the second quarter of 2016.

In 2015, the Company commenced actively marketing the sale of certain assets of its Shoppers ancillary healthcare businesses. As a result, the Company recorded a charge of \$112 million of restructuring and other related costs, in operating income. Of this amount, \$73 million related to the write-down of various assets with the remainder relating to other closure costs. Subsequent to the end of 2015, the Company signed an agreement for the sale of certain of these assets.

During 2014, the Company recorded \$46 million of restructuring and reorganization costs in operating income, primarily associated with the reduction of corporate and store-support positions, the departure of certain executives and the realignment of certain of the Company's central office functions.

As at January 2, 2016, \$140 million (January 3, 2015 - \$37 million) was included in Provisions relating to these restructuring initiatives (see note 21).

Note 36. Segment Information

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, gas bars and apparel and other general merchandise. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base;
- The Financial Services segment provides credit card services, loyalty programs, insurance brokerage services, personal banking services provided by a major Canadian chartered bank, deposit taking services and telecommunication services; and
- The Choice Properties segment owns and leases income-producing commercial properties. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA⁽²⁾ and adjusted operating income⁽²⁾, as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	2015					2014				
(millions of Canadian dollars)	Retail	Financial Services ⁽⁴⁾	Choice Properties ⁽⁴⁾	Consolidation and Eliminations ⁽ⁱ⁾	Total	Retail	Financial Services ⁽⁴⁾	Choice Properties ⁽⁴⁾	Consolidation and Eliminations ⁽ⁱ⁾	Total
Revenue⁽ⁱⁱⁱ⁾	\$44,469	\$ 849	\$ 743	\$ (667)	\$45,394	\$41,731	\$ 810	\$ 683	\$ (613)	\$42,611
EBITDA⁽ⁱⁱⁱ⁾	\$ 2,996	\$ 173	\$ 602	\$ (578)	\$ 3,193	\$ 1,950	\$ 171	\$ 568	\$ (555)	\$ 2,134
Adjusting Items ⁽ⁱⁱⁱ⁾	356	—	—	—	356	1,090	—	3	—	1,093
Adjusted EBITDA⁽ⁱⁱⁱ⁾	\$ 3,352	\$ 173	\$ 602	\$ (578)	\$ 3,549	\$ 3,040	\$ 171	\$ 571	\$ (555)	\$ 3,227
Depreciation and Amortization ^(iv)	1,031	10	1	14	1,056	1,036	7	—	12	1,055
Adjusted Operating Income⁽ⁱⁱⁱ⁾	\$ 2,321	\$ 163	\$ 601	\$ (592)	\$ 2,493	\$ 2,004	\$ 164	\$ 571	\$ (567)	\$ 2,172
Net interest expense and other financing charges	\$ 367	\$ 57	\$ 756	\$ (536)	\$ 644	\$ 386	\$ 53	\$ 369	\$ (224)	\$ 584

(i) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of \$502 million (2014 – \$471 million) of rental revenue and \$165 million (2014 – \$142 million) of cost recovery recognized by Choice Properties, generated from the Retail segment.
- Operating income includes the elimination of the \$502 million (2014 – \$471 million) impact of rental revenue described above; the elimination of a \$72 million gain (2014 – \$82 million gain) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the recognition of \$14 million (2014 – \$12 million) of depreciation expense for certain investment properties recorded by Choice Properties; and the elimination of intercompany charges of \$4 million (2014 – \$2 million).
- Net interest expense and other financing charges includes the elimination of \$251 million (2014 – \$297 million) of interest expense included in Choice Properties related to debt owing to the Company and a \$411 million fair value loss (2014 – gain of \$12 million) recognized by Choice Properties on Class B Limited Partnership units held by the Company. Net interest and other financing charges also includes Unit distributions to external unitholders of \$45 million (2014 – \$44 million), which excludes distributions paid to the Company and a \$81 million fair value loss (2014 – loss of \$17 million) on the Company's Trust Unit Liability.

(ii) Included in Financial Services revenue is \$368 million (2014 – \$356 million) of interest income.

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

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

(millions of Canadian dollars)	As at January 2, 2016	As at January 3, 2015
Total Assets		
Retail	\$ 29,936	\$ 30,048
Financial Services ⁽ⁱ⁾	3,267	3,094
Choice Properties ⁽ⁱ⁾	8,906	8,192
Consolidation and Eliminations ⁽ⁱⁱ⁾	(8,170)	(7,575)
Total	\$ 33,939	\$ 33,759

- (i) For segment presentation purposes, the balances are as at December 31, 2015 and December 31, 2014, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to January 2, 2016 and January 3, 2015 are included in Consolidation and Eliminations.
- (ii) Consolidation and Eliminations includes the elimination of certain investment properties held by Choice Properties measured at fair value, which are presented in the consolidated results as fixed assets and investment properties measured at cost.

(millions of Canadian dollars)	January 2, 2016 (52 weeks)	January 3, 2015 (53 weeks)
Additions to Fixed Assets and Intangible Assets		
Retail	\$ 1,041	\$ 941
Financial Services ⁽ⁱ⁾	14	18
Choice Properties ⁽ⁱ⁾	410	280
Consolidation and Eliminations ⁽ⁱⁱ⁾	(224)	(153)
Total	\$ 1,241	\$ 1,086

- (i) For segment presentation purposes, the results are for the years ended December 31, 2015 and December 31, 2014, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to January 2, 2016 and January 3, 2015 are included in Consolidation and Eliminations.
- (ii) Consolidations and Eliminations includes the elimination of investment properties acquired by Choice Properties from the Retail segment.