Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the annual audited consolidated financial statements and the accompanying notes on page 55 to 117 of this Annual Report – Financial Review ("Annual Report").

The Company's annual audited consolidated financial statements and accompanying notes for the year ended January 2, 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except when otherwise noted.

The information in this MD&A is current to February 24, 2016, unless otherwise noted. A glossary of terms used throughout this Annual Report can be found on page 120.

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2015 (12 weeks ended January 2, 2016) are against results for the fourth quarter of 2014 (13 weeks ended January 3, 2015) and all comparisons of results for the full year of 2015 (52 weeks ended January 2, 2016) are against the results for the full year 2014 (53 weeks ended January 3, 2015).

1. Forward-Looking Statements

This Annual Report, including this MD&A, for the Company contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, synergies and other benefits associated with the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), future liquidity, planned capital investments, and status and impact of information technology ("IT") systems implementation. These specific forward-looking statements are contained throughout this Annual Report including, without limitation, in Section 3 "Strategic Framework", Section 7 "Liquidity and Capital Resources" and Section 16 "Outlook" of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's current estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2016 is based on certain assumptions including assumptions about anticipated cost savings, operating efficiencies and continued growth from current initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 "Enterprise Risks and Risk Management" of this MD&A and the Company's 2015 Annual Information Form (for the year ended January 2, 2016). Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to realize the anticipated strategic benefits associated with the acquisition of Shoppers Drug Mart;
- public health events including those related to food or drug safety;
- failure to realize anticipated results, including revenue growth, anticipated cost savings or operating efficiencies associated with the Company's major initiatives, including those from restructuring;
- failure by the Company's franchisees or Associates to operate in accordance with prescribed procedures or standards, or disruptions to the Company's relationship with its franchisees or Associates;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements, which could lead to work stoppages;
- changes in the Company's income, capital, commodity, property and other tax and regulatory liabilities, including changes in tax laws, regulations or future assessments;

- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business;
- issues with vendors in both advanced and developing markets;
- the risk that the Company would experience a financial loss if its counterparties fail to meet their obligations in accordance with the terms and conditions of their contracts with the Company;
- heightened competition, whether from current competitors or new entrants to the marketplace;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates, interest rates, currency exchange rates or derivative and commodity prices;
- the impact of potential environmental liabilities; and
- the inability of the Company to collect on or fund its credit card receivables.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including, without limitation, the section entitled "Risks" in the Company's 2015 Annual Information Form (for the year ended January 2, 2016). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. Overview

Loblaw Companies Limited includes retail businesses, a bank and a real estate company. The Company has three operating segments: Retail, Financial Services and Choice Properties Real Estate Investment Trust ("Choice Properties"). The Retail segment consists primarily of a discount supermarket business, a full-service supermarket business, an emerging and wholesale business and Shoppers Drug Mart. The Company's Financial Services segment provides retail banking, credit card services, auto, home, travel and pet insurance and wireless mobile products and services. The Company also holds an 83.0% effective interest in Choice Properties, which owns, leases and manages income-producing commercial properties.

3. Strategic Framework

The Company's strategic framework is anchored by its purpose of "*Live Life Well*" and its commitment to produce industry leading financial results through operational excellence. At the core of this framework is our focus on the customer – by providing the best in food experience and the best in health and beauty.

Achieving a "best in food" experience is driven by the desire to lead in fresh selection, drive sustainable and competitive pricing and provide customized assortments across our banners. Achieving "best in health and beauty" is driven by putting our pharmacy customers first, our desire to provide high quality health and wellness products, a diverse and differentiated beauty offering and convenient locations and hours of operation to meet individuals' wellness needs.

The Company's operational excellence goals include driving efficiencies and realizing operating synergies from its retail businesses. This includes product innovation, development of the emerging businesses and loyalty program initiatives. We are also focused on continued growth from President's Choice Financial Services and Choice Properties segments.

4. Key Financial Performance Indicators[5]

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

As at or for the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		**2015** **(52 weeks)**		2014 (53 weeks)
Consolidated:				
Revenue growth		**6.5%**		31.6%
Revenue excluding 53rd week		***8.5%***		*29.2%*
Adjusted EBITDA[2]	**$**	**3,549**	$	3,227
Adjusted EBITDA[2] excluding 53rd week		***3,549***		*3,156*
Adjusted EBITDA margin[2]		**7.8%**		7.6%
Net earnings	**$**	**623**	$	53
Net earnings attributable to shareholders of the Company		**632**		53
Net earnings available to common shareholders of the Company		**625**		53
Net earnings available to common shareholders of the Company excluding 53rd week		***625***		*1*
Adjusted net earnings available to common shareholders of the Company[2]		**1,422**		1,217
Adjusted net earnings available to common shareholders of the Company[2] excluding 53rd week		***1,422***		*1,165*
Basic net earnings per common share ($)	**$**	**1.52**	$	0.14
Basic net earnings per common share excluding 53rd week ($)	***$***	***1.52***	*$*	—
Adjusted basic net earnings per common share[2] ($)	**$**	**3.46**	$	3.20
Adjusted basic net earnings per common share excluding 53rd week ($)	***$***	***3.46***	*$*	*3.06*
Cash and cash equivalents, short term investments and security deposits	**$**	**1,084**	$	1,027
Cash flows from operating activities		**3,079**		2,569
Free cash flow[2]		**1,347**		977
Retail debt to retail adjusted EBITDA[2]		**2.0x**		2.6x
Adjusted return on equity[1]		**11.1%**		12.3%
Adjusted return on capital[1]		**8.5%**		10.4%
Retail Segment:				
Food retail same-store sales growth		**1.9%**		2.0%
Drug retail same-store sales growth		**4.3%**		2.6%
Adjusted gross profit[2]	**$**	**11,747**	$	10,722
Adjusted gross profit[2] excluding 53rd week		***11,747***		*10,522*
Adjusted gross profit %[2]		**26.4%**		25.7%
Adjusted EBITDA[2]	**$**	**3,352**	$	3,040
Adjusted EBITDA[2] excluding 53rd week		***3,352***		*2,969*
Adjusted EBITDA margin[2]		**7.5%**		7.3%
Financial Services Segment[4]:				
Adjusted EBITDA[2]	**$**	**173**	$	171
Earnings before income taxes		**106**		111
Annualized yield on average quarterly gross credit card receivables		**13.6%**		13.7%
Annualized credit loss rate on average quarterly gross credit card receivables		**4.3%**		4.4%
Choice Properties Segment[4]:				
Adjusted EBITDA[2]	**$**	**602**	$	571
Adjusted funds from operations[2]		**313**		285

5. Overall Financial Performance

5.1 Consolidated Results of Operations[5]

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (52 weeks)		2014 (53 weeks)		$ Change	% Change
Revenue	$	45,394	$	42,611	$	2,783	6.5%
Revenue excluding 53rd week	*$*	*45,394*	*$*	*41,822*	*$*	*3,572*	*8.5%*
Adjusted EBITDA(2)	$	3,549	$	3,227	$	322	10.0%
Adjusted EBITDA(2) excluding 53rd week		*3,549*		*3,156*		*393*	*12.5%*
Adjusted EBITDA margin(2)		7.8%		7.6%			
Depreciation and amortization(i)	$	1,592	$	1,472	$	120	8.2%
Net interest expense and other financing charges		644		584		60	10.3%
Adjusted net interest expense and other financing charges(2)		548		529		19	3.6%
Adjusted income taxes(2)	$	525	$	426	$	99	23.2%
Adjusted income tax rate(2)		27.0%		25.9%			
Net earnings	$	623	$	53	$	570	1,075.5%
Net earnings attributable to shareholders of the Company		632		53		579	1,092.5%
Net earnings available to common shareholders of the Company		625		53		572	1,079.2%
Net earnings available to common shareholders of the Company excluding 53rd week		*625*		*1*		*624*	*62,400.0%*
Adjusted net earnings available to common shareholders of the Company(2)		1,422		1,217		205	16.8%
Adjusted net earnings available to common shareholders of the Company(2) excluding 53rd week		*1,422*		*1,165*		*257*	*22.1%*
Basic net earnings per common share ($)	$	1.52	$	0.14	$	1.38	985.7%
Basic net earnings per common share excluding 53rd week ($)	*$*	*1.52*	*$*	*—*	*$*	*1.52*	*100.0%*
Adjusted basic net earnings per common share(2) ($)	$	3.46	$	3.20	$	0.26	8.1%
Adjusted basic net earnings per common share(2) excluding 53rd week ($)	*$*	*3.46*	*$*	*3.06*	*$*	*0.40*	*13.1%*
Basic weighted average common shares outstanding (in millions)		411.5		380.5			

(i) 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 for 2015 and 2014, respectively.

The Company's comparative results were negatively impacted by the inclusion of an additional selling week in 2014 (the "53rd week"). In 2014, the 53rd week resulted in $789 million of higher retail sales, $71 million of higher EBITDA, and estimated impacts on net earnings and basic net earnings per common share of $52 million and $0.13 per share, respectively.

The following comparisons are based on results excluding the 53rd week.

Net Earnings Available to Common Shareholders of the Company and Basic Net Earnings Per Common Share Adjusted net earnings available to common shareholders of the Company(2) were $1,422 million ($3.46 per common share) in 2015 compared to $1,165 million ($3.06 per common share) in 2014. The increase in adjusted net earnings available to common shareholders of the Company(2) was primarily due to the following factors:

- a full year of contribution of Shoppers Drug Mart, following the acquisition of all of the outstanding common shares of Shoppers Drug Mart in the second quarter of 2014;
- consistent operating performance in the Retail segment, despite the impact of healthcare reform; with the unfavourable impact of non-recurring transactions that had positive impacts in the prior year and unfavourable foreign exchange impacts on the year-over-year results;

- a positive contribution from incremental net synergies of $242 million; partially offset by
- an increase in adjusted net interest expense and other financing charges[2], primarily driven by an increase in Choice Properties' debt, partially offset by repayments of the Company's $3,500 million unsecured term loan facility related to the acquisition of Shoppers Drug Mart ("Acquisition Term Loan"); and
- an increase in adjusted income taxes[2] driven by an increase in the effective income tax rate and an increase in certain non-deductible items.

Net earnings available to common shareholders of the Company were $625 million ($1.52 per common share) in 2015 compared to $1 million (nil per common share) in 2014. In addition to the items described above, the increase in net earnings available to common shareholders of the Company included the year-over-year impacts of the following significant items:

- the favourable impact related to the fair value increment on the acquired inventory sold associated with the acquisition of Shoppers Drug Mart of $798 million in 2014 ($1.55 per common share);
- the favourable impact of charges related to inventory measurement and other conversion differences associated with the conversion of the Company's corporate stores to the new IT systems in the prior year of $190 million ($0.37 per common share), partially offset by a charge related to franchise stores in the current year of $33 million ($0.06 per common share); and
- the favourable impact of Shoppers Drug Mart acquisition-related costs, net of impact from divestitures of $85 million ($0.19 per common share), partially offset by;
- the unfavourable impact of restructuring and other related costs, primarily related to the closure of certain unprofitable retail locations that commenced in 2015 of $108 million ($0.22 per common share);
- the unfavourable impact of the impairment of Drug retail ancillary assets held for sale of $112 million ($0.20 per common share);
- the unfavourable impact of the amortization of intangible assets related to the Shoppers Drug Mart acquisition of $119 million ($0.16 per common share);
- the unfavourable impact of an increase in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability for Choice Properties' Trust Units ("Units") of $64 million ($0.16 per common share);
- the unfavourable impact of the accelerated finalization of transitioning of certain grocery stores to more cost effective and efficient operating terms under collective agreements ("Labour Agreements") of $55 million ($0.10 per common share); and
- an increase in the effective income tax rate from 32.1% to 34.9%, primarily attributable to an increase in current tax as a result of an increase of 2% in the Alberta statutory corporate income tax rate and the non-deductible fair value adjustment to the Trust Unit Liability.

Basic net earnings per common share were $1.52 in 2015, an increase of $1.38 compared to 2014. Excluding the impact of the 53rd week, basic net earnings per common share increased by $1.52 compared to 2014. The increase was primarily due to the increase in net earnings available to common shareholders of the Company[2] described above, partially offset by the dilutive effect of the 119.5 million common shares issued as partial consideration for the acquisition of Shoppers Drug Mart, as well as shares issued to George Weston Limited ("Weston") in relation to the acquisition.

Revenue[5]

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Retail	**$ 44,469**	$ 41,731	$ 2,738	6.6%
Financial Services	**849**	810	39	4.8%
Choice Properties	**743**	683	60	8.8%
Consolidation and Eliminations	**(667)**	(613)	(54)	
Revenue	**$ 45,394**	$ 42,611	$ 2,783	6.5%
53rd week		789		
Revenue excluding 53rd week	**$ 45,394**	$ 41,822	$ 3,572	8.5%

Revenue was $45,394 million in 2015, an increase of $3,572 million compared to 2014, primarily driven by a $2,738 million increase in the Retail segment due to the contribution from Shoppers Drug Mart of $2,596 million in the first quarter of 2015 and positive same-store sales growth. Food retail same-store sales growth was 1.9% (2014 – 2.0%) and excluding gas bar, was 2.8% (2014 – 2.1%). Drug retail same-store sales growth was 4.3% (2014 – 2.6%).

