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Management's Statement of Responsibility for Financial Reporting

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

Management is also responsible to provide reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. A dedicated control compliance team reviews and evaluates internal controls, the results of which are shared with management on a quarterly basis. KPMG LLP, whose report follows, were appointed as independent auditors by a vote of the Company's shareholders to audit the consolidated financial statements.

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

Toronto, Canada
February 25, 2015

[signed]
Galen G. Weston
President and Executive Chairman

[signed]
Richard Dufresne
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Loblaw Companies Limited:

We have audited the accompanying consolidated financial statements of Loblaw Companies Limited, which comprise the consolidated balance sheets as at January 3, 2015 and December 28, 2013, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the 53 and 52 week years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Loblaw Companies Limited as at January 3, 2015 and December 28, 2013, and its consolidated financial performance and its consolidated cash flows for the 53 and 52 week years then ended in accordance with International Financial Reporting Standards.

Toronto, Canada
February 25, 2015

Chartered Professional Accountants, Licensed Public Accountants

Consolidated Statements of Earnings

For the years ended January 3, 2015 and December 28, 2013 (millions of Canadian dollars except where otherwise indicated)		2014		2013(i)
Revenue	**$**	**42,611**	$	32,371
Cost of Merchandise Inventories Sold (note 12)		**32,063**		24,701
Selling, General and Administrative Expenses		**9,886**		6,349
Operating Income	**$**	**662**	$	1,321
Net interest expense and other financing charges (note 6)		**584**		468
Earnings Before Income Taxes	**$**	**78**	$	853
Income taxes (note 7)		**25**		226
Net Earnings	**$**	**53**	$	627
Net Earnings per Common Share ($) (note 8)				
Basic	**$**	**0.14**	$	2.23
Diluted	**$**	**0.14**	$	2.21
Weighted Average Common Shares Outstanding (note 8) (millions)				
Basic		**380.5**		281.1
Diluted		**384.4**		284.1

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended January 3, 2015 and December 28, 2013 (millions of Canadian dollars)		2014		2013[i]
Net Earnings	$	53	$	627
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment	$	8	$	—
Gain on derecognized derivative instrument (note 30)		—		(5)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial (loss) gain (note 27)		(46)		234
Other comprehensive (loss) income	$	(38)	$	229
Total Comprehensive Income	$	15	$	856

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

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings[i]	Contributed Surplus	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity[i]
Balance at December 28, 2013	**$ 1,642**	**$ 5,271**	**$ 87**	**$ —**	**$ —**	**$ 7,000**
Net Earnings	**$ —**	**$ 53**	**$ —**	**$ —**	**$ —**	**$ 53**
Other comprehensive (loss) income	**—**	**(46)**	**—**	**8**	**—**	**(38)**
Total Comprehensive Income	**$ —**	**$ 7**	**$ —**	**$ 8**	**$ —**	**$ 15**
Acquisition of Shoppers Drug Mart Corporation (note 5 and 24)	**6,119**	**—**	**—**	**—**	**—**	**6,119**
Contribution from non-controlling interests (note 18)	**—**	**—**	**—**	**—**	**8**	**8**
Net effect of equity-based compensation (note 24 and 26)	**156**	**(1)**	**17**	**—**	**—**	**172**
Net effect of shares held in trust (note 24 and 26)	**3**	**19**	**—**	**—**	**—**	**22**
Common shares purchased for cancellation (note 24)	**(63)**	**(115)**	**—**	**—**	**—**	**(178)**
Dividends declared per common share – $0.975 (note 24)	**—**	**(371)**	**—**	**—**	**—**	**(371)**
	$ 6,215	**$ (461)**	**$ 17**	**$ 8**	**$ 8**	**$ 5,787**
Balance at January 3, 2015	**$ 7,857**	**$ 4,810**	**$ 104**	**$ 8**	**$ 8**	**$ 12,787**

(millions of Canadian dollars except where otherwise indicated)	Common Share Capital	Retained Earnings[i]	Contributed Surplus	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity[i]
Balance at December 29, 2012	$ 1,567	$ 4,777	$ 55	$ 5	$ —	$ 6,404
Net earnings	$ —	$ 627	$ —	$ —	$ —	$ 627
Other comprehensive income (loss)	—	234	—	(5)	—	229
Total Comprehensive Income (Loss)	$ —	$ 861	$ —	$ (5)	$ —	$ 856
Net effect of equity-based compensation (note 24 and 26)	90	—	32	—	—	122
Net effect of shares held in trust (note 24 and 26)	(6)	(39)	—	—	—	(45)
Common shares purchased for cancellation (note 24)	(9)	(64)	—	—	—	(73)
Dividends declared per common share – $0.940 (note 24)	—	(264)	—	—	—	(264)
	$ 75	$ 494	$ 32	$ (5)	$ —	$ 596
Balance at December 28, 2013	$ 1,642	$ 5,271	$ 87	$ —	$ —	$ 7,000

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

See accompanying notes to the consolidated financial statements.

Consolidated Balance Sheets

(millions of Canadian dollars)	As at January 3, 2015	As at December 28, 2013[i]
Assets		
Current Assets		
Cash and cash equivalents (note 9)	**$ 999**	$ 2,260
Short term investments (note 9)	**21**	290
Accounts receivable (note 10)	**1,209**	579
Credit card receivables (note 11)	**2,630**	2,538
Inventories (note 12)	**4,309**	2,097
Prepaid expenses and other assets	**214**	75
Assets held for sale (note 13)	**23**	22
Total Current Assets	**$ 9,405**	$ 7,861
Fixed Assets (note 14)	**10,794**	9,105
Investment Properties (note 15)	**185**	99
Intangible Assets (note 16)	**9,177**	111
Goodwill (note 17)	**3,243**	943
Deferred Income Tax Assets (note 7)	**193**	261
Security Deposits (note 9)	**7**	1,701
Franchise Loans Receivable (note 30)	**399**	375
Other Assets (note 19)	**281**	285
Total Assets	**$ 33,684**	$ 20,741
Liabilities		
Current Liabilities		
Bank indebtedness (note 33)	**$ 162**	$ —
Trade payables and other liabilities	**4,672**	3,797
Provisions (note 21)	**84**	66
Income taxes payable	**34**	37
Short term debt (note 20)	**605**	605
Long term debt due within one year (note 22)	**420**	1,008
Associate interest	**193**	—
Capital securities (note 24)	**225**	—
Total Current Liabilities	**$ 6,395**	$ 5,513
Provisions (note 21)	**76**	56
Long Term Debt (note 22)	**11,042**	6,672
Trust Unit Liability (note 30)	**722**	688
Deferred Income Tax Liabilities (note 7)	**1,880**	34
Capital Securities (note 24)	**—**	224
Other Liabilities (note 23)	**782**	554
Total Liabilities	**$ 20,897**	$ 13,741
Equity		
Share Capital (note 24)	**$ 7,857**	$ 1,642
Retained Earnings	**4,810**	5,271
Contributed Surplus (note 26)	**104**	87
Accumulated Other Comprehensive Income	**8**	—
Total Equity Attributable to Shareholders of the Company	**12,779**	7,000
Non-Controlling Interests (note 18)	**8**	—
Total Equity	**$ 12,787**	$ 7,000
Total Liabilities and Equity	**$ 33,684**	$ 20,741

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

Leases (note 29). Contingent Liabilities (note 32). Financial Guarantees (note 33). Subsequent Events (note 36).

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended January 3, 2015 and December 28, 2013 (millions of Canadian dollars)		2014		2013[i]
Operating Activities				
Net earnings	**$**	**53**	$	627
Income taxes (note 7)		**25**		226
Net interest expense and other financing charges (note 6)		**584**		468
Depreciation and amortization		**1,472**		824
Income taxes paid		**(293)**		(272)
Interest received		**29**		49
Settlement of equity forward contracts (note 30)		**—**		(16)
Settlement of cross currency swaps (note 30)		**—**		94
Change in credit card receivables (note 11)		**(92)**		(233)
Change in non-cash working capital		**(321)**		(224)
Fixed asset and other related impairments (recoveries)		**16**		(32)
Loss (gain) on disposal of assets		**3**		(1)
Recognition of fair value increment on inventory sold (note 12)		**798**		—
Charge related to inventory measurement and other conversion differences (note 12)		**190**		—
Gain on defined benefit plan amendments (note 27)		**—**		(51)
Other		**105**		32
Cash Flows from Operating Activities	**$**	**2,569**	$	1,491
Investing Activities				
Acquisition of Shoppers Drug Mart Corporation, net of cash acquired (note 5)	**$**	**(6,619)**	$	—
Fixed asset purchases		**(996)**		(865)
Change in short term investments (note 9)		**269**		451
Proceeds from disposal of assets		**129**		26
Change in franchise investments and other receivables		**(25)**		5
Change in security deposits (note 9)		**1,694**		(1,444)
Intangible asset additions		**(90)**		(12)
Investment in joint venture		**(6)**		—
Other		**(40)**		—
Cash Flows used in Investing Activities	**$**	**(5,684)**	$	(1,839)
Financing Activities				
Change in bank indebtedness	**$**	**(133)**	$	—
Change in Associate interest		**19**		—
Change in short term debt		**—**		(300)
Long Term Debt (note 22)				
Issued		**5,865**		2,770
Retired		**(3,336)**		(871)
Deferred debt financing costs		**(28)**		(21)
Issuance of Trust Units (note 30)		**1**		660
Trust Unit issuance costs		**—**		(44)
Interest paid		**(506)**		(370)
Dividends paid (note 24)		**(496)**		(259)
Share capital (note 24)				
Issued		**629**		75
Purchased and held in trust		**—**		(46)
Purchased for cancellation		**(178)**		(73)
Contribution from non-controlling interests (note 18)		**8**		—
Cash Flows from Financing Activities	**$**	**1,845**	$	1,521
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$**	**9**	$	8
Change in cash and cash equivalents	**$**	**(1,261)**	$	1,181
Cash and cash equivalents, beginning of year		**2,260**		1,079
Cash and Cash Equivalents, end of year	**$**	**999**	$	2,260