Adjusted EBITDA[2],[5]

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (52 weeks)		2014 (53 weeks)		$ Change	% Change
Retail	$	3,352	$	3,040	$	312	10.3%
Financial Services		173		171		2	1.2%
Choice Properties		602		571		31	5.4%
Consolidation and Eliminations		(578)		(555)		(23)	
Adjusted EBITDA[2]	$	3,549	$	3,227	$	322	10.0%
53rd week				71			
Adjusted EBITDA[2] excluding 53rd week	$	3,549	$	3,156	$	393	12.5%

Adjusted EBITDA[2] was $3,549 million, an increase of $393 million compared to 2014, primarily driven by the Retail segment. The Retail segment adjusted EBITDA[2] increase included the contribution from Shoppers Drug Mart in the first quarter of 2015. Excluding this contribution, the increase in Retail segment adjusted EBITDA[2] was primarily driven by higher sales, an increase in Retail segment gross profit percentage, partially offset by an increase in selling, general and administrative expenses ("SG&A"). Adjusted EBITDA[2] was also positively impacted by net synergies of $242 million (2014 – $101 million).

Depreciation and Amortization Depreciation and amortization was $1,592 million in 2015, an increase of $120 million compared to 2014, primarily driven by an increase in amortization of intangible assets of $119 million related to the acquisition of Shoppers Drug Mart. Excluding this impact, depreciation and amortization increased by $1 million, driven by the Retail segment, as a result of the following:

- the depreciation and amortization of assets of Shoppers Drug Mart in the first quarter of 2015; partially offset by
- an increase in the estimated useful life of certain IT systems; and
- lower depreciation on older IT, supply chain and store assets in the Retail segment.

Net Interest Expense and Other Financing Charges

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)		2015 (52 weeks)		2014 (53 weeks)		$ Change	% Change
Net interest expense and other financing charges	$	644	$	584	$	60	10.3%
Deduct impact of the following:							
Fair value adjustment to the Trust Unit Liability		(81)		(17)		(64)	
Accelerated amortization of deferred financing costs		(15)		(23)		8	
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures		—		(15)		15	
Adjusted net interest expense and other financing charges[2]	$	548	$	529	$	19	3.6%

Net interest expense and other financing charges were $644 million, an increase of $60 million compared to 2014. Adjusted net interest expense and other financing charges[2] of $548 million in 2015 increased by $19 million compared to 2014, primarily driven by:

- an increase in Choice Properties debt;
- lower interest income as a result of the year-over-year decline in cash and cash equivalents and short term investments;
- Shoppers Drug Mart debt assumed on the acquisition; and
- higher interest expense to fund the growth of credit card receivables in Financial Services segment; partially offset by
- lower interest expense on the Acquisition Term Loan due to a decline in the principal amount owing;
- lower interest expense due to the repayment of Medium Term Notes ("MTNs") in the first and second quarters of 2014; and
- lower interest expense due to the repayment of capital securities that matured in the third quarter of 2015.

Income Taxes

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015** **(52 weeks)**	2014 (53 weeks)	$ Change	% Change
Income taxes	**$ 334**	$ 25	$ 309	1,236.0%
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(2)	**229**	401	(172)	
Provincial statutory corporate income tax rate change	**(38)**	—	(38)	
Adjusted income taxes	**$ 525**	$ 426	$ 99	23.2%
Effective tax rate	**34.9%**	32.1%		
Adjusted income tax rate(2)	**27.0%**	25.9%		

The effective tax rate in 2015 was 34.9% compared to 32.1% in 2014. The increase in the effective tax rate was primarily attributable to:

- the increase in the current and deferred tax expense resulting from an increase in the Alberta statutory corporate income tax rate described below; and
- the non-deductible fair value adjustment to the Trust Unit Liability.

The adjusted income tax rate(2) year-to-date was 27.0% compared to 25.9% in 2014. The increase was primarily attributable to a 2% increase in the Alberta provincial statutory corporate income tax rate from 10.0% to 12.0% and an increase in certain other non-deductible items.

In the second quarter of 2015, the Company recorded a charge of $38 million related to the remeasurement of its deferred tax liabilities.

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. If the CRA were to ultimately prevail with respect to the proposed reassessment or if the CRA were to successfully pursue other reassessments, the outcome could have a material negative impact on the Company's reputation, results of operations and financial position in the year(s) of resolution.

5.2 Selected Financial Information[5]

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated January 2, 2016, January 3, 2015 and December 28, 2013. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the financial condition and results of the Company's operations over the most recent three years.

For the years ended January 2, 2016 and January 3, 2015 and December 28, 2013 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	2013 (52 weeks)
Revenue	**$ 45,394**	$ 42,611	$ 32,371
Revenue excluding 53rd week	***45,394***	*41,822*	*32,371*
Adjusted EBITDA[2]	**$ 3,549**	$ 3,227	$ 2,106
Adjusted EBITDA[2] excluding 53rd week	***3,549***	*3,156*	*2,106*
Adjusted EBITDA margin[2]	**7.8%**	7.6%	6.5%
Depreciation and amortization[i]	**$ 1,592**	$ 1,472	$ 824
Adjusted net interest expense and other financing charges[2]	**548**	529	354
Adjusted income tax rate[2]	**27.0%**	25.9%	25.0%
Net earnings	**$ 623**	$ 53	$ 627
Net earnings attributable to the shareholders of the Company	**632**	53	627
Net earnings available to common shareholders of the Company	**625**	53	627
Net earnings available to common shareholders of the Company excluding 53rd week	***625***	*1*	*627*
Adjusted net earnings available to common shareholders of the Company[2]	**1,422**	1,217	696
Adjusted net earnings available to common shareholders of the Company[2] excluding 53rd week	***1,422***	*1,165*	*696*
Basic net earnings per common share ($)	**$ 1.52**	$ 0.14	$ 2.23
Basic net earnings per common share excluding 53rd week ($)	***1.52***	—	*2.23*
Diluted net earnings per common share ($)	**1.51**	0.14	2.21
Diluted net earnings per common share excluding 53rd week ($)	***1.51***	—	*2.21*
Adjusted basic net earnings per common share[2] ($)	**3.46**	3.20	2.48
Adjusted basic net earnings per common share[2] excluding 53rd week ($)	***3.46***	*3.06*	*2.48*
Basic weighted average common shares (in millions)	**411.5**	380.5	281.1
Dividends declared per common share ($)	**$ 0.995**	$ 0.975	$ 0.940
Dividends declared per Second Preferred Share, Series A ($)	**0.74**	1.49	1.49
Dividends declared per Second Preferred Share, Series B ($)	**0.74**	—	—

(i) 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.

The Company's comparative results for 2014 were impacted by the inclusion of the 53rd week and its impacts are set out in Section 5.1 "Consolidated Results of Operations".

Revenue Excluding the impact of the 53rd week, revenue was $45,394 million in 2015, an increase of $3,572 million compared to 2014, primarily due to the contribution of Shoppers Drug Mart in the first quarter of 2015. Food retail same-store sales growth was 1.9% (2014 – 2.0%) and excluding gas bar was 2.8% (2014 – 2.1%). Drug retail same-store sales growth was 4.3% (2014 – 2.6%).

Revenue in 2014 was $42,611 million, an increase of $10,240 million compared to 2013, primarily due to Shoppers Drug Mart and the impact of the 53rd week in 2014. Excluding the impact of Shoppers Drug Mart and the 53rd week, consolidated revenue increased by $616 million, or 1.9%. Retail same-store sales growth was 2.0% (2013 – 1.1%) and excluding gas bar was 2.1% (2013 – 1.0%).

The Company's Retail segment sales have continued to grow in spite of the pressure of an intensely competitive retail market and an uncertain economic and regulatory environment over the last three years.

Adjusted basic net earnings per common share(2) Adjusted basic net earnings per common share(2) excluded a number of items which the Company does not consider to be indicative of operational performance. The items that have been adjusted in 2015 and 2014 in the presentation of adjusted basic net earnings per common share(2) are set out in Section 17 "Non-GAAP Financial Measures."

Adjusted basic net earnings per common share(2) increased over the past three years. The increases were attributable to the following significant items:

- the contribution from Shoppers Drug Mart from the date of acquisition in 2014;
- improvement in underlying operating performance of the Retail segment, including positive same-store sales in both Food and Drug retail in 2015 and 2014; and
- positive contribution from net synergies in 2015 and 2014; partially offset by
- an increase in depreciation and amortization in 2015 and 2014, primarily from the amortization of assets from the Shoppers Drug Mart acquisition;
- an increase in adjusted net interest expense and other financing charges, primarily due to an increase in Choice Properties debt in 2015 and debt assumed as a result of the acquisition of Shoppers Drug Mart in 2014; and
- an increase in adjusted income taxes due to a higher effective income tax rate in 2015 and 2014.

Total Assets and Long Term Financial Liabilities

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015(3)	As at December 28, 2013
Total Assets	**$ 33,939**	$ 33,759	$ 20,741
Total Long Term Debt	**$ 11,011**	$ 11,462	$ 7,680
Capital Securities	**—**	225	224
Trust Unit Liability	**821**	722	688
Long term financial liabilities	**$ 11,832**	$ 12,409	$ 8,592

In 2015, total assets of $33,939 million increased marginally compared to 2014. Long term financial liabilities of $11,832 million decreased by 4.6% compared to 2014, primarily due to net repayments on the Acquisition Term Loan, the repayment of capital securities, partially offset by the issuance of debt by Choice Properties.

In 2014, total assets of $33,759 million and long term financial liabilities of $12,409 million increased by 62.8% and 44.4%, respectively, compared to 2013. These increases were primarily driven by the consolidation of Shoppers Drug Mart balances, the issuance of debt to finance the acquisition of Shoppers Drug Mart, partially offset by debt repayments. In 2014, capital securities became due within one year and were presented in current liabilities.

6. Reportable Operating Segments Results of Operations

6.1 Retail Segment(5)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Sales	**$ 44,469**	$ 41,731	$ 2,738	6.6%
Sales excluding 53rd week	***44,469***	*40,942*	3,527	8.6%
Gross profit	**11,689**	9,734	1,955	20.1%
Gross profit excluding 53rd week	***11,689***	*9,534*	*2,155*	*22.6%*
Adjusted gross profit(2)	**11,747**	10,722	1,025	9.6%
Adjusted gross profit(2) excluding 53rd week	***11,747***	*10,522*	*1,225*	*11.6%*
Adjusted gross profit %(2)	**26.4%**	25.7%		
Adjusted EBITDA(2)	**$ 3,352**	$ 3,040	312	10.3%
Adjusted EBITDA(2) excluding 53rd week	***3,352***	*2,969*	*383*	*12.9%*
Adjusted EBITDA margin(2)	**7.5%**	7.3%		
Depreciation and amortization	**$ 1,567**	$ 1,453	114	7.8%

For the years ended January 2, 2016 and January 3, 2015	**2015 (52 weeks)**	2014 (52 weeks)
Food retail same-store sales growth	**1.9%**	2.0%
Drug retail same-store sales growth	**4.3%**	2.6%
Same-store pharmacy sales growth	**3.7%**	2.7%
Same-store front store sales growth	**4.7%**	2.4%

The Company's comparative results in the Retail segment were negatively impacted by the inclusion the 53rd week of 2014, as previously described.

Sales Retail sales were $44,469 million in 2015 compared to $41,731 million in 2014.

- Food retail (Loblaw) sales were $32,672 million in 2015 (2014 – $32,681 million) and Drug retail (Shoppers Drug Mart) sales were $11,797 million in 2015 (2014 – $9,050 million).
    - Excluding the impact of the 53rd week of 2014, Food retail sales were $32,672 million in 2015 (2014 – $32,107 million) and Drug retail sales were $11,797 million in 2015 (2014 – $8,835 million).

Excluding the impact of the 53rd week of 2014, Retail sales increased by $3,527 million compared to 2014, and included $2,596 million of retail sales contributed by Shoppers Drug Mart in the first quarter of 2015.

- Food retail same-store sales growth was 3.5%, after excluding gas bar (0.9%) and the negative impact of a change in distribution model by a tobacco supplier (0.7%). Including these impacts, Food retail same-store sales growth was 1.9% (2014 – 2.0%).
    - The Company's Food retail annual average internal food price index was moderately higher than (2014 – slightly higher) the annual average national food price inflation of 4.1% (2014 – 2.5%) as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores.
    - Sales growth in food was strong;
    - Sales growth in pharmacy and health and beauty was moderate;
    - Sales in gas bar declined significantly, primarily driven by the decline in gas prices;
    - Sales in general merchandise, excluding apparel, were flat; and
    - Sales growth in retail apparel was moderate, while U.S. wholesale apparel sales declined significantly.

- Drug retail (Shoppers Drug Mart) sales were comprised of pharmacy sales of $5,545 million (2014 – $4,251 million) and front store sales of $6,252 million (2014 – $4,799 million).
    - Same-store pharmacy sales growth was 3.7% (2014 – 2.7%);
        - the number of prescriptions dispensed increased by 2.1% (2014 – 6.6%). On a same-store basis, the number of prescriptions dispensed increased by 4.3% (2014 – 4.6%) and year-over-year, the average prescription value decreased by 0.2% (2014 – 1.5%);
        - generic molecules comprised 64.4% of the prescriptions dispensed in 2015 compared to 62.7% in 2014; and
    - Same-store front store sales growth was 4.7% (2014 – 2.4%) across all front store categories.
- 47 food and drug stores were opened and 62 food and drug stores were closed in the 12 months ended January 2, 2016, resulting in a decrease in Retail net square footage of 0.1 million, or 0.1%, primarily driven by the Company's store closure plan announced during 2015. In the first quarter of 2015, the Company completed the divestitures pursuant to a Consent Agreement with the Competition Bureau related to the acquisition of Shoppers Drug Mart.
- In 2014, the Company modified its fee arrangements with the franchisees of certain franchise banners. The modified arrangements resulted in an annual reduction of Food retail segment sales and gross profit of approximately $140 million, with a corresponding decrease in SG&A. In 2016, the Company will implement these modified fee arrangements with the remaining franchise banners. In 2016, the incremental impact of modified fee arrangements to the remaining franchise banners is expected to result in an annual reduction in Food retail segment sales and gross profit of approximately $60 million, with a corresponding decrease in SG&A.

Adjusted Gross Profit(2) Adjusted gross profit(2) was $11,747 million in 2015 compared to $10,722 million in 2014. Excluding the impact of the 53rd week of 2014, adjusted gross profit(2) increased by $1,225 million compared to 2014. Adjusted gross profit percentage(2) was 26.4%, and included the following impacts:

- the contribution from Shoppers Drug Mart in the first quarter of 2015;
- a positive impact of 10 basis points due to the consolidation of franchises, which commenced in the second quarter of 2015; and
- a negative impact of 30 basis points from the above mentioned modification to certain franchise fee arrangements.

After excluding these impacts, adjusted gross profit percentage(2) was 25.8% compared to 25.7% in 2014. The increase in adjusted gross profit percentage(2) was due to:

- the achievement of operational synergies in both Food and Drug retail; partially offset by
- a decline in Drug retail gross profit percentage due to the impact of healthcare reform.

Adjusted EBITDA(2) Adjusted EBITDA(2) was $3,352 million in 2015 compared to $3,040 million in 2014. Excluding the impact of the 53rd week of 2014, adjusted EBITDA(2) increased by $383 million compared to 2014, primarily driven by the increase in adjusted gross profit(2) described above, partially offset by an increase in SG&A of $842 million. As a percentage of sales, SG&A increased by 50 basis points compared to 2014 and included the following impacts:

- the contribution from Shoppers Drug Mart in the first quarter of 2015;
- a positive impact of 30 basis points from the above mentioned modification to certain franchise fee arrangements, which was fully offset in gross profit above; and
- a negative impact of 20 basis points due to the consolidation of franchises, as described below.

Excluding the above impacts, SG&A was flat due to the following factors:

- higher store and store support costs;
- unfavourable foreign exchange impacts; offset by
- favourable changes in the fair value of the Company's investments in its franchise business; and
- efficiencies achieved in Food retail supply chain, administration and IT.

Depreciation and Amortization Depreciation and amortization were $1,567 million, an increase of $114 million compared to the same period in 2014 and included $536 million (2014 – $417 million) in amortization of intangible assets related to the acquisition of Shoppers Drug Mart. Excluding this amount, depreciation and amortization decreased by $5 million, primarily driven by lower depreciation on older IT, supply chain and other store assets.

Other Retail Business Matters

Impairment of Drug Retail Ancillary Assets Held for Sale During 2015, the Company commenced actively marketing the sale of certain assets of the Shoppers ancillary healthcare businesses. As a result, the Company recorded a charge of $112 million in the fourth quarter associated with the write-down of the assets and other related restructuring charges. The charge was excluded in calculating adjusted net earnings available to common shareholders of the Company(2). Of the $112 million charge, $46 million was recognized in gross profit and the remainder in SG&A. Subsequent to the end of 2015, the Company signed an agreement for the sale of certain of these assets. The Company expects the annualized impact of the divestitures to be a decrease in sales of approximately $245 million and an increase in adjusted EBITDA(2) of $14 million.

Inventory Measurement As of the end of 2015, the Company had completed the conversion of all of its franchised grocery stores to the new IT systems that include a perpetual inventory system. The re-measurement of inventory owned by the franchises as a result of implementing the system resulted in a decrease in inventory value of $33 million. The re-measurement resulted in a charge of $4 million in gross profit related to consolidated franchises and $29 million to SG&A related to non-consolidated franchises. The total charge was excluded in calculating adjusted net earnings available to common shareholders of the Company(2).

Consolidation of Franchises In 2015, the Company implemented a new, simplified franchise agreement ("Franchise Agreement") for its franchised Food retail stores. For financial reporting purposes, the franchise stores subject to the Franchise Agreement were consolidated. All new franchises will be subject to the Franchise Agreement. Existing franchises will be converted to the Franchise Agreement as the existing agreements expire. As at January 2, 2016, 85 franchises were consolidated and the impacts of the consolidation on the Company's results were as follows:

(millions of Canadian dollars)	2015 (12 weeks)	2015 (52 weeks)
Sales	$ 28	$ 56
Gross profit	32	58
Adjusted gross profit(2)	32	58
Adjusted EBITDA(2)	(4)	(12)
Depreciation and amortization	3	5
Net loss attributable to Non-Controlling Interest	(3)	(9)

The Company expects that the impact in 2016 of new and current consolidated franchises will be incremental revenue of approximately $320 million, an increase to EBITDA(2) of approximately $40 million and an increase in depreciation and amortization of approximately $20 million.

Closure of Certain Unprofitable Retail Locations In 2015, the Company finalized a plan that will result in the closure of 52 unprofitable retail locations across a range of banners and formats. The Company expects that the closures will be completed by the end of the second quarter of 2016. On an annualized basis, the closures will decrease sales by approximately $300 million but will result in a favourable impact of approximately $30 million to EBITDA(2) and $5 million to depreciation and amortization.

The restructuring and other related costs associated with the plan are expected to total approximately $133 million. In the fourth quarter of 2015, the Company recorded a recovery of $7 million and a year-to-date charge of $124 million. During 2015, the recorded charge included $92 million for severance and lease termination costs and $39 million for asset impairments associated with these retail locations. The Company expects approximately $9 million to be recognized as the remaining stores close.

As at the end of 2015, 33 retail locations had been closed.

Accelerated Finalization of Labour Agreements Over the past five years, the Company has been transitioning stores to more cost effective and efficient operating terms under collective agreements. The Company was committed to the transition and accordingly accelerated the finalization of these Labour Agreements for the majority of the remaining stores in the fourth quarter of 2015. The Company incurred a charge of $55 million in SG&A related to the completion of this process in the fourth quarter of 2015, which was excluded in calculating adjusted net earnings available to common shareholders of the Company(2).

Future Disclosures Shoppers Drug Mart is aggregated with the Company's retail businesses in the Retail reportable operating segment on the basis that all of the Company's retail operations have the same economic characteristics. The Retail reportable operating segment is separately discussed in the Company's interim and annual disclosures. Continuing in the 2016 fiscal year, the Company will limit the amount of separate financial disclosures specific to Shoppers Drug Mart in the Retail reportable operating segment. The results of Shoppers Drug Mart will be fully incorporated into the Company's comparative figures in 2016 and as such its year-over-year results will be more meaningful in the future.

The Company will continue to provide sales metrics on Drug retail pharmacy and front store sales to the extent that those categories remain relevant to how the Company views the Retail segment. Disclosures related to gross profit and adjusted EBITDA(2) will be on a combined basis and will include business-specific disclosures only to the extent that those disclosures are significant to the understanding of the underlying drivers of the overall Retail segment results.

6.2 Financial Services Segment(4)

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Revenue	**$ 849**	$ 810	$ 39	4.8 %
Adjusted EBITDA(2)	**173**	171	2	1.2 %
Earnings before income taxes	**106**	111	(5)	(4.5)%

(millions of Canadian dollars except where otherwise indicated)	**As at January 2, 2016**	As at January 3, 2015	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,642**	$ 2,535	$ 107	4.2%
Credit card receivables	**2,790**	2,630	160	6.1%
Allowance for credit card receivables	**54**	54	—	—%
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.7%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	4.4%		

Revenue Revenue in 2015 was $849 million, an increase of $39 million, compared to 2014, primarily driven by:

- higher interest income attributable to growth in credit card receivables;
- higher interchange income, which experienced more moderate growth than the corresponding increase in credit card receivables due to an industry-wide reduction in interchange rates by MasterCard® International Incorporated ("MasterCard®"); and
- an increase in *PC* Telecom revenue from higher Mobile Shop sales.

Adjusted EBITDA(2) Adjusted EBITDA(2) in 2015 was $173 million, an increase of $2 million, compared to 2014. The increase in adjusted EBITDA(2) was primarily driven by:

- revenue growth as described above; and
- lower credit card losses from improved performance of the receivable balances; partially offset by
- higher costs associated with the Financial Services loyalty program; and
- higher operating costs as a result of an increase in the active customer base and the depreciation of the Canadian dollar.

Earnings before income taxes Earnings before income taxes in 2015 were $106 million, a decrease of $5 million compared to 2014. The decrease was driven by:

- higher interest expenses to fund the growth in credit card receivables; and
- higher depreciation related to an increased investment in IT; partially offset by
- higher EBITDA described above.

Credit Card Receivables As at January 2, 2016, credit card receivables were $2,790 million, an increase of $160 million compared to January 3, 2015. This increase was primarily driven by a growth in the active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at January 2, 2016, the allowance for credit card receivables was $54 million, flat compared to January 3, 2015 due to the strong credit performance from the receivables balance.

Subsequent to the end of 2015:

- President's Choice Bank ("PC Bank") reduced $100 million of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts; and
- PC Bank extended the maturity date for certain Other Independent Securitization Trust agreement from the first quarter of 2017 to the first quarter of 2018, with all other terms and conditions substantially the same.

6.3 Choice Properties Segment[4]

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Revenue	**$ 743**	$ 683	$ 60	8.8%
Adjusted EBITDA[2]	**602**	571	31	5.4%
Net interest expense and other financing charges	**756**	369	387	104.9%
Adjusted funds from operations[2]	**313**	285	28	9.8%

Revenue Revenue for 2015 was $743 million, an increase of $60 million compared to 2014 and included $667 million (2014 – $613 million) generated from tenants within the Retail segment. The increase in revenue was primarily driven by:

- revenue from acquired properties; and
- an increase in base rent and recoveries of property tax and operating cost from existing properties.

Adjusted EBITDA[2] Adjusted EBITDA[2] in 2015 was $602 million, an increase of $31 million compared to 2014, primarily driven by:

- contributions from acquired properties; and
- an increase in base rent and net recoveries of property tax and operating cost from existing properties; partially offset by
- the change in fair value adjustment on investment properties.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges in 2015 were $756 million, an increase of $387 million compared to 2014, primarily driven by:

- the fair value adjustment on Class B Limited Partnership units; and
- higher interest expense due to the issuance of Series E and F senior unsecured debentures in the first and fourth quarter of 2015, respectively; partially offset by
- the non-cash finance charge incurred in 2014 related to the early repayment of the transferor notes.

Adjusted Funds from Operations[2] Adjusted funds from operations[2] in 2015 were $313 million, an increase of $28 million compared to 2014, primarily driven by higher contributions from property operations.

Other Matters During 2015, Choice Properties acquired 46 properties from the Company for a purchase price of approximately $357 million, excluding acquisition costs, for consideration of $236 million in cash and the issuance of 11,077,687 Class B Limited Partnership units.

Subsequent to the end of 2015, Choice Properties entered into certain bond forward contracts with a notional value of $300 million. In addition, Choice Properties issued an early redemption notice for the $300 million Series 5 senior unsecured debenture at par, effective March 7, 2016.

7. Liquidity and Capital Resources

7.1 Cash Flows

Major Cash Flow Components

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (52 weeks)		2014[3] (53 weeks)		$ Change	% Change
Cash and cash equivalents, beginning of period	**$**	**999**	$	2,260	$	(1,261)	(55.8)%
Cash flows from (used in):							
Operating activities		**3,079**		2,569		510	19.9 %
Investing activities		**(1,238)**		(5,684)		4,446	78.2 %
Financing activities		**(1,839)**		1,845		(3,684)	(199.7)%
Effect of foreign currency exchange rate changes on cash and cash equivalents		**17**		9		8	88.9 %
Cash and cash equivalents, end of period	**$**	**1,018**	$	999	$	19	1.9 %

Cash Flows from Operating Activities Cash flows from operating activities were $3,079 million, an increase of $510 million compared to 2014 primarily due to a positive change in non-cash working capital driven by a change in inventory, in trade payables and other liabilities, and in provisions.

Cash Flows used in Investing Activities Cash flows used in investing activities were $1,238 million, a decrease of $4,446 million compared to 2014 primarily due to the 2014 cash flow impacts as a result of the acquisition of Shoppers Drug Mart.

Capital investments in 2015 were $1,241 million (2014 – $1,086 million). Approximately 47% (2014 – 57%) of this investment was spent on Retail Operations, 34% (2014 – 27%) on IT and supply chain projects, 15% (2014 –11%) on Choice Properties' development projects and 4% (2014 – 5%) on other infrastructure projects.