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

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the years ended January 3, 2015 and December 28, 2013 (millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

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

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

In 2014, the Company acquired all of the outstanding shares of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") (see note 5).

The Company has three reportable operating segments: Retail, Financial Services and Choice Properties (see note 35).

Note 2. Significant Accounting Policies

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

The consolidated financial statements were authorized for issuance by the Company's Board of Directors ("Board") on February 25, 2015.

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

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

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

The consolidated financial statements are presented in Canadian dollars.

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

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

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

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

Choice Properties' Trust Units ("Units") held by unitholders other than the Company are presented as a Trust Unit Liability in the consolidated financial statements, as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at the end of the fourth quarter of 2014, the Company held an 82.9% ownership interest in Choice Properties.

The Company consolidates the Shoppers Drug Mart licensees ("Associates"). An Associate is a pharmacist-owner of a corporation that is licensed to operate a retail drug store at a specific location using Shoppers Drug Mart's trademarks. The consolidation of the Associates is based on the concept of control, for accounting purposes, which was determined to exist primarily through Shoppers Drug Mart's agreements that govern the relationship between Shoppers Drug Mart and the Associates ("Associate Agreements"). The Company does not have any direct or indirect shareholdings in the corporations that operate the Associates. Accordingly, included in the consolidated financial statements is associate interest to reflect the investment the Associates have in the net assets of their businesses. Under the terms of the Associate Agreements, Shoppers Drug Mart agrees to purchase the assets that the Associates use in store operations, primarily at the carrying value to the Associate, when Associate Agreements are terminated by either party.

Fiscal Year The fiscal year of the Company ends on the Saturday closest to December 31. Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle, which periodically necessitates a fiscal year of 53 weeks. The years ended January 3, 2015 and December 28, 2013 contained 53 weeks and 52 weeks, respectively.

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

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

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

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

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

On the initial sale of franchising arrangements, the Company offers products and services as part of a multiple deliverable arrangement, which is recorded using a relative fair value approach.

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

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

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

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

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

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

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

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

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

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

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

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

Accounts Receivable Accounts receivable, net of allowances for doubtful accounts, include amounts due from independent franchisees, government, prescription sales and third-party drug plans, independent accounts and amounts owed from vendors.

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

The Company periodically transfers credit card receivables by selling them to and repurchasing them from independent securitization trusts. PC Bank is required to absorb a portion of the related credit losses. As a result, the Company has not transferred all of the risks and rewards related to these assets and continues to recognize these assets in credit card receivables. The transferred receivables are accounted for as financing transactions. The Company consolidates *Eagle Credit Card Trust® ("Eagle")*, one of the independent securitization trusts, as a structured entity. The associated liabilities secured by these assets are included in either short term debt or long term debt based on their characteristics and are carried at amortized cost.

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

Franchise Loans Receivable Franchise loans receivable are comprised of amounts due from independent franchisees for loans issued through a consolidated independent funding trust. Each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan or the default is not otherwise remedied, the independent funding trust would assign the loan to the Company and draw upon a standby letter of credit. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit. The carrying amount of franchise loan receivables approximates fair value.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bank Indebtedness Bank indebtedness is comprised of Associate bank lines of credit.

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

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

Financial derivative instruments in the form of cross currency swaps, interest rate swaps, foreign exchange forwards and equity forwards, as well as non-financial derivatives in the form of futures contracts, options contracts and forward contracts, are recorded at fair value on the consolidated balance sheets. The Company does not use derivative instruments for speculative purposes. Any embedded derivative instruments that may be identified are separated from their host contract and recorded on the consolidated balance sheets at fair value. Derivative instruments are recorded in current or non-current assets and liabilities based on their remaining terms to maturity. All changes in fair values of the derivative instruments are recorded in net earnings unless the derivative qualifies and is effective as a hedging instrument in a designated hedging relationship.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Standards Implemented in 2014 and Changes to Significant Accounting Policies

The Company implemented the amendments to International Accounting Standards ("IAS") 32, "Financial Instruments: Presentation" and International Financial Reporting Interpretations Committee ("IFRIC") 21, "Levies" retrospectively in 2014. There was no significant impact on the Company's annual audited consolidated financial statements as a result of the implementation of these standards.

Vendor Allowances The timing of recognition of vendor allowances requires judgment to determine the point at which the Company has earned the allowance. In conjunction with the acquisition of Shoppers Drug Mart, management reviewed the timing of recognition of certain vendor allowances and has determined that it would be appropriate to align the policies of both companies. The Company has implemented the change retrospectively in 2014, as follows:

Consolidated Statement of Earnings and Comprehensive Income

Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)		2013
Cost of Merchandise Inventories Sold	$	5
Operating Income	$	(5)
Earnings Before Income Taxes	$	(5)
Income taxes		(2)
Net Earnings	$	(3)
Total Comprehensive Income	$	(3)
Net Earnings per Common Share ($)		
Basic	$	(0.01)
Diluted	$	(0.01)

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)		As at December 28, 2013		As at December 30, 2012
Accounts receivable	$	(39)	$	(32)
Inventories		13		11
Deferred Income Tax Assets		8		6
Total Equity Attributable to Shareholders of the Company	$	(18)	$	(15)

Note 3. Critical Accounting Estimates and Judgments

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

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

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

Consolidation

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

Inventories

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

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

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

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

Franchise Loans Receivable and Certain Other Financial Assets

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

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

Loyalty 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 trends in breakage are reviewed on an ongoing basis and the estimated retail value per point is adjusted based on expected future activity.

Income and Other Taxes

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

Note 4. Future Accounting Standards

In May 2014, the IASB issued IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"). 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, 2017, 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 July 2014, the IASB issued IFRS 9, "Financial Instruments", replacing IAS 39, "Financial Instruments: Recognition and Measurement." 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 December 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. Early adoption is permitted. The Company is currently assessing the impact of the IAS 1 amendments on its consolidated financial statements.

Note 5. Acquisition of Shoppers Drug Mart Corporation

On March 28, 2014, the Company acquired all of the outstanding shares of Shoppers Drug Mart for total consideration of $12,273 million, comprised of approximately $6,600 million of cash and the issuance of approximately 119.5 million common shares of the Company.

The cash portion of the acquisition of Shoppers Drug Mart was financed as follows:

- $3,500 million unsecured term loan facility (see note 22);
- $1,600 million of proceeds from the issuance of unsecured notes in 2013 (see note 9);
- $500 million was received in consideration of the issuance of 10.5 million common shares to Weston; and
- approximately $1,000 million was used from cash on hand.

The preliminary purchase equation is based on management's current best estimates of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The preliminary purchase price allocation as at March 28, 2014 is as follows:

(millions of Canadian dollars)

Net Assets Acquired:	
Cash and cash equivalents	$ 27
Accounts receivable	534
Inventories	3,003
Prepaid expenses and other assets	67
Fixed assets	1,792
Investment properties	16
Intangible assets	9,440
Goodwill	2,285
Deferred income tax assets	68
Other assets	7
Bank indebtedness	(295)
Trade payables and other liabilities	(924)
Income taxes payable	(11)
Associate interest	(174)
Provisions	(19)
Long term debt	(1,127)
Deferred income tax liabilities	(2,252)
Other liabilities	(164)
Total Net Assets Acquired	$ 12,273

As at January 3, 2015, the Company has not yet finalized the above purchase price allocation. In the fourth quarter of 2014, the Company revised its fair value estimate of intangible assets and updated the purchase price equation. The result was to decrease intangible assets by $35 million to $9,440 million, decrease deferred income tax liabilities by $9 million to $2,252 million and increase goodwill by $26 million to $2,285 million. The Company has one year from the date of acquisition to finalize the fair value of net tangible assets, goodwill and intangible assets and any further changes to the amounts presented above will be reflected in the first half of 2015.