In 2015, 47 food and drug stores were opened and 62 food and drug stores were closed in the 12 months ended January 2, 2016, resulting in a decrease in Retail net square footage of 0.1 million, or 0.1%.

The Company expects to invest approximately $1,300 million in capital investments in 2016. Approximately 44% of these funds are expected to be dedicated to investing in retail operations, 28% will be spent on IT and supply chain projects, 22% on Choice Properties' development projects and 6% on infrastructure and other projects.

Capital Investments and Store Activity

As at or for the periods ended January 2, 2016 and January 3, 2015	**2015 (52 weeks)**	2014 (53 weeks)	% Change
Capital investments (millions of Canadian dollars)	**$ 1,241**	$ 1,086	14.3 %
Corporate square footage (in millions)	**36.1**	36.8	(1.9)%
Franchise square footage (in millions)	**15.8**	15.5	1.9 %
Associate-owned drug store square footage (in millions)	**18.0**	17.7	1.7 %
Total retail square footage (in millions)	**69.9**	70.0	(0.1)%
Number of corporate stores	**591**	615	(3.9)%
Number of franchise stores	**525**	527	(0.4)%
Number of Associate-owned drug stores	**1,313**	1,302	0.8 %
Total number of stores	**2,429**	2,444	(0.6)%
Percentage of corporate real estate owned	**72%**	72%	
Percentage of franchise real estate owned	**47%**	45%	
Percentage of Associate-owned drug store real estate owned	**2%**	1%	
Average store size (square feet)			
Corporate	**61,100**	59,800	2.2 %
Franchise	**30,100**	29,400	2.4 %
Associate-owned drug store	**13,700**	13,600	0.7 %

Cash Flows (used in) from Financing Activities Cash flows used in financing activities were $1,839 million, an increase in cash outflow of $3,684 million. In 2015, cash outflows were primarily driven by net repayments of long term debt, interest and dividend payments, and the purchase of common shares for cancellation. In 2014, cash inflows were primarily driven by net issuances of long term debt and proceeds from the issuance of common shares to fund the acquisition of Shoppers Drug Mart, partially offset by interest and dividend payments, which included one quarter of Shoppers Drug Mart dividends that were declared prior to the closing of the acquisition and paid during the second quarter of 2014.

In 2015, significant long term debt transactions included:

- net repayments on unsecured term loan facilities of $931 million;
- issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties; and
- net repayments of $100 million of senior and subordinated term notes by *Eagle Credit Card Trust*® ("*Eagle*").

In 2014, significant long term debt transactions included:

- drawings on the Acquisition Term Loan of $3,500 million and repayments of $2,271 million;
- the issuance and sale to unrelated parties of $1,500 million of replacement notes related to the Choice Properties Transferor Notes;
- the issuance of $450 million aggregate principal amount of senior unsecured debentures by Choice Properties;
- the repayment of $450 million of the Company's MTN's upon maturity; and
- the repayment of the outstanding $478 million balance of the Shoppers Drug Mart revolving bank credit facility.

Free Cash Flow[(2)]

For the years ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015 (52 weeks)**	2014 (53 weeks)	$ Change	% Change
Free cash flow[(2)]	**$ 1,347**	$ 977	$ 370	37.9%

Free cash flow[(2)] was $1,347 million, an increase of $370 million compared to 2014, primarily driven by higher cash flows from operating activities, partially offset by higher capital investments.

7.2 Liquidity and Capital Structure

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements and financial obligations. Choice Properties expects to obtain long term financing for the acquisition of accretive properties primarily through the issuance of equity and unsecured debentures.

The Company and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at January 2, 2016 and throughout 2015, the Company and Choice Properties were in compliance with their respective covenants.

Deleveraging The Company achieved its debt reduction target of $1,700 million established at the closing of the acquisition of Shoppers Drug Mart, by the net repayments on the Company's unsecured term loan facilities, the redemption of capital securities and the repayment of $350 million MTN, net of the issuance of Choice Properties' $450 million senior unsecured debentures.

As the debt reduction target has been achieved, the Company is focused on managing its capital structure on a segmented basis to ensure that each of the reportable operating segments are employing a capital structure that is appropriate for the industry in which it operates. The following table presents total debt, as monitored by management, by reportable operating segments:

				As at January 2, 2016				As at January 3, 2015
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Choice Properties**	**Total**	Retail	Financial Services	Choice Properties	Total
Bank indebtedness	**$ 143**	**$ —**	**$ —**	**$ 143**	$ 162	$ —	$ —	$ 162
Short term debt	**—**	**550**	**—**	**550**	—	605	—	605
Long term debt due within one year	**584**	**112**	**302**	**998**	40	379	1	420
Long term debt	**5,968**	**1,347**	**2,698**	**10,013**	7,361	1,005	2,676	11,042
Capital securities	**—**	**—**	**—**	**—**	225	—	—	225
Certain other liabilities	**30**	**—**	**—**	**30**	28	—	—	28
Total debt	**$ 6,725**	**$ 2,009**	**$ 3,000**	**$ 11,734**	$ 7,816	$ 1,989	$ 2,677	$ 12,482

The Company targets at maintaining Retail segment credit metrics consistent with those of investment grade retailers. The Company monitors the Retail segment's debt to adjusted EBITDA ratio as a measure of the leverage being employed.

	As at January 2, 2016	As at January 3, 2015
Retail debt to retail adjusted EBITDA(2)	**2.0x**	2.6x

The Retail segment debt to retail adjusted EBITDA(2) ratio decreased compared to January 3, 2015 primarily as a result of adjusted EBITDA(2) growth and the debt reduction progress during the year.

Choice Properties targets at maintaining credit metrics consistent with those of investment grade REITs. Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio.

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 the Office of the Superintendent of Financial Institutions ("OSFI"). As at the end of 2015 and throughout the year, PC Bank has met all applicable regulator requirements.

Unsecured Term Loan Facilities 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 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 noted above, 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.

Debentures and Medium Term Notes The following table summarizes the debentures and MTNs issued in 2015 and 2014:

(millions of Canadian dollars)	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. Choice Properties used these proceeds to repay existing debt and for general business purposes.

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

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

(millions of Canadian dollars)	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 entered into certain bond forward contracts with a notional value of $300 million and issued an early redemption notice for its $300 million Series 5 3.00% senior unsecured debentures at par effective March 7, 2016.

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

	As at January 2, 2016		As at January 3, 2015	
(millions of Canadian dollars)	**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.

President's Choice Bank Securities Portfolio In 2014, OSFI released the final Liquidity Adequacy Requirements ("LARs") Guideline. The LARs Guideline establishes standards based on the Basel III framework and includes a Liquidity Coverage Ratio ("LCR") standard effective January 1, 2015. The standard specifies the level of high quality liquid securities that PC Bank is required to maintain to meet its upcoming financial obligations. As at the end 2015, PC Bank was in compliance with the LCR standard.

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, as described in Section 7.6 "Share Capital".

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.

7.3 Financial Condition

Adjusted Return on Equity(2) and Adjusted Return on Capital(2)

	As at January 2, 2016	As at January 3, 2015
Adjusted return on equity(2)	**11.1%**	12.3%
Adjusted return on capital(2)	**8.5%**	10.4%

The adjusted return on equity(2) and the adjusted return on capital(2) as at January 2, 2016 decreased compared to January 3, 2015, primarily due to the increase in capital as a result of the acquisition of Shoppers Drug Mart being fully reflected.

7.4 Credit Ratings

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

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

In 2015, the Company's Second Preferred Shares, Series B were rated by Dominion Bond Rating Service and Standard & Poor's concurrent with their issuance. In 2015, Standard & Poor's reaffirmed Loblaw's credit ratings and outlook. In 2015, Dominion Bond Rating Service reaffirmed Loblaw's credit ratings and trends.

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

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

In 2015, Dominion Bond Rating Service reaffirmed Choice Properties' credit ratings and trends. In 2015, Standard & Poor's reaffirmed Choice Properties' credit ratings and outlook.

7.5 Other Sources of Funding

Independent Securitization Trusts The Company, through PC Bank, participates in various securitization programs that provide a source of funds for the operation of its credit card business. PC Bank maintains and monitors 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 following table summarizes the amounts securitized to independent securitization trusts:

(millions of Canadian dollars)	**As at January 2, 2016**	As at January 3, 2015
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust*®	**$ 650**	$ 750
Securitized to Other Independent Securitization Trusts	**550**	605
Total securitized to independent securitization trusts	**$ 1,200**	$ 1,355

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.

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.

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. As at January 2, 2016, the corresponding short term debt was $550 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. 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.

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

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. As at January 2, 2016 the Company has agreed to provide a credit enhancement of $53 million (January 3, 2015 – $50 million) for the benefit of the independent funding trusts representing not less than 10% (2014 – 10%) of the principal amount of loans outstanding.

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

As at January 2, 2016, $112 million in GICs were recorded as long term debt due within one year (January 3, 2015 – $29 million).

Associate Guarantees The Company has arranged for its Shoppers Drug Mart licensees ("Associates") to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at 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.

7.6 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 of Directors ("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.

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:

			2015			2014
(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	**—**		**—**	119,471,382		5,619
Issued to controlling shareholder	**—**		**—**	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 Restricted Share Units and Performance Share Units	**(971,894)**		**(19)**	—		—
Released for settlement of Restricted Share Units and Performance Share Units	**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 (52 weeks)	2014 (53 weeks)
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.

Subsequent to 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. At the time such dividends are declared, the Company identifies on its website, loblaw.ca, the designation of eligible and ineligible dividends in accordance with the administrative position of the CRA.

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 (52 weeks)	2014 (53 weeks)
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 Toronto Stock Exchange ("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.

7.7 Off-Balance Sheet Arrangements

The following is a summary of the Company's off-balance sheet arrangements. Certain significant arrangements have also been discussed in Section 7.5 "Other Sources of Funding".

Letters of Credit Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, securitization of PC Bank's credit card receivables and third party financing made available to the Company's franchisees. The gross potential liability related to the Company's letters of credit is approximately $860 million as at January 2, 2016 (January 3, 2015 – $586 million).

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

The Company has provided a guarantee on behalf of PC Bank to MasterCard® for accepting PC Bank as a card member and licensee of MasterCard®. During the third quarter of 2015, the Company increased its guarantee on behalf of PC Bank to MasterCard® by USD $20 million (2014 – nil) to USD $190 million as at January 2, 2016 (January 3, 2015 – USD $170 million).

Cash Collateralization 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.

7.8 Contractual Obligations

The following illustrates certain of the Company's significant contractual obligations and discusses other obligations as at January 2, 2016:

Summary of Contractual Obligations

	Payments due by year						
(millions of Canadian dollars)	2016	2017	2018	2019	2020	Thereafter	Total
Total debt (including interest payments[(i)])	$ 2,147	$ 1,316	$ 1,775	$ 1,913	$ 1,640	$ 7,610	$ 16,401
Derivative Financial Liabilities	441	—	—	—	—	—	441
Operating leases[(ii)]	682	658	617	571	504	2,606	5,638
Contracts for purchases of investment projects[(iii)]	54	—	—	—	—	—	54
Purchase obligations[(iv)]	152	125	85	5	1	—	368
Total contractual obligations	$ 3,476	$ 2,099	$ 2,477	$ 2,489	$ 2,145	$ 10,216	$ 22,902

(i) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for Consolidated Structured Entities, mortgages and finance lease obligations. Variables interest payments are based on the forward rates as of January 2, 2016.

(ii) Represents the minimum or base rents payable. Amounts are not offset by any expected sub-lease income.

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

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

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

8. Financial Instruments

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.

Bond Forwards 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.

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

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.

Trust Unit Liability Choice Properties' 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 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.

9. Quarterly Results of Operations

9.1 Results by Quarter

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. Fiscal year 2015 was 52 weeks and fiscal year 2014 was 53 weeks. When a fiscal year such as 2014 contains 53 weeks, the fourth quarter is 13 weeks in duration. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

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

Summary of Consolidated Quarterly Results

	2015					2014				
(millions of Canadian dollars except where otherwise indicated)	**First Quarter (12 weeks)**	**Second Quarter (12 weeks)**	**Third Quarter (16 weeks)**	**Fourth Quarter (12 weeks)**	**Total (audited) (52 weeks)**	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (13 weeks)	Total (audited) (53 weeks)
Revenue	**$ 10,048**	**$ 10,535**	**$ 13,946**	**$ 10,865**	**$ 45,394**	$ 7,292	$10,307	$ 13,599	$11,413	$ 42,611
Net earnings (loss) available to common shareholders of the Company	**$ 146**	**$ 185**	**$ 166**	**$ 128**	**$ 625**	$ 120	$ (456)	$ 142	$ 247	$ 53
Net earnings (loss) per common share:										
Basic ($)	**$ 0.35**	**$ 0.45**	**$ 0.40**	**$ 0.31**	**$ 1.52**	$ 0.43	$ (1.13)	$ 0.34	$ 0.60	$ 0.14
Diluted ($)	**$ 0.35**	**$ 0.44**	**$ 0.40**	**$ 0.31**	**$ 1.51**	$ 0.42	$ (1.13)	$ 0.34	$ 0.59	$ 0.14
Average national food price inflation (as measured by CPI)	**4.6%**	**3.9%**	**3.8%**	**4.1%**	**4.1%**	1.2%	2.5%	2.8%	3.5%	2.5%
Food retail same-store sales growth	**2.0%**	**2.1%**	**1.3%**	**2.4%**	**1.9%**	0.9%	1.8%	2.6%	2.4%	2.0%
Drug retail same-store sales growth	**3.1%**	**3.8%**	**4.9%**	**5.0%**	**4.3%**	1.4%	2.5%	2.5%	3.8%	2.6%

CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Over the past eight quarters, net retail square footage increased by 18.0 million square feet, including 18.0 million square feet contributed by Shoppers Drug Mart at acquisition, to 69.9 million square feet, primarily due to the contribution by Shoppers Drug Mart at acquisition in 2014 partially offset by decreases from the Company's store closure plan in 2015.