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

Intangible assets are comprised of the following:

(millions of Canadian dollars)

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

Pursuant to a Consent Agreement reached with the Competition Bureau in 2014, the Company was required to divest 16 Shoppers Drug Mart stores, two of the Company's franchise grocery stores, as well as nine of the Company's in-store pharmacy operations. As at January 3, 2015, the Competition Bureau has approved the sale of all properties. During 2014, the divestitures of all but three Shoppers Drug Mart stores were completed (see note 36) and the Company received total proceeds of $60 million and recorded a loss of $12 million in operating income related to divestitures that have been completed.

The Company has incurred costs of $75 million (2013 – $31 million) related to the acquisition of Shoppers Drug Mart, of which $60 million (2013 – $6 million) was recorded in SG&A and $15 million (2013 – $25 million) was recorded in net interest expense and other financing charges.

Upon closing of the acquisition, all amounts owing on Shoppers Drug Mart's revolving bank credit facility were repaid and the facility was cancelled. In addition, upon closing, the Company guaranteed the outstanding principal amount of Shoppers Drug Mart medium term notes ("MTNs") of $500 million, along with accrued interest. The Company has also provided guarantees to various Canadian banks in support of the financing obtained by Shoppers Drug Mart's Associates (see note 33).

Included in the consolidated statement of earnings for the year ended January 3, 2015 are approximately $9,100 million in revenue and approximately $542 million in net earnings contributed by Shoppers Drug Mart, since the date of acquisition, excluding the impact of purchase price adjustments, acquisition costs and divestitures required by the Competition Bureau.

On a combined pro forma basis for 2014, the Company's total revenue would have amounted to approximately $45,100 million and the Company's net earnings would have amounted to approximately $83 million. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective December 29, 2013.

Note 6. Net Interest Expense and Other Financing Charges

(millions of Canadian dollars)		2014		2013
Interest expense and other financing charges:				
Long term debt	$	466	$	287
Choice Properties Initial Public Offering transaction costs		—		44
Early debt settlement costs (note 22)		—		18
Shoppers Drug Mart acquisition-related costs (note 5)		18		30
Borrowings related to credit card receivables		37		39
Trust Unit distributions		44		21
Post-employment and other long term employee benefits (note 27)		12		23
Independent funding trusts		15		15
Dividends on capital securities (note 24)		14		14
Fair value adjustment of Trust Unit Liability (note 30)		17		27
Bank indebtedness (note 33)		6		—
Capitalized interest (capitalization rate 6.2% (2013 – 6.4%)) (note 14 and 16)		(4)		(2)
	$	625	$	516
Interest income:				
Accretion income	$	(25)	$	(21)
Derivative financial instruments		—		(10)
Short term interest income		(12)		(11)
Security deposits(i)		(4)		(6)
	$	(41)	$	(48)
Net interest expense and other financing charges	$	584	$	468

(i) Includes interest income of $3 million (2013 – $5 million) related to $1,599 million of proceeds from the issuance of senior unsecured notes previously held in escrow (see note 9), which were used to partially fund the acquisition of all of the outstanding common shares of Shoppers Drug Mart (see note 5).

Note 7. Income Taxes

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

(millions of Canadian dollars)		2014		2013
Current income taxes:				
Current period	$	297	$	287
Adjustment in respect of prior periods		(18)		(1)
	$	279	$	286
Deferred income taxes:				
Origination and reversal of temporary differences		(273)		(50)
Adjustment in respect of prior periods		19		(10)
		(254)		(60)
Income taxes	$	25	$	226

Income tax (recovery) expense recognized in other comprehensive income (loss) was as follows:

(millions of Canadian dollars)	2014	2013
Defined benefit plan actuarial (loss) income	**$ (16)**	$ 85
Derecognized derivative instrument	**—**	(2)
Other comprehensive (loss) income	**$ (16)**	$ 83

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

	2014	2013
Weighted average basic Canadian federal and provincial statutory income tax rate	**26.1%**	26.0%
Net increase (decrease) resulting from:		
Effect of tax rate in foreign jurisdictions	**(3.2)**	(0.6)
Non-deductible items	**2.2**	1.7
Impact of fair value adjustments of the Trust Unit Liability	**5.8**	0.8
Impact of statutory income tax rate changes on deferred income tax balances	**—**	(0.1)
Adjustments in respect of prior periods	**1.2**	(1.3)
Effective income tax rate applicable to earnings before income taxes	**32.1%**	26.5%

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

(millions of Canadian dollars)	2014	2013
Deductible temporary differences	**$ 19**	$ 12
Income tax losses	**57**	29
Unrecognized deferred tax assets	**$ 76**	$ 41

The income tax losses expire in the years 2027 to 2034. The deductible temporary differences do not expire under current income tax legislation. Deferred income tax assets were not recognized in respect of these items because it is not probable that future taxable income will be available to the Company to utilize the benefits.

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

(millions of Canadian dollars)	**As at January 3, 2015**	As at December 28, 2013
Trade payables and other liabilities	**$ 56**	$ 48
Other liabilities	**347**	243
Fixed assets	**(517)**	(356)
Goodwill and intangible assets	**(1,816)**	(4)
Other assets	**10**	38
Non-capital loss carryforwards (expiring 2030 to 2034)	**161**	201
Capital loss carryforwards	**20**	1
Other	**52**	56
Net deferred income tax (liabilities) assets	**$ (1,687)**	$ 227
Recorded on the consolidated balance sheets as follows:		
Deferred income tax assets	**193**	261
Deferred income tax liabilities	**(1,880)**	(34)
Net deferred income tax (liabilities) assets	**$ (1,687)**	$ 227

Note 8. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**2014**	2013
Net earnings	**$ 53**	$ 627
Weighted average common shares outstanding (note 24) (in millions)	**380.5**	281.1
Dilutive effect of equity-based compensation (in millions)	**3.4**	2.1
Dilutive effect of certain other liabilities (in millions)	**0.5**	0.9
Diluted weighted average common shares outstanding (in millions)	**384.4**	284.1
Basic net earnings per common share ($)	**$ 0.14**	$ 2.23
Diluted net earnings per common share ($)	**$ 0.14**	$ 2.21

Excluded from the computation of diluted net earnings per common share were 10,620,095 (2013 – 11,503,993) potentially dilutive instruments, as they were anti-dilutive.

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

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

Cash and Cash Equivalents

(millions of Canadian dollars)	As at January 3, 2015	As at December 28, 2013
Cash	$ 464	$ 515
Cash equivalents:		
Bankers' acceptances	57	270
Government treasury bills	463	1,420
Bank term deposits	—	42
Corporate commercial paper	15	13
Total cash and cash equivalents	$ 999	$ 2,260

Short Term Investments

(millions of Canadian dollars)	As at January 3, 2015	As at December 28, 2013
Bankers' acceptances	$ 2	$ 162
Government treasury bills	17	98
Corporate commercial paper	1	—
Government agencies securities	—	30
Other	1	—
Total short term investments	$ 21	$ 290

Security Deposits

(millions of Canadian dollars)	As at January 3, 2015	As at December 28, 2013
Cash	$ 7	$ 102
Government treasury bills(i)	—	1,599
Total security deposits	$ 7	$ 1,701

(i) As at December 28, 2013, Government treasury bills included $1,599 million of proceeds from the issuance of senior unsecured notes that were held in escrow as part of the financing for the acquisition of Shoppers Drug Mart. In 2014, the Company completed the acquisition of Shoppers Drug Mart and the proceeds were released from escrow (see note 5).

As at January 3, 2015, the Company had agreements to cash collateralize certain of its uncommitted credit facilities up to an amount of $141 million (December 28, 2013 – $136 million), of which $7 million (December 28, 2013 – $102 million) was deposited with major financial institutions and classified as security deposits.

Note 10. Accounts Receivable

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

(millions of Canadian dollars)				**As at January 3, 2015**				As at December 28, 2013
	0-90 days	**91-180 days**	**> 180 days**	**Total**	0-90 days	91-180 days	> 180 days	Total
Accounts receivable	**$ 1,104**	**$ 38**	**$ 67**	**$ 1,209**	$ 546	$ 17	$ 16	$ 579

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

(millions of Canadian dollars)	**2014**	2013
Allowance, beginning of year	**$ (118)**	$ (110)
Net reversals (additions)	**22**	(8)
Allowance, end of year	**$ (96)**	$ (118)

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

Note 11. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at January 3, 2015**	As at December 28, 2013
Gross credit card receivables	**$ 2,684**	$ 2,585
Allowance for credit card receivables	**(54)**	(47)
Credit card receivables	**$ 2,630**	$ 2,538
Securitized to independent securitization trusts:		
Securitized to *Eagle Credit Card Trust*®	**$ 750**	$ 750
Securitized to Other Independent Securitization Trusts	**605**	605

The Company, through PC Bank, participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. PC Bank sells and repurchases credit card receivables with independent securitization trusts, including *Eagle* and Other Independent Securitization Trusts, from time to time, depending on PC Bank's financing requirements.

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

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

Under its securitization programs, PC Bank is required to maintain at all times a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability and was in compliance with this requirement as at January 3, 2015 and throughout the year.

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

(millions of Canadian dollars)	**As at January 3, 2015**				As at December 28, 2013			
	Current	**1-90 days past due**	**> 90 days past due**	**Total**	Current	1-90 days past due	> 90 days past due	Total
Gross credit card receivables	**$ 2,505**	**$ 150**	**$ 29**	**$ 2,684**	$ 2,416	$ 142	$ 27	$ 2,585

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

(millions of Canadian dollars)	**2014**	2013
Allowances, beginning of year	**$ (47)**	$ (43)
Provision for losses	**(121)**	(105)
Recoveries	**(19)**	(14)
Write-offs	**133**	115
Allowances, end of year	**$ (54)**	$ (47)

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

Note 12. Inventories

For inventories recorded as at January 3, 2015, the Company recorded $23 million (December 28, 2013 – $16 million) as an expense for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during 2014 and 2013.

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

As at the end of 2014, with the upgrade of its information technology ("IT") infrastructure, the Company had completed the conversion of substantially all of its corporate grocery stores to the new systems. The implementation of a perpetual inventory system, combined with visibility to integrated costing information provided by the new IT systems, enabled the Company to estimate the cost of inventory using a more precise system-generated average cost. As a result of the conversion, the Company recognized a $190 million charge to cost of merchandise inventories sold and a corresponding reduction in inventory, representing the estimate of the difference between the measurement of the cost of corporate grocery store inventory using a system generated weighted average cost compared to the retail inventory method and other conversion differences associated with the implementation of a perpetual inventory system.

Note 13. Assets Held for Sale

The Company holds land and buildings as assets held for sale that it intends to dispose of in the next 12 months. These assets were previously used in the Company's retail business segment. There were no impairment or other charges recognized on these properties during 2014 (2013 – nil). In 2014, the Company recorded a $4 million gain (2013 – $7 million) from the sale of these assets, excluding the impact of completed divestitures related to the acquisition of Shoppers Drug Mart (see note 5).

As a condition to receiving the approval of the Competition Bureau in relation to the acquisition of Shoppers Drug Mart, the Company was required to divest 16 Shoppers Drug Mart stores, two of the Company's franchise grocery stores, as well as nine of the Company's in-store pharmacy operations. During 2014, a $12 million net loss was recorded in operating income from the divestiture of properties required by the Competition Bureau related to the acquisition of Shoppers Drug Mart.

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

Note 14. Fixed Assets

The following are continuities of the cost and accumulated depreciation of fixed assets for the years ended January 3, 2015 and December 28, 2013:

	2014						
(millions of Canadian dollars)	Land	Buildings	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	$ 1,678	$ 6,849	$ 6,424	$ 846	$ 567	$ 596	$ 16,960
Additions	7	13	101	82	102	776	1,081
Business acquisitions(i)	88	268	374	830	162	72	1,794
Disposals	(11)	(13)	(108)	(11)	(14)	(13)	(170)
Net transfer to assets held for sale	(5)	(16)	(11)	(14)	—	—	(46)
Net transfer (to) from investment properties	5	12	—	—	—	(73)	(56)
Transfer from assets under construction	38	255	472	32	—	(797)	—
Balance, end of year	$ 1,800	$ 7,368	$ 7,252	$ 1,765	$ 817	$ 561	$ 19,563
Accumulated depreciation and impairment losses							
Balance, beginning of year	$ 2	$ 2,429	$ 4,663	$ 493	$ 261	$ 7	$ 7,855
Depreciation	—	201	658	132	47	1	1,039
Impairment losses	1	11	12	13	1	2	40
Reversal of impairment losses	(1)	(31)	(1)	(2)	—	—	(35)
Disposals	—	(9)	(86)	(9)	(14)	—	(118)
Transfer to assets held for sale	—	(4)	(10)	(7)	—	—	(21)
Net transfer from investment properties	1	8	—	—	—	—	9
Balance, end of year	$ 3	$ 2,605	$ 5,236	$ 620	$ 295	$ 10	$ 8,769
Carrying amount as at: January 3, 2015	$ 1,797	$ 4,763	$ 2,016	$ 1,145	$ 522	$ 551	$ 10,794

(i) Includes $1,792 million related to the acquisition of Shoppers Drug Mart (see note 5).

	2013						
(millions of Canadian dollars)	Land	Buildings	Equipment and Fixtures	Leasehold Improvements	Finance Leases - Land, Buildings, Equipment and Fixtures	Assets Under Construction	Total
Cost							
Balance, beginning of year	$ 1,650	$ 6,555	$ 5,950	$ 790	$ 554	$ 664	$ 16,163
Additions	1	—	14	9	62	837	923
Disposals	(2)	(4)	(57)	(7)	(53)	—	(123)
Net transfer from assets held for sale	1	—	—	—	—	—	1
Net transfer (to) from investment properties	(2)	(1)	—	—	4	(5)	(4)
Transfer from assets under construction	30	299	517	54	—	(900)	—
Balance, end of year	$ 1,678	$ 6,849	$ 6,424	$ 846	$ 567	$ 596	$ 16,960
Accumulated depreciation and impairment losses							
Balance, beginning of year	$ 7	$ 2,298	$ 4,176	$ 433	$ 269	$ 7	$ 7,190
Depreciation	—	184	532	44	44	—	804
Impairment losses	—	20	5	24	3	—	52
Reversal of impairment losses	(4)	(71)	(2)	(3)	(3)	—	(83)
Disposals	(1)	(1)	(48)	(5)	(53)	—	(108)
Net transfer (to) from investment properties	—	(1)	—	—	1	—	—
Balance, end of year	$ 2	$ 2,429	$ 4,663	$ 493	$ 261	$ 7	$ 7,855
Carrying amount as at: December 28, 2013	$ 1,676	$ 4,420	$ 1,761	$ 353	$ 306	$ 589	$ 9,105

Assets Held under Finance Leases The Company leases various land and buildings, and equipment and fixtures under a number of finance lease arrangements. As at January 3, 2015, the net carrying amount of leased land and buildings was $466 million (December 28, 2013 – $274 million), and the net carrying amount of leased equipment and fixtures was $56 million (December 28, 2013 – $32 million).

Assets under Construction The cost of additions to properties under construction for the year ended January 3, 2015 was $776 million (December 28, 2013 – $837 million). Included in this amount are capitalized borrowing costs of $3 million (2013 – $2 million), with a weighted average capitalization rate of 6.2% (2013 – 6.4%).

Security and Assets Pledged As at January 3, 2015, fixed assets with a carrying amount of $191 million (December 28, 2013 – $187 million) were encumbered by mortgages of $86 million (December 28, 2013 – $87 million).

Fixed Asset Commitments As at January 3, 2015, the Company had entered into commitments of $192 million (December 28, 2013 – $55 million) for the construction, expansion and renovation of buildings and the purchase of real property.

Impairment Losses For the year ended January 3, 2015, the Company recorded $26 million (2013 – $48 million) of impairment losses on fixed assets in respect of 13 CGUs (2013 – 21 CGUs) in the retail operating segment. Additional impairment losses of $14 million (2013 – $4 million) were incurred related to store closures, renovations and conversions. Impairment losses are recorded where the carrying amount of the retail location exceeds its recoverable amount. The recoverable amount was based on the greater of the CGU's fair value less costs to sell and its value in use. Approximately 23% (2013 – 10%) of impaired CGUs had carrying values which were $7 million (2013 – $6 million) greater than their fair value less costs to sell. The remaining 77% (2013 – 90%) of impaired CGUs had carrying values which were $19 million (2013 – $46 million) greater than their value in use.

For the year ended January 3, 2015, the Company recorded $35 million (2013 – $83 million) of impairment reversals on fixed assets in respect of 14 CGUs (2013 – 26 CGUs) in the retail operating segment. Impairment reversals are recorded where the recoverable amount of the retail location exceeds its carrying amount. Approximately 93% (2013 – 92%) of CGUs with impairment reversals had fair value less costs to sell which were $33 million (2013 – $75 million) greater than their carrying values. The remaining 7% (2013 – 8%) of CGUs with impairment reversals had value in use which were $2 million (2013 – $8 million) greater than carrying values.

When determining the value in use of a retail location, the Company develops a discounted cash flow model for each CGU. The duration of the cash flow projections for individual CGUs varies based on the remaining useful life of the significant assets within the CGU. Sales forecasts for cash flows are based on actual operating results, operating budgets, and long term growth rates that were consistent with industry averages, all of which is consistent with strategic plans presented to the Company's Board. The estimate of the value in use of the relevant CGUs was determined using a pre-tax discount rate of 8.0% to 8.5% at January 3, 2015 (December 28, 2013 – 8.0% to 8.5%).