Fluctuations in quarterly net earnings (loss) available to common shareholders of the Company reflect the underlying operations of the Company and are impacted by seasonality, which is greatest in the fourth quarter and least in the first quarter, the 53rd week of 2014 in the fourth quarter, the timing of holidays and were impacted by the items set out in Section 17 "Non-GAAP Financial Measures" of the MD&A as well as the following significant items:

- the acquisition of Shoppers Drug Mart, including the associated acquisition-related accounting adjustments and net synergies;
- modifications to the fee arrangements with franchisees of certain franchise banners; and
- the transition of certain stores to more cost effective and efficient Labour Agreements.

9.2 Fourth Quarter Results

The following is a summary of selected consolidated unaudited financial information for the fourth quarter of 2015:

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		**2015 (12 weeks)**		2014 (13 weeks)		$ Change	% Change
Revenue	**$**	**10,865**	$	11,413	$	(548)	(4.8)%
Revenue excluding 53rd week	***$***	***10,865***	*$*	*10,624*	*$*	*241*	*2.3 %*
Adjusted EBITDA[(2)]	**$**	**881**	$	950	$	(69)	(7.3)%
Adjusted EBITDA[(2)] excluding 53rd week		***881***		*879*		*2*	*0.2 %*
Adjusted EBITDA margin[(2)]		**8.1%**		8.3%			
Depreciation and amortization[(i)]	**$**	**376**	$	393	$	(17)	(4.3)%
Net interest expense and other financing charges		**141**		169		(28)	(16.6)%
Adjusted net interest expense and other financing charges[(2)]		**134**		144		(10)	(6.9)%
Net earnings		**127**		247		(120)	(48.6)%
Net earnings attributable to shareholders of the Company		**131**		247		(116)	(47.0)%
Net earnings available to common shareholders of the Company		**128**		247		(119)	(48.2)%
Net earnings available to common shareholders of the Company excluding 53rd week		***128***		*195*		*(67)*	*(34.4)%*
Adjusted net earnings available to common shareholders of the Company[(2)]		**363**		396		(33)	(8.3)%
Adjusted net earnings available to common shareholders of the Company[(2)] excluding 53rd week		***363***		*344*		*19*	*5.5 %*
Basic net earnings per common share ($)	**$**	**0.31**	$	0.60	$	(0.29)	(48.3)%
Basic net earnings per common share excluding 53rd week ($)	***$***	***0.31***	*$*	*0.47*	*$*	*(0.16)*	*(34.0)%*
Adjusted basic net earnings per common share[(2)] ($)	**$**	**0.88**	$	0.96	$	(0.08)	(8.3)%
Adjusted basic net earnings per common share[(2)] excluding 53rd week ($)	***$***	***0.88***	*$*	*0.83*	*$*	*0.05*	*6.0 %*
Basic weighted average common shares outstanding (in millions)		**410.7**		412.0			
Cash flows from (used in):							
Operating activities	**$**	**564**	$	952	$	(388)	(40.8)%
Investing activities		**(173)**		(363)		190	(52.3)%
Financing activities		**(655)**		(575)		(80)	13.9 %
Dividends declared per common share ($)	**$**	**0.25**	$	0.245	$	0.005	2.0 %
Dividends declared per Second Preferred Share, Series A ($)		**—**		0.37			
Dividends declared per Second Preferred Share, Series B ($)		**0.33**		—			

(i) Depreciation and amortization for the calculation of adjusted EBITDA[(2)] excludes $124 million (2014 – $124 million) of amortization of intangible assets acquired with Shoppers Drug Mart for the fourth quarter of 2015.

Adjusted net earnings available to common shareholders of the Company[(2)] were $363 million ($0.88 per common share) in the fourth quarter of 2015 compared to $396 million ($0.96 per common share) in the fourth quarter of 2014. Net earnings available to common shareholders of the Company were $128 million ($0.31 per common share) in the fourth quarter of 2015 compared to $247 million ($0.60 per common share) in the fourth quarter of 2014.

The Company's comparative results were negatively impacted by the inclusion of the 53rd week of 2014. The 53rd week resulted in the following impacts to the Company's 2014 fourth quarter and full year results: $789 million of higher retail sales, $71 million of higher EBITDA, and estimated impacts on net earnings and basic net earnings per common share of $52 million and $0.13 per share, respectively.

The following comparisons exclude the impacts of the 53rd week.

Adjusted net earnings available to common shareholders of the Company[(2)] in the fourth quarter of 2015 were $363 million ($0.88 per common share), an increase of $19 million ($0.05 per common share) compared to 2014, excluding the impact of the 53rd week, primarily due to the following:

- consistent operating performance in the Retail segment, despite the impact of healthcare reform; with the unfavourable impact of non-recurring transactions that had positive impacts in the prior year and unfavourable foreign exchange impacts;
- a positive contribution from incremental net synergies;
- a reduction in depreciation and amortization in the Retail segment due to an increase in the estimated useful life of certain IT systems and lower depreciation on older IT and other store assets; and
- a reduction in adjusted net interest expense and other financing charges[(2)] primarily driven by repayments of the Acquisition Term Loan.

Net earnings available to common shareholders of the Company in the fourth quarter of 2015 were $128 million ($0.31 per common share), a decrease of $67 million ($0.16 per common share) compared to the fourth quarter of 2014. In addition to the items described above, the decrease in net earnings available to common shareholders of the Company[(2)] included the year-over-year impact of the following significant items:

- the unfavourable impact of the impairment of Drug retail ancillary assets held for sale of $112 million ($0.20 per common share);
- the unfavourable impact of the accelerated finalization of transitioning of certain grocery stores to more cost effective and efficient Labour Agreements of $55 million ($0.10 per common share); and
- the unfavourable impact of a charge related to inventory measurement associated with the conversion of all of its franchised grocery stores to the new IT systems of $33 million ($0.06 per common share); partially offset by
- the favourable impacts of the recognition of the fair value increment on the acquired Shoppers Drug Mart inventory sold in the prior year of $69 million ($0.12 per common share); and
- the favourable impact of a decrease in net interest expense and other financing charges, primarily due to the fair value adjustment to the Trust Unit Liability of $13 million ($0.04 per common share).

Revenue[(5)]

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		**2015** **(12 weeks)**		2014 (13 weeks)		$ Change	% Change
Retail	**$**	**10,606**	$	11,164	$	(558)	(5.0)%
Financial Services		**240**		231		9	3.9 %
Choice Properties		**191**		175		16	9.1 %
Consolidation and Eliminations		**(172)**		(157)		(15)	
Revenue	**$**	**10,865**	$	11,413	$	(548)	(4.8)%
53rd week				789			
Revenue excluding 53rd week	**$**	**10,865**	$	10,624	$	241	2.3 %

Revenue was $10,865 million in the fourth quarter of 2015, an increase of $241 million compared to the fourth quarter of 2014 primarily due to positive same-store sales growth in Food and Drug retail.

Adjusted EBITDA[(2),(5)]

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (12 weeks)		2014 (13 weeks)		$ Change	% Change
Retail	**$**	**823**	$	897	$	(74)	(8.2)%
Financial Services		**51**		51		—	— %
Choice Properties		**224**		223		1	0.4 %
Consolidation and Eliminations		**(217)**		(221)		4	
Adjusted EBITDA[(2)]	**$**	**881**	$	950	$	(69)	(7.3)%
53rd week				71			
Adjusted EBITDA[(2)] excluding 53rd week	**$**	**881**	$	879	$	2	0.2 %
Adjusted EBITDA margin[(2)]		**8.1%**		8.3%			

Adjusted EBITDA[(2)] was $881 million in the fourth quarter of 2015, an increase of $2 million, primarily driven by Choice Properties net of consolidation and eliminations, partially offset by the Retail segment. Adjusted EBITDA margin[(2)] was 8.1%, a decrease of 20 basis points compared to the fourth quarter of 2014. The Company experienced consistent performance in the Retail segment, but was negatively impacted by 20 basis points due to the following factors:

- non-recurring transactions that had positive impacts in the prior year; and
- unfavourable foreign exchange impacts; partially offset by
- a positive contribution from net synergies.

Net Interest Expense and Other Financing Charges

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)		2015 (12 weeks)		2014 (13 weeks)		$ Change	% Change
Net interest expense and other financing charges	**$**	**141**	$	169	$	(28)	(16.6)%
Add (deduct) impact of the following:							
Fair value adjustment to the Trust Unit Liability		**(7)**		(20)		13	
Accelerated amortization of deferred financing costs		**—**		(5)		5	
Adjusted net interest expense and other financing charges[(2)]	**$**	**134**	$	144	$	(10)	(6.9)%

Net interest expense and other financing charges were $141 million in the fourth of 2015, a decrease of $28 million compared to the fourth quarter of 2014. Adjusted net interest expense and other financing charges[(2)] were $134 million, a decrease of $10 million compared to the fourth quarter of 2014, primarily driven by repayments of the Acquisition Term Loan.

Depreciation and Amortization Depreciation and amortization was $376 million compared to $393 million in the fourth quarter of 2014. Excluding the amortization of intangible assets acquired with Shoppers Drug Mart of $124 million (2014 – $124 million), depreciation and amortization decreased by $17 million compared to the fourth quarter of 2014, primarily driven by a reduction in depreciation and amortization in the Retail segment due to an increase in the estimated useful life of certain IT systems and lower depreciation on older IT and other store assets.

Income Taxes

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (12 weeks)		2014 (13 weeks)		$ Change	% Change
Income taxes	$	48	$	91	$	(43)	(47.3)%
Add impact of the following:							
Tax impact of items included in adjusted earnings before taxes(2)		85		50		35	
Adjusted income taxes	$	133	$	141	$	(8)	(5.7)%
Effective tax rate		27.4%		26.9%			
Adjusted income tax rate(2)		26.9%		26.3%			

The effective tax rate in the fourth quarter of 2015 was 27.4% compared to 26.9% in the fourth quarter of 2014. The adjusted tax rate(2) in the fourth quarter of 2015 was 26.9% compared to 26.3% in the fourth quarter of 2014. The increase in the effective and adjusted income tax rate(2) was primarily attributable to the increase in current tax as a result of an increase in the Alberta statutory corporate income tax rate and an increase in certain other non-deductible items.

Cash Flow

Cash Flows from Operating Activities Cash flows from operating activities for the fourth quarter of 2015 were $564 million, a decrease in cash inflow of $388 million compared to the fourth quarter of 2014, primarily driven by lower cash earnings and an increase in credit card receivables.

Cash Flows used in Investing Activities Cash flows used in investing activities for the fourth quarter of 2015 were $173 million, a decrease in cash outflow of $190 million compared to the fourth quarter of 2014, primarily due to the release of funds from security deposits to fund the repayment of *Eagle* notes in the fourth quarter of 2015, partially offset by higher capital investments.

Cash Flows used in Financing Activities Cash flows used in financing activities for the fourth quarter of 2015 were $655 million, an increase in cash outflow of $80 million compared to the fourth quarter of 2014. In the fourth quarter of 2015, cash flows used in financing activities were primarily driven by common shares purchased for cancellation, net repayment of long term debt, change in bank indebtedness, as well as dividend and interest payments. In the fourth quarter of 2014, cash flows used in financing activities were primarily driven by net repayment of long term debt, change in bank indebtedness acquired with the Shoppers Drug Mart acquisition, as well as interest and dividend payments.

Capital Investments In the fourth quarter of 2015, the Company invested $433 million (2014 – $400 million) in fixed asset purchases and intangible asset additions.

Free Cash Flow(2) In the fourth quarter of 2015, free cash flow(2) was $36 million compared to $439 million in the fourth quarter of 2014. The decrease was primarily driven by the decrease in cash flows from operating activities.