Note 15. Investment Properties

The following are continuities of investment properties:

(millions of Canadian dollars)		**2014**		2013
Cost				
Balance, beginning of year	**$**	**172**	$	169
Business acquisitions[(i)]		**16**		—
Additions		**16**		1
Disposals		**(4)**		(2)
Net transfer from fixed assets		**56**		4
Net transfer to assets held for sale		**(1)**		—
Balance, end of year	**$**	**255**	$	172
Accumulated depreciation and impairment losses				
Balance, beginning of year	**$**	**73**	$	69
Depreciation		**2**		2
Impairment losses		**11**		—
Reversal of impairment losses		**—**		(1)
Disposals		**(2)**		(1)
Net transfer to fixed assets		**(9)**		—
Net transfer (to) from assets held for sale		**(5)**		4
Balance, end of year	**$**	**70**	$	73
Carrying amount	**$**	**185**	$	99
Fair value		**225**		144

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

During 2014, the Company recognized in operating income $7 million of rental income (2013 – $4 million) and incurred direct operating costs of $3 million (2013 – $3 million) related to its investment properties. In addition, the Company recognized direct operating costs of $2 million (2013 – $1 million) related to its investment properties for which no rental income was earned.

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

The valuations of investment properties using the income approach include assumptions as to market rental rates for properties of similar size and condition located within the same geographical areas, recoverable operating costs for leases with tenants, non-recoverable operating costs, vacancy periods, tenant inducements and capitalization rates for the purposes of determining the estimated net proceeds from the sale of the property. At January 3, 2015, the pre-tax discount rates used in the valuations for investment properties ranged from 6.00% to 9.75% (December 28, 2013 – 6.50% to 9.75%) and the terminal capitalization rates ranged from 5.50% to 8.50% (December 28, 2013 – 5.75% to 8.75%).

For the year ended January 3, 2015, the Company recorded $11 million (2013 – nil) of impairment losses in operating income on investment properties as the carrying amounts of all impaired properties were lower than their recoverable amounts. The Company recorded no reversals of impairment losses on investment properties (2013 – $1 million) in operating income where their fair values less costs to sell were greater than their carrying values.

Note 16. Intangible Assets

The following are continuities of the cost and accumulated amortization of intangible assets for the years ended January 3, 2015 and December 28, 2013:

	2014			
(millions of Canadian dollars)	Indefinite Life Intangible Assets	Definite Life Internally Generated Intangible Assets	Definite Life Other Intangible Assets	Total
Cost				
Balance, beginning of year	$ 71	$ 20	$ 71	$ 162
Business acquisitions[(i)]	3,390	230	5,824	9,444
Additions	—	85	5	90
Disposal	—	(3)	(2)	(5)
Transfer to assets held for sale	—	—	(29)	(29)
Write off of cost for fully amortized assets	—	—	(1)	(1)
Balance, end of year	$ 3,461	$ 332	$ 5,868	$ 9,661
Accumulated amortization and impairment losses				
Balance, beginning of year	$ —	$ 19	$ 32	$ 51
Amortization	—	23	414	437
Transfer to assets held for sale	—	—	(3)	(3)
Write off of amortization for fully amortized assets	—	—	(1)	(1)
Balance, end of year	$ —	$ 42	$ 442	$ 484
Carrying amount as at: January 3, 2015	$ 3,461	$ 290	$ 5,426	$ 9,177

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

(millions of Canadian dollars)	2013 Indefinite Life Intangible Assets	Definite Life Internally Generated Intangible Assets	Definite Life Other Intangible Assets	Total
Cost				
Balance, beginning of year	$ 62	$ 20	$ 76	$ 158
Additions	9	—	3	12
Write off of cost for fully amortized assets	—	—	(8)	(8)
Balance, end of year	$ 71	$ 20	$ 71	$ 162
Accumulated amortization and impairment losses				
Balance, beginning of year	$ —	$ 14	$ 30	$ 44
Amortization	—	5	10	15
Write off of amortization for fully amortized assets	—	—	(8)	(8)
Balance, end of year	$ —	$ 19	$ 32	$ 51
Carrying amount as at: December 28, 2013	$ 71	$ 1	$ 39	$ 111

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

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

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

Definite Life Intangible Assets Definite life intangible assets are primarily comprised of Shoppers Drug Mart prescription files and the carrying value of the Optimum loyalty program (see note 5), and software purchases and development. Included in these amounts are capitalized borrowing costs of $1 million (2013 – nil).

Note 17. Goodwill

The following is a continuity of the cost and accumulated amortization of goodwill for the years ended January 3, 2015 and December 28, 2013:

(millions of Canadian dollars)	**2014**	2013
Cost		
Balance, beginning of year	**$ 1,932**	$ 1,932
Business acquisitions[(i)]	**2,300**	—
Balance, end of year	**$ 4,232**	$ 1,932
Accumulated amortization and impairment losses		
Balance, beginning of year	**$ 989**	$ 989
Balance, end of year	**$ 989**	$ 989
Carrying amount as at the end of the year:	**$ 3,243**	$ 943

(i) Includes $2,285 million related to the acquisition of Shoppers Drug Mart (see note 5).

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

(millions of Canadian dollars)		**As at January 3, 2015**		As at December 28, 2013
Shoppers Drug Mart	**$**	**2,294**	$	—
Market		**337**		—
Discount		**459**		—
Quebec region		**—**		700
T&T Supermarket Inc.		**129**		129
All other		**24**		114
Carrying amount of goodwill	**$**	**3,243**	$	943

The Company completed its annual impairment tests for goodwill and concluded that there was no impairment. Subsequent to the acquisition of Shoppers Drug Mart, the Company reorganized its senior management, including the heads of the Company's banner groups, and as a result, the Company reallocated goodwill to this reorganized structure subsequent to the completion of the annual impairment test in 2014. CGU groupings for goodwill allocation are done by banner or groups of banners, whereas they were previously grouped by region.

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

The weighted average cost of capital was determined to be in the range of 6.0% to 6.5% (December 28, 2013 – 6.5% to 7.0%) and is based on a risk-free rate, an equity risk premium adjusted for betas of comparable publicly traded companies, an unsystematic risk premium, an after-tax cost of debt based on corporate bond yields and the capital structure of the Company.

Cash flow projections have been discounted using a range of rates derived from the Company's after-tax weighted average cost of capital adjusted for specific risks relating to each CGU. At January 3, 2015, the after-tax discount rates used in the recoverable amount calculations ranged from 8.5% to 9.5% (December 28, 2013 – 9.5%). The pre-tax discount rates ranged from 11.4% to 13.0% (December 28, 2013 – 12.8% to 13.0%).

The Company included a minimum of five years of cash flows in its discounted cash flow model. The cash flow forecasts were extrapolated beyond the five year period using estimated long term growth rate of 2.0% (December 28, 2013 – 2.0%). The budgeted EBITDA(1) growth is based on the Company's five year strategic plan approved by the Board.

(1) See Section 20 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis.

Note 18. Interest in Other Entities

Subsidiaries

Loblaw Companies Limited is a holding company which carries on its business through its subsidiaries. The subsidiaries of the Company that carry on its principal business are: Loblaws Inc., a retail operations company incorporated in Ontario, Shoppers Drug Mart Corporation, a pharmacy operations company incorporated in Canada, President's Choice Bank, a financial services company incorporated in Canada; Choice Properties Real Estate Investment Trust, a trust formed in Ontario; and Choice Properties Limited Partnership, a limited partnership formed in Ontario. During 2014 and 2013, the Company owned, either directly or indirectly, 100% of the voting securities of its subsidiaries, other than Choice Properties Real Estate Investment Trust and its subsidiaries, including Choice Properties Limited Partnership, of which Loblaw held an 82.9% (2013 – 82.2%) effective interest.

As at year end 2014, there were no significant restrictions on the ability to access or use assets and settle liabilities of the subsidiaries. In addition, there was no change in control of any subsidiary during 2014 and 2013.

The Company acquired and began consolidating Shoppers Drug Mart Corporation in 2014 (see note 5).

In 2014, Choice Properties Real Estate Investment Trust entered into an agreement with a third party for a controlling 70% ownership interest in Choice Properties PRC Brampton Limited Partnership, a subsidiary which holds land for future retail development. Choice Properties Real Estate Investment Trust fully consolidates this subsidiary and recognized non-controlling interests of $8 million, which was included as a component of total equity.

Consolidated Associates

Associates The Company consolidates the Associates based on the concept of control, which is determined, for accounting purposes, to exist through Associate Agreements. The Company does not have any direct or indirect shareholdings in the corporations (the "Associates' corporations") that operate the Associates. The Associates' corporations remain separate legal entities.

Consolidated Structured Entities

Independent Funding Trusts Certain independent franchisees of the Company obtain financing through a structure involving independent funding trusts, which were created to provide loans to franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. The Company provides a standby letter of credit for the benefit of the independent funding trust (see note 33).

Eagle Credit Card Trust® The Company, through PC Bank, participates in various securitization programs that provide the primary source of funds for the operation of its credit card business. Under these securitization programs, a portion of the total interest in credit card receivables is sold to third parties pursuant to co-ownership agreements that issue interest bearing securities. PC Bank participates in a single seller revolving co-ownership securitization program with *Eagle* and continues to service the credit card receivables on behalf of *Eagle*, but does not receive any fee for its servicing obligations and has a retained interest in the securitized receivables represented by the right to future cash flows after obligations to investors have been met. The Company provides a standby letter of credit for the benefit of the independent securitization trust (see note 33).

Equity-Based Compensation Trusts In 2013, the Company established trusts to facilitate the purchase of shares for future settlement of each of the RSU and PSU plans upon vesting. The Company is the sponsor of the trusts and has assigned Computershare Trust Company of Canada as the trustee. The Company funds the purchase of shares for settlement and earns management fees from the trusts.

Unconsolidated Structured Entities

Other Independent Securitization Trusts The Other Independent Securitization Trusts administer multi-seller, multi-asset securitization programs that acquire assets from various participants, including credit card receivables from PC Bank. These trusts are managed by major Canadian chartered banks. PC Bank does not control the trusts through voting interests and does not exercise any control over the trusts' management, administration or assets. The activities of these trusts are conducted on behalf of the participants and each trust is a conduit through which funds are raised to purchase assets through the issue of senior and subordinated short term and medium term asset backed notes. The Company provides standby letters of credit for the benefit of these trusts (see note 33).

Note 19. Other Assets

(millions of Canadian dollars)	As at January 3, 2015	As at December 28, 2013
Sundry investments and other receivables	$ 141	$ 136
Accrued benefit plan asset (note 27)	90	106
Interest in joint venture (note 34)	6	—
Other	44	43
Other assets	$ 281	$ 285

Note 20. Short Term Debt

The outstanding short term debt balance of $605 million (2013 – $605 million) includes credit card receivables securitized to the Other Independent Securitization Trusts (see note 11).

In 2014, PC Bank extended the maturity date for one of its Other Independent Securitization Trust agreements from the third quarter of 2015 to the third quarter of 2016, with all other terms and conditions remaining substantially the same. In addition, PC Bank extended the maturity date for two of its Other Independent Securitization Trust agreements from the second quarter of 2015 to the second quarter of 2016, with all other terms and conditions remaining substantially the same.

During 2013, PC Bank repurchased $300 million of co-ownership interests in the securitized receivables from the Other Independent Securitization Trusts, and recorded a corresponding decrease to short term debt.

The undrawn commitments on facilities available from the Other Independent Securitization Trusts as at January 3, 2015 were $120 million (December 28, 2013 – $120 million). The Company has arranged letters of credit on behalf of PC Bank, for the benefit of the Other Independent Securitization Trusts (see note 33).

Note 21. Provisions

Provisions consist primarily of amounts recorded in respect of restructuring, self-insurance, commodity taxes, environmental and decommissioning liabilities and onerous lease arrangements. The following are continuities relating to the Company's provisions:

(millions of Canadian dollars)	2014	2013
Provisions, beginning of year	$ 122	$ 137
Acquisition of Shoppers Drug Mart	19	—
Additions	81	38
Payments	(60)	(43)
Reversals	(2)	(10)
Provisions, end of year	$ 160	$ 122

(millions of Canadian dollars)	2014	2013
Recorded on the consolidated balance sheets as follows:		
Current portion of provisions	$ 84	$ 66
Non-current portion of provisions	76	56
Total provisions	$ 160	$ 122

During 2014, the Company recorded $46 million (2013 – $32 million) of restructuring and reorganization costs in operating income, primarily associated with the reduction of corporate and store-support positions, the departure of certain executives and the realignment of certain of the Company's central office functions. As at January 3, 2015, $37 million was included in provisions relating to these restructuring initiatives (2013 – $39 million).

Note 22. Long Term Debt

(millions of Canadian dollars)	As at January 3, 2015	As at December 28, 2013
Loblaw Companies Limited Notes (a)		
6.00%, due 2014	**$ —**	$ 100
4.85%, due 2014	**—**	350
7.10%, due 2016	**300**	300
3.75%, due 2019	**800**	800
5.22%, due 2020	**350**	350
4.86%, due 2023	**800**	800
6.65%, due 2027	**100**	100
6.45%, due 2028	**200**	200
6.50%, due 2029	**175**	175
11.40%, due 2031		
Principal	**151**	151
Effect of coupon repurchase	**(57)**	(67)
6.85%, due 2032	**200**	200
6.54%, due 2033	**200**	200
8.75%, due 2033	**200**	200
6.05%, due 2034	**200**	200
6.15%, due 2035	**200**	200
5.90%, due 2036	**300**	300
6.45%, due 2039	**200**	200
7.00%, due 2040	**150**	150
5.86%, due 2043	**55**	55
Shoppers Drug Mart Notes (b)		
2.01%, due 2016	**225**	—
2.36%, due 2018	**275**	—
Unsecured Term Loan Facility (c)		
1.45% + Bankers' Acceptance, due 2019	**1,229**	—
Long Term Debt Secured by Mortgage		
5.49%, due 2018 (note 14)	**86**	87
Guaranteed Investment Certificates (d)		
Due 2015 - 2019 (1.20% – 3.78%)	**634**	430
Independent Securitization Trusts (e)		
Eagle Credit Card Trust®, 3.58%, due 2015	**350**	350
Eagle Credit Card Trust®, 2.91%, due 2018	**400**	400
Independent Funding Trusts (f)	**498**	475
Finance Lease Obligations	**600**	388
Choice Properties (g)		
Series A 3.55%, due 2018	**400**	400
Series B 4.90%, due 2023	**200**	200
Series C 3.50%, due 2021	**250**	—
Series D 4.29%, due 2024	**200**	—
Series 5 3.00%, due 2016	**300**	—
Series 6 3.00%, due 2017	**200**	—
Series 7 3.00%, due 2019	**200**	—
Series 8 3.60%, due 2020	**300**	—
Series 9 3.60%, due 2021	**200**	—
Series 10 3.60%, due 2022	**300**	—
Choice Properties Credit Facility	**122**	—
Transaction costs and other	**(31)**	(14)
Total long term debt	**$ 11,462**	$ 7,680
Less amount due within one year	**420**	1,008
Long Term Debt	**$ 11,042**	$ 6,672

a) Loblaw Companies Limited Notes During 2014, the Company's $100 million 6.00% and $350 million 4.85% MTNs matured and were repaid. In 2013, the Company's $200 million 5.40% MTN matured and was repaid.

During 2013, the Company issued $1,600 million aggregate principal amount of senior unsecured notes, consisting of $800 million of Senior Unsecured Notes, 3.75% Series 2019 due March 12, 2019 and $800 million of Senior Unsecured Notes, 4.86% Series 2023, due September 12, 2023. The net proceeds from the offering were initially placed in escrow until used in connection with acquisition of Shoppers Drug Mart (see note 5).

b) Shoppers Drug Mart Notes In connection with the acquisition of Shoppers Drug Mart, the Company assumed MTNs of $225 million at 2.01% and $275 million at 2.36%, maturing in 2016 and 2018, respectively.

c) Unsecured Term Loan Facility In connection with the financing of the acquisition of Shoppers Drug Mart, $3,500 million was obtained through an unsecured term loan facility bearing interest at a rate equal to the Bankers' Acceptance rate plus 1.75% maturing March 28, 2019. The Company incurred $41 million in financing costs related to the unsecured term loan facility, which were capitalized. On July 23, 2014, the Company reached an agreement to re-price the interest rate on its unsecured term loan facility to reduce the rate from Bankers' Acceptance rate plus 1.75% to Bankers' Acceptance rate plus 1.45%.

During 2014, the Company repaid $2,271 million of the unsecured term loan facility using net proceeds of $1,500 million from the sale of Choice Properties Transferor Notes to unrelated parties, $714 million of existing cash and $57 million from the proceeds of divested assets required by the Competition Bureau. As at January 3, 2015, the outstanding balance on the unsecured term loan facility was $1,229 million. The amortization of the financing costs related to the unsecured term loan facility was $25 million, of which $23 million was accelerated due to early repayments on the facility.