Retail Segment Fourth Quarter Results of Operations

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)		2015 (12 weeks)		2014 (13 weeks)		$ Change	% Change
Sales	$	**10,606**	$	11,164	$	(558)	(5.0)%
Sales excluding 53rd week		***10,606***		*10,375*		*231*	*2.2 %*
Gross profit		**2,794**		2,925		(131)	(4.5)%
Gross profit excluding 53rd week		***2,794***		*2,725*		*69*	*2.5 %*
Adjusted gross profit(2)		**2,844**		2,994		(150)	(5.0)%
Adjusted gross profit(2) excluding 53rd week		***2,844***		*2,794*		*50*	*1.8 %*
Adjusted gross profit %(2)		**26.8%**		26.8%			
Adjusted gross profit %(2) excluding 53rd week		***26.8%***		*26.9%*			
Adjusted EBITDA(2)	$	**823**	$	897		(74)	(8.2)%
Adjusted EBITDA(2) excluding 53rd week		***823***		*826*		*(3)*	*(0.4)%*
Adjusted EBITDA margin(2)		**7.8%**		8.0%			
Depreciation and amortization	$	**369**	$	388		(19)	(4.9)%

For the periods ended January 2, 2016 and January 3, 2015	2015 (12 weeks)	2014 (12 weeks)
Food retail same-store sales growth	**2.4%**	2.4%
Drug retail same-store sales growth	**5.0%**	3.8%
Same-store pharmacy sales growth	**4.2%**	4.2%
Same-store front store sales growth	**5.7%**	3.6%

The Company's comparative results in the Retail segment were negatively impacted by the inclusion of the 53rd week, as previously described.

Sales Retail segment sales were $10,606 million in the fourth quarter of 2015 compared to $11,164 million of the fourth quarter of 2014.

- Food retail (Loblaw) sales were $7,631 million in the fourth quarter of 2015 (2014 – $8,110 million) and Drug retail (Shoppers Drug Mart) sales were $2,975 million in the fourth quarter of 2015 (2014 – $3,054 million).
  - Excluding the impact of the 53rd week, Food retail sales were $7,631 million in the fourth quarter of 2015 (2014 – $7,536 million) and Drug retail sales were $2,975 million in the fourth quarter of 2015 (2014 – $2,839 million).

Excluding the impact of the 53rd week of 2014, Retail segment sales increased by $231 million compared to the fourth quarter of 2014, primarily due to the following factors:

- Food retail same-store sales growth was 3.1% for the quarter, after excluding gas bar (0.5%) and the negative impact of a change in distribution model by a tobacco supplier (0.2%). Including these impacts, Food retail same-store sales growth was 2.4% (2014 – 2.4%).
  - The Company's Food retail average quarterly internal food price index was moderately higher than (2014 – slightly higher) the average quarterly national food price inflation of 4.1% (2014 – 3.5%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores;
  - Sales growth in food was strong;
  - Sales growth in pharmacy and health and beauty was moderate;
  - Sales in gas bar declined significantly, primarily driven by the decline in gas prices;
  - Sales in general merchandise, excluding apparel, were modest; and
  - Sales growth in retail apparel was moderate, while U.S. wholesale apparel sales declined significantly.

- Drug retail sales were comprised of pharmacy sales of $1,315 million, with same-store sales growth of 4.2% (2014 – 4.2%) and front store sales of $1,660 million, with same-store sales growth of 5.7% (2014 – 3.6%).
  - Same-store pharmacy sales growth was 4.2% (2014 – 4.2%);
    - the number of prescriptions dispensed decreased by 4.7% (2014 – increase of 13.8%). On a same-store basis, the number of prescriptions dispensed increased by 3.2% (2014 – 6.0%) and year-over-year, the average prescription value increased by 0.9% (2014 – decreased by 1.7%);
    - generic molecules comprised 63.7% of the prescriptions dispensed in 2015 compared to 62.5% in 2014; and
  - Same-store front store sales growth was 5.7% (2014 – 3.6%) across all front store categories.
- 47 food and drug stores were opened and 62 food and drug stores were closed in the 12 months ended January 2, 2016, resulting in a decrease in Retail net square footage of 0.1 million, or 0.1%, primarily driven by the Company's store closure plan announced during 2015.
- In 2014, the Company modified its fee arrangements with the franchisees of certain franchise banners. The modified arrangements resulted in an annual reduction of Food retail segment sales and gross profit with a corresponding decrease in SG&A. In the fourth quarter of 2015, the impact of the modified arrangements was a $32 million negative impact to Food retail sales and gross profit, with an offsetting $32 million positive impact to SG&A. In 2016, the Company will implement these modified fee arrangements with the remaining franchise banners. In 2016, the incremental impact of modified fee arrangements to the remaining franchise banners is expected to result in an annual reduction in Food retail segment sales and gross profit of approximately $60 million, with a corresponding decrease in SG&A.

Adjusted Gross Profit[(2)] Adjusted gross profit[(2)] was $2,844 million in the fourth quarter of 2015 compared to $2,994 million in the fourth quarter of 2014. Excluding the impact of the 53rd week of 2014, adjusted gross profit[(2)] was $50 million higher compared to the fourth quarter of 2014. Excluding the impact of the 53rd week, adjusted gross profit percentage[(2)] of 26.8% decreased by 10 basis points compared to the fourth quarter of 2014, and included the following impacts:

- a positive impact of approximately 30 basis points due to the consolidation of franchises, which commenced in the second quarter of 2015; and
- a negative impact of approximately 30 basis points from the above mentioned modification to certain franchise fee arrangements.

After excluding these impacts, adjusted gross profit percentage of 26.8% was 10 basis points lower compared to the fourth quarter of 2014 and reflects the following:

- a decline in Drug retail gross profit percentage primarily due to the impact of healthcare reform; partially offset by
- the achievement of operational synergies in both Food and Drug retail.

Adjusted EBITDA[(2)] Adjusted EBITDA[(2)] was $823 million in the fourth quarter of 2015 compared to $897 million in the fourth quarter of 2014. Excluding the impact of the 53rd week of 2014, adjusted EBITDA[(2)] decreased by $3 million compared to the fourth quarter of 2014, driven by an increase in SG&A of $53 million, or 10 basis points, partially offset by the increase in adjusted gross profit[(2)] described above. As a percentage of sales, the increase in SG&A was impacted by the following factors:

- a positive impact of approximately 30 basis points from the above mentioned modification to certain franchise fee arrangements, which was fully offset in gross profit above; and
- a negative impact of approximately 30 basis points due to the consolidation of franchises.

Excluding these impacts, as a percentage of sales, SG&A was essentially flat compared to 2014 and reflects the following:

- non-recurring transactions that had positive impacts in the prior year;
- unfavourable foreign exchange impacts;
- higher store and store support costs; partially offset by
- favourable changes in the fair value of the Company's investments in its franchise business.

Depreciation and Amortization Depreciation and amortization was $369 million in the fourth quarter of 2015, a decrease of $19 million compared to the fourth quarter of 2014, and included $124 million (2014 – $124 million) in amortization of intangible assets related to the acquisition of Shoppers Drug Mart. Excluding this amount, depreciation and amortization decreased by $19 million driven by:

- an increase in the estimated useful life of certain IT systems; and
- lower depreciation on older IT and other store assets.

Financial Services Segment Fourth Quarter Results of Operations[4]

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	2015 (12 weeks)	2014 (13 weeks)	$ Change	% Change
Revenue	**$ 240**	$ 231	$ 9	3.9 %
Adjusted EBITDA[2]	**51**	51	—	— %
Earnings before income taxes	**33**	35	(2)	(5.7)%

(millions of Canadian dollars except where otherwise indicated)	As at January 2, 2016	As at January 3, 2015	$ Change	% Change
Average quarterly net credit card receivables	**$ 2,642**	$ 2,535	$ 107	4.2%
Credit card receivables	**2,790**	2,630	160	6.1%
Allowance for credit card receivables	**54**	54	—	—%
Annualized yield on average quarterly gross credit card receivables	**13.6%**	13.7%		
Annualized credit loss rate on average quarterly gross credit card receivables	**4.3%**	4.4%		

Revenue Revenue was $240 million in the fourth quarter of 2015, an increase of $9 million, compared to the fourth quarter of 2014. The increase was primarily driven by:

- higher interest income attributable to growth in credit card receivables; and
- higher interchange income, which experienced more moderate growth than the corresponding increase in credit card receivables due to an industry-wide reduction in interchange rates by MasterCard®.

Adjusted EBITDA[2] Adjusted EBITDA[2] was $51 million in the fourth quarter of 2015, flat compared to the fourth quarter of 2014. Although flat, adjusted EBITDA[2] included the following:

- revenue growth as described above; offset by
- higher costs associated with the Financial Services loyalty program driven by higher transaction volumes.

Earnings before income taxes Earnings before income taxes were $33 million in the fourth quarter of 2015, a decrease of $2 million compared to the fourth quarter of 2014. The decrease was primarily driven by higher interest expenses to fund the growth in credit card receivables and higher depreciation related to an increased investment in IT.

Credit Card Receivables As at January 2, 2016, credit card receivables were $2,790 million, an increase of $160 million compared to January 3, 2015. This increase was primarily driven by a growth in the active customer base as a result of continued investments in customer acquisition, marketing and product initiatives. As at January 2, 2016, the allowance for credit card receivables was $54 million, flat compared to January 3, 2015 due to the strong credit performance from the receivables balance.

Choice Properties Segment Fourth Quarter Results of Operations[4]

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	2015 (12 weeks)	2014 (13 weeks)	$ Change	% Change
Revenue	**$ 191**	$ 175	$ 16	9.1%
Adjusted EBITDA[2]	**224**	223	1	0.4%
Net interest expense and other financing charges	**184**	137	47	34.3%
Adjusted funds from operations[2]	**82**	74	8	10.8%

Revenue Revenue was $191 million in the fourth quarter of 2015, an increase of $16 million, compared to the fourth quarter of 2014, and included $172 million (2014 – $157 million) generated from tenants within the Retail segment. The increase in revenue was primarily driven by:

- revenue from acquired properties; and
- an increase in base rent and recoveries of property tax and operating cost from existing properties.

Adjusted EBITDA[2] Adjusted EBITDA[2] was $224 million in the fourth quarter of 2015, an increase $1 million compared to the fourth quarter of 2014, primarily driven by:

- contributions from acquired properties; and
- an increase in base rent and net recoveries of property tax and operating cost from existing properties; partially offset by
- the change in the fair value adjustment on investment properties.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $184 million in the fourth quarter of 2015, an increase of $47 million compared to the fourth quarter of 2014. The increase was primarily driven by the fair value adjustment on Class B Limited Partnership units.

Adjusted Funds from Operations[2] Adjusted funds from operations[2] were $82 million in the fourth quarter of 2015, an increase of $8 million compared to the fourth quarter of 2014, primarily driven by higher contributions from property operations.

Other Matters In the fourth quarter of 2015, Choice Properties acquired four properties from the Company for a purchase price of approximately $45 million, excluding acquisition costs, for consideration of $31 million in cash and issuance of 1,294,701 Class B Limited Partnership units.

Subsequent to the end of 2015, Choice Properties entered into certain bond forward contracts with a notional value of $300 million. In addition, Choice Properties issued an early redemption notice for the $300 million Series 5 senior unsecured debenture at par, effective March 7, 2016.

10. Disclosure Controls and Procedures

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

As required by National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Executive Chairman, as Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO") have caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they have concluded that the design and operation of the system of disclosure controls and procedures were effective as at January 2, 2016.

11. Internal Control over Financial Reporting

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

As required by NI 52-109, the Executive Chairman, as CEO, and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control – Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at January 2, 2016.

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

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal control over financial reporting in the fourth quarter of 2015 that materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

12. Enterprise Risks and Risk Management

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

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

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

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

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

Risk monitoring and reporting On a quarterly basis, management provides an update to the Board (or a Committee of the Board) on the status of the key risks based on significant changes from the prior update, anticipated impacts in future quarters and significant changes in key risk indicators. In addition, the long term (three year) risk level is assessed to monitor potential long term risk impacts, which may assist in risk mitigation planning activities.

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

12.1 Operating Risks and Risk Management

The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Company's business, as included in the Company's Annual Information Form for the year ended January 2, 2016, which is hereby incorporated by reference:

Healthcare Reform	Franchisee Relationships
Cyber Security and Data Breaches	Labour Relations
IT Systems Implementations and Data Management	Regulatory and Tax
Inventory Management	Legal Proceedings
Shoppers Drug Mart Enterprise Harmonization and Synergies	Competitive Environment

Healthcare Reform With the acquisition of Shoppers Drug Mart, the Company is reliant on prescription drug sales for a more significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

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

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

The majority of prescription drug sales are reimbursed or paid by third party payers, such as governments, insurers or employers. These third party payers have pursued and continue to pursue measures to manage the costs of their drug plans. Each provincial jurisdiction has implemented legislative and/or other measures directed towards managing pharmacy service costs and controlling increasing drug costs incurred by public drug plans and private payers which impact pharmacy reimbursement levels and the availability of manufacturer allowances. Legislative measures to control drug costs include lowering of generic drug pricing, restricting or prohibiting the provision of manufacturer allowances and placing limitations on private label prescription drug products. Other measures that have been implemented by certain government payers include restricting the number of interchangeable prescription drug products which are eligible for reimbursement under provincial drug plans. Additionally, the Council of the Federation, an institution created by the provincial Premiers in 2003 to collaborate on intergovernmental relations, continues its work regarding cost reduction initiatives for pharmaceutical products and services.