As required by the unsecured term loan facility agreement, $478 million, which was the outstanding balance owing on Shoppers Drug Mart's revolving bank credit facility, was repaid and the facility was cancelled upon closing of the acquisition of Shoppers Drug Mart.

d) Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the years ended 2014 and 2013:

(millions of Canadian dollars)		**2014**		2013
Balance, beginning of year	**$**	**430**	$	303
GICs issued		**261**		167
GICs matured		**(57)**		(40)
Balance, end of year	**$**	**634**	$	430

e) Independent Securitization Trust The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (see note 11). In 2014, the Company has arranged letters of credit on behalf of PC Bank, for the benefit of *Eagle* (see note 33).

In 2013, *Eagle* issued $400 million of senior and subordinated term notes with a maturity date of October 17, 2018 at a weighted average interest rate of 2.91%, and repaid $250 million of senior and subordinated term notes which matured on December 17, 2013.

f) Independent Funding Trusts As at January 3, 2015, the independent funding trusts had drawn $498 million (December 28, 2013 – $475 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. In 2014, the Company renewed the revolving committed credit facility and extended the maturity date to May 6, 2017, with all other terms and conditions remaining substantially the same. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts (see note 33).

g) Choice Properties In 2014, Choice Properties Limited Partnership entered into a Master Trust Indenture agreement with Computershare Trust Company of Canada to create supplemental indentures in order to facilitate the replacement of all tranches of Transferor Notes held by Loblaw, with Series 5 to Series 10 notes containing the same principal amounts, interest rates and maturity dates. These replacement notes bear fixed interest rates between 3.00% and 3.60% and mature during 2016 through 2022. The remaining terms and conditions were substantially similar to the original notes. Loblaw subsequently sold the replacement notes to unrelated parties and received net proceeds of $1,500 million. Loblaw used these proceeds to partially repay the $3,500 million unsecured term loan facility drawn to fund a portion of the cost to acquire Shoppers Drug Mart (see note 5).

In 2014, Choice Properties issued $250 million principal amount of Series C senior unsecured debentures with a 7-year term and a coupon rate of 3.50% per annum and $200 million principal amount of Series D senior unsecured debentures with a 10-year term and a coupon rate of 4.29% per annum, under its Short Form Base Shelf Prospectus. The majority of the proceeds were used to repay $440 million of Transferor Notes held by Loblaw.

As part of the Choice Properties initial public offering on July 5, 2013, Choice Properties issued $400 million Series A Debentures with a 5-year term and a coupon of 3.55% per annum due July 5, 2018 and $200 million Series B Debentures with a 10-year term and a coupon of 4.90% per annum due July 5, 2023.

In 2013, Choice Properties entered into an agreement for a $500 million, 5 year senior unsecured committed credit facility ("Choice Properties Credit Facility") provided by a syndicate of lenders. In 2014, Choice Properties extended the maturity date of the Choice Properties Credit Facility to July 5, 2019. This facility bears interest at variable rates: Prime plus 0.45% or Banker's Acceptance rate plus 1.45%. The facility contains certain financial covenants (see note 25). As at January 3, 2015, Choice Properties had drawn $122 million (2013 – nil) under the Choice Properties Credit Facility.

Committed Credit Facility In 2014, effective on the closing of the acquisition of Shoppers Drug Mart, the Company's $800 million committed credit facility ("Credit Facility") was increased to $1,000 million and the term was extended to December 31, 2018, with all other terms and conditions remaining substantially the same. The Credit Facility contains certain financial covenants (see note 25). As at January 3, 2015 and December 28, 2013, there were no amounts drawn under the Credit Facility.

Private Placement Notes During 2013, the Company settled its USD $300 million U.S. Private Placement ("USPP") notes and related cross currency swaps (see note 30). The Company incurred approximately $18 million of early-settlement costs related to the settlement of the USPP note due on May 29, 2015, which was recorded in net interest expense and other financing charges.

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

(millions of Canadian dollars)	**As at January 3, 2015**	As at December 28, 2013
Loblaw Companies Limited Notes	**$ —**	$ 450
Independent Funding Trust	**—**	475
Independent Securitization Trusts	**350**	—
Finance Lease Obligations	**38**	28
Guaranteed Investment Certificates	**29**	52
Long term debt secured by mortgage	**3**	3
Total long term debt due within one year	**$ 420**	$ 1,008

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

(millions of Canadian dollars)	**As at January 3, 2015**
2015	**$ 420**
2016	**983**
2017	**847**
2018	**1,353**
2019	**2,588**
Thereafter	**5,359**
Total Long Term Debt (excludes transaction costs)	**$ 11,550**

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

Note 23. Other Liabilities

(millions of Canadian dollars)		**As at January 3, 2015**		As at December 28, 2013
Net defined benefit plan obligation (note 27)	**$**	**311**	$	238
Other long term employee benefit obligation		**116**		107
Equity-based compensation liability (note 26)		**7**		1
Fair value adjustment to acquired leases		**104**		—
Deferred lease obligation		**77**		25
Other		**167**		183
Other liabilities	**$**	**782**	$	554

Note 24. Share Capital

First Preferred Shares (authorized – 1.0 million shares) There were no non-voting First Preferred Shares outstanding at year end.

Second Preferred Shares, Series A (authorized – 12.0 million shares) The Company has outstanding 9.0 million 5.95% non-voting Second Preferred Shares, Series A, with a face value of $225 million, which were issued for net proceeds of $218 million, and entitle the holder to a fixed cumulative preferred cash dividend of $1.4875 per share per annum which, if declared, will be payable quarterly. These preferred shares which are presented as capital securities on the consolidated balance sheets are classified as other financial liabilities, and measured using the effective interest method.

On and after July 31, 2014 and July 31, 2015 the Company may, at its option, redeem for cash, in whole or in part, these outstanding preferred shares for $25.50 and $25.00 respectively. The Company may, at its option, convert these preferred shares into that number of common shares of the Company determined by dividing the then applicable redemption price, together with all accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. On and after July 31, 2015, these outstanding preferred shares are convertible, at the option of the holder, into that number of common shares of the Company determined by dividing $25.00, together with accrued and unpaid dividends to but excluding the date of conversion, by the greater of $2.00 and 95% of the then current market price of the common shares. This option is subject to the Company's right to redeem the preferred shares for cash or arrange for their sale to substitute purchasers. As at January 3, 2015, the capital securities have been recorded as a current liability.

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 2014 and 2013 were as follows:

			2014			2013
(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 year	**282,311,573**	**$**	**1,648**	281,680,157	$	1,567
Issued for settlement of stock options	**3,536,489**		**156**	2,131,416		90
Issued for acquisition of Shoppers Drug Mart (note 5)	**119,471,382**		**5,619**	—		—
Issued to controlling shareholder (note 5)	**10,515,247**		**500**	—		—
Purchased for cancellation	**(3,353,800)**		**(63)**	(1,500,000)		(9)
Issued and outstanding, end of year	**412,480,891**	**$**	**7,860**	282,311,573	$	1,648
Shares held in trust, beginning of year	**(1,067,323)**	**$**	**(6)**	—	$	—
Purchased for future settlement of RSUs and PSUs	**—**		**—**	(1,103,500)		(6)
Release for settlement of RSUs and PSUs (note 26)	**512,277**		**3**	36,177		—
Shares held in trust, end of year	**(555,046)**	**$**	**(3)**	(1,067,323)	$	(6)
Issued and outstanding, net of shares held in trust, end of year	**411,925,845**	**$**	**7,857**	281,244,250	$	1,642
Weighted average outstanding, net of shares held in trust	**380,540,877**			281,123,452		

Dividends The following table summarizes the Company's cash dividends declared for 2014 and 2013:

		2014[(i)]		2013
Dividends declared per share ($):				
Common share	$	0.975	$	0.940
Second Preferred Share, Series A		1.49		1.49

(i) The fourth quarter dividends of $0.245 per share declared on common shares were paid on December 30, 2014. The fourth quarter dividends of $0.37 per share declared on Second Preferred Shares, Series A have a payment date of January 31, 2015.

For financial statement presentation purposes, Second Preferred Shares, Series A dividends of $14 million for the year ended January 3, 2015 was included as a component of net interest expense and other financing charges in the consolidated statements of earnings (2013 – $14 million) (see note 6).

Subsequent to the end of the year, the Board declared a quarterly dividend of $0.245 per common share, payable April 1, 2015, and declared a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable April 30, 2015.

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

(millions of Canadian dollars except where otherwise indicated)		2014		2013
Shares repurchased under the NCIB for cancellation (number of shares)		3,353,800		1,500,000
Cash consideration paid	$	178	$	73
Premium charged to Retained Earnings		115		64
Reduction in common shares		63		9
Shares repurchased under the NCIB and held in trusts (number of shares)		—		1,103,500
Cash consideration paid	$	—	$	46
Premium charged to Retained Earnings		—		40
Reduction in common shares		—		6

In 2014, the Company renewed its NCIB to purchase on the TSX or to enter into equity derivatives to purchase up to 20,636,596 of the Company's common shares, representing approximately 5% of the common shares outstanding after taking into account shares issued in connection with the acquisition of Shoppers Drug Mart. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares.