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

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

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

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

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

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

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

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

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

IT Systems Implementations and Data Management The Company continues to undertake a major upgrade of its IT infrastructure. Completing the IT systems deployment will require continued focus and investment. Failure to successfully migrate from legacy systems to the new IT systems or a significant disruption in the Company's current IT systems during the implementation of the new systems could result in a lack of accurate data to enable management to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses. The Company also depends on relevant and reliable information to operate its business. As the volume of data being generated and reported continues to increase across the Company, data accuracy, quality and governance are required for effective decision making.

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

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

Shoppers Drug Mart Enterprise Harmonization and Synergies The successful implementation of the Shoppers Drug Mart acquisition requires significant effort on the part of management of the Company. Ineffective change management practices and harmonization decisions could cause disruptions to operations or may negatively impact colleague engagement. Management attention will be required in order to successfully achieve the appropriate culture transformation, growth opportunities and cost efficiencies envisioned in the acquisition. Failure to successfully execute enterprise harmonization or to realize the anticipated strategic benefits or operational, competitive and cost synergies associated with this acquisition could adversely affect the reputation, operations or financial performance of the Company.

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

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

Relationships with franchisees could pose significant risks if they are disrupted, which could negatively affect the reputation, operations and financial performance of the Company. Supply chain or system changes by the Company could cause or be perceived to cause disruptions to franchised store operations and could result in negative effects on the financial performance of franchisees. Reputational damage or adverse consequences for the Company, including litigation and disruption to revenue from franchised stores, could result.

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

Regulatory and Tax The Company is subject to a wide variety of laws and regulations across all countries in which it does business, including those laws involving product liability, labour and employment, anti-trust and competition, intellectual property, privacy, environmental and other matters. The Company is subject to taxation by various taxation authorities in Canada and a number of foreign jurisdictions. Changes to any of the laws, rules, regulations or policies (collectively, "laws") applicable to the Company's business, including tax laws, and laws affecting the production, processing, preparation, distribution, packaging and labelling of food, health and wellness, including pharmaceuticals, or general merchandise products, could have an adverse impact on the operational or financial performance of the Company.

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

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.

During the second quarter of 2015, the Company was reassessed by the CRA and the Ontario Ministry of Finance on the basis that certain income earned by 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. If the CRA were to ultimately prevail with respect to the proposed reassessment or if the CRA were to successfully pursue other reassessments, the outcome could have a material negative impact on the Company's reputation, results of operations and financial position in the year(s) of resolution.

As part of the review undertaken by the Competition Bureau of the Company's acquisition of Shoppers Drug Mart, it expressed concerns about practices that the Company has in place with certain suppliers. In connection with this review, the Competition Bureau issued requests for documents from the Company and 12 suppliers of the Company. The Company has and will continue to cooperate with the Competition Bureau in its review of these practices. At this stage of the review, it is not possible to predict when the review will be completed or the outcome of such review. If the Competition Bureau is not satisfied that the Company's practices satisfy the Competition Bureau's objectives of maintaining competitive markets, then the Competition Bureau may pursue remedies that could have a negative material impact on the Company's reputation, results of operations and financial position.

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.

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

Legal Proceedings From time to time, the Company is involved in and subject to legal proceedings, including class actions and other proceedings, regarding commercial relationships, employment matters, product liability, personal injury claims, protection of intellectual property and other matters. The proceedings involve suppliers, Associates, franchisees, regulators, tax authorities or other persons. The potential outcome of litigation proceedings and claims is uncertain. Some of these proceedings could result in a material adverse effect on the Company's reputation, results of operation or financial performance.

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.

Competitive Environment The retail industry in Canada is highly competitive. The Company competes against a wide variety of retailers including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, online retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drug store and general merchandise. Others remain focused on supermarket-type merchandise. In addition, the Company is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery and retail drug store markets. The Company's inability to effectively predict market activity or compete effectively with its current or future competitors could result in, among other things, reduced market share and reduced profitability. If the Company is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be adversely affected. The Company closely monitors its competitors and their strategies, market developments and market share trends. Failure by the Company to sustain its competitive position could adversely affect the Company's financial performance.

12.2 Financial Risks and Risk Management

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

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

Liquidity	Credit
Commodity Prices	Choice Properties' Unit Price
Foreign Currency Exchange Rates	Interest Rate Risk

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 risks 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.

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.

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.

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.

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.

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.

13. 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 Investments, Limited ("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 (52 weeks)**	2014 (53 weeks)
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.

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

Income Tax Matters From time to time, the Company, 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 (52 weeks)**	2014 (53 weeks)
Salaries, director fees and other short term employee benefits	**$ 6**	$ 9
Equity-based compensation	**4**	3
Total compensation	**$ 10**	$ 12

14. Critical Accounting Estimates and Judgments

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

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

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

14.1 Consolidation

Judgments Made in Relation to Accounting Policies Applied The Company uses judgment in determining the entities that it controls and therefore consolidates. The Company controls an entity when the Company has the existing rights that give it the current ability to direct the activities that significantly affect the 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).

14.2 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.

14.3 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 cash generating units ("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.

14.4 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.

14.5 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.

14.6 Income and Other Taxes

Judgments Made in Relation to Accounting Policies Applied The calculation of current and deferred income taxes requires management to make certain judgments 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.

14.7 Segment Information

Judgments Made in Relation to Determining the Aggregation of Operating Segments The Company uses judgment in assessing the criteria used to determine the aggregation of operating segments. The Retail reportable operating segment consists of several operating segments comprised primarily of food retail and Associate-owned drug stores, and also includes in-store pharmacies and 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.

15. Accounting Standards

15.1 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 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

Increase (Decrease) (millions of Canadian dollars)	As at January 3, 2015
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.

15.2 Future Accounting Standards

In 2016, the International Accounting Standards Board ("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.

16. Outlook[6]

Loblaw remains focused on its strategic framework, delivering the best in food, best in health and beauty, operational excellence and growth. This strategic framework is supported by a financial strategy of maintaining a stable trading environment that targets positive same-store sales and stable gross margin; surfacing efficiencies; delivering synergies as a result of its acquisition of Shoppers Drug Mart; and returning capital to shareholders. In 2016, the Company expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive grocery market and with continued negative pressure from healthcare reform;
- grow adjusted net earnings;
- invest approximately $1.3 billion in capital expenditures, including $1.0 billion in its Retail segment; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

17. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment adjusted gross profit, Retail segment adjusted gross profit percentage, EBITDA, adjusted EBITDA, adjusted EBITDA margin, adjusted net interest expense and other financing charges, adjusted income taxes, adjusted income tax rate, adjusted net earnings, adjusted basic net earnings per common share, free cash flow, adjusted return on equity and adjusted return on capital and with respect to Choice Properties: adjusted funds from operations. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

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

Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage Retail segment adjusted gross profit percentage is calculated as adjusted Retail segment gross profit divided by Retail segment sales. The Company believes that Retail segment adjusted gross profit is useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Retail segment gross profit	**$ 2,794**	$ 2,925	**$ 11,689**	$ 9,734
Add impact of the following:				
Impairment of Drug retail ancillary assets held for sale	**46**	—	**46**	—
Charge related to apparel inventory	**—**	—	**8**	—
Charge related to inventory measurement and other conversion differences	**4**	—	**4**	190
Recognition of fair value increment on inventory sold	**—**	69	**—**	798
Retail segment adjusted gross profit	**$ 2,844**	$ 2,994	**$ 11,747**	$ 10,722

Impairment of Drug retail ancillary assets held for sale In fourth quarter of 2015 and year-to-date, 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 associated with the write-down of the assets and other related restructuring charges. Of this amount, $46 million was recognized in gross profit and $66 million was recognized in SG&A.

Charge related to apparel inventory In 2015, the Company entered into an agreement to liquidate, in the U.S., certain older Canadian apparel inventory and recorded a charge of $8 million (2014 – nil).

Charge related to inventory measurement and other conversion differences for the Company's corporate and franchise grocery stores As of the end of 2015, the Company had completed the conversion of all of its franchised grocery stores to the new IT systems that include a perpetual inventory system. The re-measurement of inventory owned by the franchises as a result of implementing the system resulted in a decrease in inventory value of $33 million. The re-measurement resulted in a charge of $4 million in gross profit related to consolidated franchises and $29 million to SG&A related to non-consolidated franchises in the fourth quarter and year-to-date. During 2014, the Company completed the same conversion of its corporate grocery locations and associated distribution centres, resulting in a decrease of $190 million in inventory value and a charge of $190 million in gross profit.

Recognition of fair value increment on inventory sold In connection with the acquisition of Shoppers Drug Mart in 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 representing the difference between inventory cost and its fair value. This difference was recognized in cost of sales as the inventory was sold, with a resulting negative impact on gross profit. In the fourth quarter of 2014, $69 million and year-to-date $798 million was recognized in gross profit and operating income, representing the full amount of the fair value adjustment.

EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("EBITDA"), adjusted EBITDA and adjusted operating income to operating income, which is reconciled to GAAP net earnings measures reported in the consolidated statements of earnings for the periods ended January 2, 2016 and January 3, 2015. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

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

					2015 (12 weeks)					2014 (13 weeks)
(millions of Canadian dollars)	**Retail**	**Financial Services[(4)]**	**Choice Properties[(4)]**	**Consolidation and Eliminations**	**Consolidated**	Retail	Financial Services[(4)]	Choice Properties[(4)]	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					**$ 131**					$ 247
Add (deduct) impact of the following:										
Non-Controlling Interests					**(4)**					—
Net interest expense and other financing charges					**141**					169
Income taxes					**48**					91
Operating income	**$ 265**	**$ 48**	**$ 224**	**$ (221)**	**$ 316**	$ 459	$ 49	$ 223	$ (224)	$ 507
Depreciation and amortization	**369**	**3**	**—**	**4**	**376**	388	2	—	3	393
EBITDA	**$ 634**	**$ 51**	**$ 224**	**$ (217)**	**$ 692**	$ 847	$ 51	$ 223	$ (221)	$ 900
Operating income	**$ 265**	**$ 48**	**$ 224**	**$ (221)**	**$ 316**	$ 459	$ 49	$ 223	$ (224)	$ 507
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	**124**	**—**	**—**	**—**	**124**	124	—	—	—	124
Impairment of Drug retail ancillary assets held for sale	**112**	**—**	**—**	**—**	**112**	—	—	—	—	—
Labour agreements	**55**	**—**	**—**	**—**	**55**	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	**33**	**—**	**—**	**—**	**33**	—	—	—	—	—
Fixed asset and other related impairments, net of recoveries	**4**	**—**	**—**	**—**	**4**	1	—	—	—	1
Modifications to certain franchise fee arrangements	**(8)**	**—**	**—**	**—**	**(8)**	(40)	—	—	—	(40)
Pension annuities and buy-outs	**6**	**—**	**—**	**—**	**6**	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	**(6)**	**—**	**—**	**—**	**(6)**	4	—	—	—	4
Restructuring and other related costs	**(7)**	**—**	**—**	**—**	**(7)**	—	—	—	—	—
Recognition of fair value increment on inventory sold	**—**	**—**	**—**	**—**	**—**	69	—	—	—	69
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	**—**	**—**	**—**	**—**	14	—	—	—	14
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**—**	**—**	**—**	**—**	**—**	2	—	—	—	2
Adjusted operating income	**$ 578**	**$ 48**	**$ 224**	**$ (221)**	**$ 629**	$ 633	$ 49	$ 223	$ (224)	$ 681
Depreciation and amortization	**369**	**3**	**—**	**4**	**376**	388	2	—	3	393
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(124)**	**—**	**—**	**—**	**(124)**	(124)	—	—	—	(124)
Adjusted EBITDA	**$ 823**	**$ 51**	**$ 224**	**$ (217)**	**$ 881**	$ 897	$ 51	$ 223	$ (221)	$ 950

(millions of Canadian dollars)	2015 (52 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations	Consolidated	2014 (53 weeks) Retail	Financial Services(4)	Choice Properties(4)	Consolidation and Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					$ 632					$ 53
Add (deduct) impact of the following:										
Non-Controlling Interests					(9)					—
Net interest expense and other financing charges					644					584
Income taxes					334					25
Operating income	$1,429	$ 163	$ 601	$ (592)	$ 1,601	$ 497	$ 164	$ 568	$ (567)	$ 662
Depreciation and amortization	1,567	10	1	14	1,592	1,453	7	—	12	1,472
EBITDA	$2,996	$ 173	$ 602	$ (578)	$ 3,193	$ 1,950	$ 171	$ 568	$ (555)	$ 2,134
Operating income	$1,429	$ 163	$ 601	$ (592)	$ 1,601	$ 497	$ 164	$ 568	$ (567)	$ 662
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	536	—	—	—	536	417	—	—	—	417
Restructuring and other related costs	154	—	—	—	154	44	—	2	—	46
Impairment of Drug retail ancillary assets held for sale	112	—	—	—	112	—	—	—	—	—
Labour agreements	55	—	—	—	55	—	—	—	—	—
Charge related to inventory measurement and other conversion differences	33	—	—	—	33	190	—	—	—	190
Fixed asset and other related impairments, net of recoveries	13	—	—	—	13	15	—	1	—	16
Fair value adjustment on fuel and foreign currency contracts	(21)	—	—	—	(21)	4	—	—	—	4
Modifications to certain franchise fee arrangements	(8)	—	—	—	(8)	(40)	—	—	—	(40)
Charge related to apparel inventory	8	—	—	—	8	—	—	—	—	—
Pension annuities and buy-outs	8	—	—	—	8	—	—	—	—	—
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	2	—	—	—	2	72	—	—	—	72
Recognition of fair value increment on inventory sold	—	—	—	—	—	798	—	—	—	798
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	—	—	—	—	—	7	—	—	—	7
Adjusted operating income	$2,321	$ 163	$ 601	$ (592)	$ 2,493	$ 2,004	$ 164	$ 571	$ (567)	$ 2,172
Depreciation and amortization	1,567	10	1	14	1,592	1,453	7	—	12	1,472
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(536)	—	—	—	(536)	(417)	—	—	—	(417)
Adjusted EBITDA	$3,352	$ 173	$ 602	$ (578)	$ 3,549	$ 3,040	$ 171	$ 571	$ (555)	$ 3,227

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. During the fourth quarter of 2015, $124 million (2014 – $124 million) and year-to-date of $536 million (2014 – $417 million) of amortization was recognized in SG&A. Annual amortization associated with the acquired intangibles will be approximately $550 million over the next nine years, and will decrease thereafter.

Restructuring and other related costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. In addition to these ongoing initiatives, during 2015, the Company announced the closure of certain unprofitable retail locations, as set out in Section 6.1 "Retail Segment – Other Retail Business Matters".

Labour agreements Over the past five years, the Company has been transitioning stores to more cost effective and efficient operating terms under collective agreements. During the fourth quarter of 2015, the Company recorded a charge of $55 million related to the completion of these agreements.

Fixed asset and other related impairments, net of recoveries At each balance sheet date, the Company assesses and, when required, records impairments and recoveries of previous impairments related to the carrying value of its fixed assets, investment properties and intangible assets. In the fourth quarter of 2015, the Company recorded $4 million (2014 – $1 million) and year-to-date $13 million (2014 – $16 million) related to net fixed asset and other related impairments.

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. In the fourth quarter of 2015, the Company recorded a net fair value gain on fuel and foreign currency contracts of $6 million (2014 – loss of $4 million) and a year-to-date gain of $21 million (2014 – loss of $4 million). Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

Modifications to certain franchise fee arrangements The Company modified its fee arrangements with franchisees of certain franchise banners. As a result of this modification, the Company re-evaluated the recoverable amount of franchise-related financial instruments and the related previously recorded impairment. In the fourth quarter of 2015 and year-to-date, the Company recorded a reduction in previously recorded impairment of $8 million (2014 – $40 million).

Pension annuities and buy-outs In 2015, the Company completed several annuity purchases and pension buy-outs in respect of former employees designed to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks. In the fourth quarter of 2015 and year-to-date, the Company recorded a charge of $6 million (2014 – nil) and $8 million (2014 – nil), respectively.

Shoppers Drug Mart acquisition-related costs, net of impact from divestitures In the first quarter of 2015, the Company completed all divestitures required by the Competition Bureau and recorded a divestiture loss of $2 million. In the fourth quarter and year-to-date of 2014, the Company recorded net divestiture losses of $14 million and $12 million, respectively. Also during 2014, the Company incurred acquisition costs of $60 million year-to-date related to the agreement to acquire all of the outstanding common shares of Shoppers Drug Mart.

Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability In the second quarter of 2014, in conjunction with the acquisition, the Company converted certain Shoppers Drug Mart cash-settled equity-based compensation awards to cash-settled awards based on the Company's common shares. The Company is exposed to market price fluctuations in its common share price as these awards are settled in cash and the associated liability is recorded at fair value at each reporting date based on the market price of the Company's common share. In the fourth quarter and year-to-date 2014, the Company recorded a loss of $2 million and $7 million, respectively. On November 10, 2014, the Company amended these compensation awards to be settled in shares and is no longer exposed to market price fluctuations.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges in the consolidated statements of earnings for the periods ended January 2, 2016 and January 3, 2015. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars)	**2015** **(12 weeks)**	2014 (13 weeks)	**2015** **(52 weeks)**	2014 (53 weeks)
Net interest expense and other financing charges	**$ 141**	$ 169	**$ 644**	$ 584
Deduct impact of the following:				
Fair value adjustment to the Trust Unit Liability	**(7)**	(20)	**(81)**	(17)
Accelerated amortization of deferred financing costs	**—**	(5)	**(15)**	(23)
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	—	**—**	(15)
Adjusted net interest expense and other financing charges	**$ 134**	$ 144	**$ 548**	$ 529

Fair value adjustment to the Trust Unit Liability The Company is exposed to market price fluctuations as a result of the Units 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, subject to certain restrictions. This liability is recorded at fair value at each reporting date based on the market price of Units at the end of each period. In the fourth quarter of 2015, the Company recorded a loss of $7 million (2014 – loss of $20 million) and year-to-date a loss of $81 million (2014 – loss of $17 million) related to the fair value adjustment to the Trust Unit Liability. An increase (decrease) in market price of Units results in a charge (income) to net interest expense and other financing charges.

Accelerated amortization of deferred financing costs The Company recorded charges related to accelerated amortization of deferred financing costs due to the early repayments of the Acquisition Term Loan. In the fourth quarter and year-to-date, the Company recorded accelerated amortization charges of nil (2014 – $5 million) and $15 million (2014 – $23 million).

Shoppers Drug Mart acquisition-related costs, net of impact from divestitures In addition to the acquisition-related costs and divestitures loss recorded in operating income noted above, during the first quarter of 2014, $15 million of additional net interest expense was incurred in connection with the financing related to the acquisition of Shoppers Drug Mart. As of the acquisition date, these costs are no longer excluded from adjusted net interest expense and other financing charges as they are part of ongoing operations.

Adjusted Income Taxes and Adjusted Income Tax Rate The Company believes adjusted income taxes is useful in assessing the underlying operating performance and in making decisions regarding the ongoing operations of its business.

For the periods ended January 2, 2016 and January 3, 2015 (millions of Canadian dollars except where otherwise indicated)	**2015** **(12 weeks)**	2014 (13 weeks)	**2015** **(52 weeks)**	2014 (53 weeks)
Adjusted operating income(i)	**$ 629**	$ 681	**$ 2,493**	$ 2,172
Adjusted net interest expense and other financing charges(i)	**134**	144	**548**	529
Adjusted earnings before taxes	**$ 495**	$ 537	**$ 1,945**	$ 1,643
Income taxes	**$ 48**	$ 91	**$ 334**	$ 25
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(ii)	**85**	50	**229**	401
Provincial statutory corporate income tax rate change	**—**	—	**(38)**	—
Adjusted income taxes	**$ 133**	$ 141	**$ 525**	$ 426
Effective tax rate	**27.4%**	26.9%	**34.9%**	32.1%
Adjusted income tax rate	**26.9%**	26.3%	**27.0%**	25.9%

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

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

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

Provincial statutory corporate income tax rate change In the second quarter of 2015, the government of Alberta announced an increase in the provincial corporate income tax rate from 10% to 12%. The increase was effective July 1, 2015, but was enacted on June 19, 2015. As a result, the Company recorded a charge of $38 million in the second quarter of 2015 and year-to-date related to the re-measurement of its deferred tax liabilities.

Adjusted Net Earnings and Adjusted Basic Net Earnings Per Common Share The Company believes adjusted net earnings and adjusted basic net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

The following table reconciles adjusted basic net earnings per common share to GAAP basic net earnings per common share as reported for the periods ended January 2, 2016 and January 3, 2015:

($)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Basic net earnings per common share	**$ 0.31**	$ 0.60	**$ 1.52**	$ 0.14
Add (deduct) impact of the following:				
Amortization of intangible assets acquired with Shoppers Drug Mart	**0.22**	0.22	**0.96**	0.80
Restructuring and other related costs	**(0.01)**	—	**0.31**	0.09
Impairment of Drug retail ancillary assets held for sale	**0.20**	—	**0.20**	—
Fair value adjustment to the Trust Unit Liability(i)	**0.01**	0.05	**0.20**	0.04
Labour agreements	**0.10**	—	**0.10**	—
Provincial statutory corporate income tax rate change	**—**	—	**0.09**	—
Charge related to inventory measurement and other conversion differences	**0.06**	—	**0.06**	0.37
Fixed asset and other related impairments, net of recoveries	**0.01**	—	**0.02**	0.04
Fair value adjustment on fuel and foreign currency contracts	**(0.01)**	0.01	**(0.04)**	0.01
Modifications to certain franchise fee arrangements	**(0.02)**	(0.07)	**(0.02)**	(0.08)
Accelerated amortization of deferred financing costs	**—**	0.01	**0.03**	0.04
Charge related to apparel inventory	**—**	—	**0.02**	—
Pension annuities and buy-outs	**0.01**	—	**0.01**	—
Shoppers Drug Mart acquisition-related costs, net of impact from divestitures	**—**	0.02	**—**	0.19
Recognition of fair value increment on inventory sold	**—**	0.12	**—**	1.55
Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability	**—**	—	**—**	0.01
Adjusted basic net earnings per common share	**$ 0.88**	$ 0.96	**$ 3.46**	$ 3.20
Weighted average common shares outstanding (millions)	**410.7**	412.0	**411.5**	380.5
Adjusted net earnings attributable to shareholders of the Company (millions of Canadian dollars)	**$ 366**	$ 396	**$ 1,429**	$ 1,217
Less: Prescribed dividends on preferred shares in share capital (millions of Canadian dollars)	**(3)**	—	**(7)**	—
Adjusted net earnings available to common shareholders of the Company (millions of Canadian dollars)	**363**	396	**1,422**	1,217

(i) Gains or losses related to the fair value adjustment to the Trust Unit Liability are not subject to tax.

Free Cash Flow The following table reconciles free cash flow used in assessing the Company's financial condition to GAAP measures for the periods ended January 2, 2016 and January 3, 2015. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

(millions of Canadian dollars)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Cash flows from operating activities	**$ 564**	$ 952	**$ 3,079**	$ 2,569
Less:				
Capital investments	**433**	400	**1,241**	1,086
Interest paid	**95**	113	**491**	506
Free cash flow	**$ 36**	$ 439	**$ 1,347**	$ 977

Choice Properties' Adjusted Funds from Operations The following table reconciles Choice Properties' adjusted funds from operations to GAAP measures for the periods ended January 2, 2016 and January 3, 2015. The Company believes adjusted funds from operations is useful in measuring economic performance and is indicative of Choice Properties' ability to pay distributions.

(millions of Canadian dollars)	**2015 (12 weeks)**	2014 (13 weeks)	**2015 (52 weeks)**	2014 (53 weeks)
Net income (loss)	**$ 41**	$ 87	**$ (155)**	$ 200
Fair value adjustment on Class B Limited Partnership units	**96**	51	**411**	(12)
Fair value adjustment on investment properties	**(88)**	(98)	**(72)**	(82)
Fair value adjustments on unit-based compensation	**—**	—	**1**	(1)
Distributions on Class B Limited Partnership units	**52**	50	**203**	191
Amortization of tenant improvement allowances	**—**	—	**—**	1
Internal expenses for leasing	**—**	—	**1**	—
Funds from Operations	**$ 101**	$ 90	**$ 389**	$ 297
Restructuring	**$ —**	$ —	**$ —**	$ 2
Straight-line rental revenue	**(10)**	(9)	**(37)**	(35)
Amortization of finance charges	**—**	—	**(1)**	50
Unit-based compensation expense	**—**	—	**2**	2
Sustaining property and leasing capital expenditures, normalized(i)	**(9)**	(7)	**(40)**	(31)
Adjusted Funds from Operations	**$ 82**	$ 74	**$ 313**	$ 285

(i) Seasonality impacts the timing of capital expenditures. The adjusted funds from operations calculation has been adjusted for this factor to make the quarters more comparable.

18. Additional Information

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

February 24, 2016
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 120 of the Company's 2015 Annual Report.

(2) See Section 17 "Non-GAAP Financial Measures".

(3) Certain 2014 figures have been restated to conform with the current year's presentation. See Section 15.1 "Changes to Significant Accounting Policies" and Section 17 "Non-GAAP Financial Measures".

(4) For segment presentation purposes, the results are for the periods ended December 31, 2015 and December 31, 2014, consistent with Financial Services' and Choice Properties' fiscal calendars. Adjustments to January 2, 2016 and January 3, 2015 are included in Consolidation and Eliminations. See Section 17 "Non-GAAP Financial Measures" and Note 36 "Segment Information" in the Company's 2015 consolidated financial statements.

(5) The Company's comparative results were negatively impacted by the inclusion of an additional selling week, the 53rd week in 2014. The 53rd week resulted in the following impacts to the Company's 2014 fourth quarter and full year results: $789 million of higher retail sales, $71 million of higher EBITDA, and estimated impacts on net earnings and basic net earnings per common share of $52 million and $0.13 per share, respectively. The impact of the 53rd week on net earnings available to common shareholders of the Company is estimated based on operating income of the 53rd week and applying the effective tax rate for the fourth quarter of 2014. The impact of the 53rd week on basic net earnings per common share is based on the estimated net earnings available to common shareholders of the Company divided by the weighted average common shares outstanding for the fourth quarter and year-to-date of 2014, as applicable.

(6) To be read in conjunction with Section 1 "Forward-Looking Statements".