Note 25. Capital Management

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

- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- targeting a reduction in debt following the Shoppers Drug Mart transaction to return to credit rating metrics consistent with those of investment grade companies;
- maintaining financial capacity and flexibility through access to capital to support future development of the business;
- minimizing the after-tax cost of its capital while taking into consideration current and future industry, market and economic risks and conditions; and
- utilizing short term funding sources to manage its working capital requirements and long term funding sources to manage the long term capital investments of the business.

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

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

(millions of Canadian dollars)		**As at January 3, 2015**		As at December 28, 2013
Bank indebtedness	**$**	**162**	$	—
Short term debt		**605**		605
Long term debt due within one year		**420**		1,008
Long term debt		**11,042**		6,672
Certain other liabilities		**28**		39
Total debt	**$**	**12,257**	$	8,324
Capital securities		**225**		224
Equity attributable to shareholders of the Company		**12,779**		7,000
Total capital under management	**$**	**25,261**	$	15,548

Covenants and Regulatory Requirements The Company is subject to certain key financial and non-financial covenants under its existing Credit Facility, unsecured term loan facility, certain MTNs, and letters of credit. These covenants, which include interest coverage and leverage ratios, as defined in the respective agreements, are measured by the Company on a quarterly basis to ensure compliance with these agreements. As at January 3, 2015 and throughout the year, the Company was in compliance with each of the covenants under these agreements.

Choice Properties has certain key financial and non-financial covenants in its Debentures and the Choice Properties Credit Facility, which include debt service ratios and leverage ratios. These ratios are measured by Choice Properties on a quarterly basis to ensure compliance. As at January 3, 2015 and throughout the year, Choice Properties was in compliance with the covenants under these agreements.

The Company is subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), the primary regulator of PC Bank. PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory capital requirements as defined by OSFI. PC Bank uses Basel III as its regulatory capital management framework which includes a common equity Tier 1 capital ratio of 4.0%, a Tier 1 capital ratio of 5.5% and a total capital ratio of 8%. In addition to the regulatory capital ratios requirement, prior to January 1, 2015, financial institutions were expected to meet an assets-to-capital multiple test. As at the end of 2014 and 2013, and throughout these years, PC Bank has met all applicable regulatory requirements related to capital ratios and the assets-to-capital multiple test. Effective January 1, 2015, the Basel III Leverage ratio replaced the assets-to-capital multiple test.

In 2014, OFSI 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 and a Net Stable Funding Ratio standard effective January 1, 2018. The LCR standard specifies the level of liquid securities that PC Bank is required to maintain to meet its financial liabilities.

Note 26. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, RSU, PSU, DSU, EDSU plans, and the unit-based compensation plans of Choice Properties, was $73 million for year (2013 – $35 million). The expense was recognized in operating income.

As a result of the acquisition of Shoppers Drug Mart, all awards that were based on Shoppers Drug Mart shares were converted to awards based on shares of the Company. Accordingly, included in the Company's equity-based compensation expense during 2014 above was $28 million related to these converted awards, of which $7 million related to the fair value adjustment of converted awards that initially required settlement in cash.

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

(millions of Canadian dollars)	As at January 3, 2015	As at December 28, 2013
Trade payables and other liabilities	$ 3	$ —
Other liabilities	7	1
Contributed surplus	104	87

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

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

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

	2014		2013	
	Options (number of shares)	Weighted Average Exercise Price / Share	Options (number of shares)	Weighted Average Exercise Price / Share
Outstanding options, beginning of year	10,995,995	$ 37.37	12,538,928	$ 36.74
Granted	1,688,368	47.67	1,484,264	40.62
Converted options	1,026,118	35.26	—	—
Exercised	(3,536,489)	36.47	(2,131,416)	35.25
Forfeited/cancelled	(1,074,427)	40.75	(847,039)	38.03
Expired	(734,681)	45.49	(48,742)	54.71
Outstanding options, end of year	8,364,884	$ 38.42	10,995,995	$ 37.37
Options exercisable, end of year	3,195,241	$ 35.95	4,200,472	$ 38.04

	2014 Outstanding Options			2014 Exercisable Options	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price/Share	Number of Exercisable Options	Weighted Average Exercise Price/Share
$28.95 - $35.55	3,424,670	4	$ 34.08	1,553,396	$ 33.09
$35.56 - $39.92	2,414,922	3	$ 38.14	1,354,570	$ 37.88
$39.93 - $60.29	2,525,292	6	$ 44.57	287,275	$ 42.33
	8,364,884		38.42	3,195,241	35.95

During 2014, the Company issued common shares on the exercise of stock options with a weighted average market share price of $51.20 (2013 – $46.54). The Company received cash consideration of $129 million (2013 – $75 million) related to the exercise of these option.

In connection with the acquisition of Shoppers Drug Mart, the Company converted Shoppers Drug Mart stock options to Loblaw stock options. The fair value of converted Shoppers Drug Mart stock options to Loblaw stock options was $13 million. The fair value of stock options granted during 2014 was $13 million (2013 – $11 million). The assumptions used to measure the fair value of options granted and converted during 2014 and 2013 under the Black-Scholes valuation model at date of grant or conversion were as follows:

	2014	2013
Expected dividend yield	**1.8%**	2.1%
Expected share price volatility	**18.5% – 23.2%**	19.2% – 23.8%
Risk-free interest rate	**1.1% – 1.9%**	1.2% – 2.0%
Expected life of options	**1.0 – 6.5 years**	4.2 – 6.5 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at January 3, 2015 was 11.0% (December 28, 2013 – 12.0%).

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

(Number of Awards)	**2014**	2013
RSUs, beginning of year	**1,084,514**	1,038,271
Granted	**435,976**	379,899
Converted RSUs	**542,175**	—
Settled	**(494,912)**	(273,937)
Forfeited	**(104,963)**	(59,719)
RSUs, end of year	**1,462,790**	1,084,514

The fair value of RSUs granted during 2014 was $20 million (2013 – $15 million).

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

During 2014, the Company settled $2 million of Shoppers Drug Mart converted RSUs in cash prior to amending the RSU plan for converted awards to require settlement in shares on November 10, 2014. During 2013, the Company settled $10 million of RSUs in cash prior to amending its RSU plan to require settlement in shares.

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

(Number of Awards)	**2014**	2013
PSUs, beginning of year	**309,110**	50,818
Granted	**871,355**	283,569
Settled	**(17,365)**	(2,794)
Forfeited	**(143,796)**	(22,483)
PSUs, end of year	**1,019,304**	309,110

The fair value of PSUs granted during 2014 was $39 million (2013 – $11 million).

Settlement of Awards from Shares Held in Trust In 2013, the Company established a trust for each of the RSU and PSU plans to facilitate the purchase of shares for future settlement upon vesting. During 2014, the Company settled RSUs and PSUs totaling 512,277 (2013 – 36,177) through the trusts established for settlement of each of the RSU and PSU plans (see note 24). The settlements resulted in a $3 million (2013 – nominal) increase to share capital and a $18 million (2013 – $1 million) increase to retained earnings.

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

(Number of Awards)	**2014**	2013
DSUs outstanding, beginning of year	**226,601**	198,780
Granted	**31,322**	24,582
Reinvested	**5,901**	3,239
DSUs outstanding, end of year	**263,824**	226,601

The fair value of DSUs granted during 2014 was $2 million (2013 – $1 million).

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

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

(Number of Awards)	**2014**	2013
EDSUs outstanding, beginning of year	**22,126**	26,707
Granted	**4,929**	2,606
Reinvested	**599**	421
Settled	**(4,739)**	(7,608)
EDSUs outstanding, end of year	**22,915**	22,126

The fair value of EDSUs granted during 2014 was nominal (2013 – nominal).

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

Unit Option Plan Choice Properties maintains a Unit Option plan for certain employees. Under this plan, Choice Properties may grant Options totaling up to 4,075,000 Units. The Unit Options vest in tranches over a period of four years. The following is a summary of Choice Properties' Unit Option plan activity:

		2014		2013
	Number of awards	**Weighted average exercise price/unit**	Number of awards	Weighted average exercise price/unit
Outstanding Unit Options, beginning of year	**1,196,866**	**$ 10.04**	—	$ —
Granted	**1,247,247**	**$ 10.80**	1,196,866	$ 10.04
Forfeited	**(643,294)**	**$ 10.35**	—	$ —
Exercised	**(118,309)**	**$ 10.05**	—	$ —
Outstanding Unit Options, end of year	**1,682,510**	**$ 10.48**	1,196,866	$ 10.04
Unit Options exercisable, end of year	—	$ —	—	$ —

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

	2014	2013
Expected average distribution yield	**6.2%**	6.2%
Expected average Unit price volatility	**14.2% – 18.9%**	19.1% – 30.2%
Average risk-free interest rate	**1.0% – 1.4%**	1.6% – 2.0%
Expected average life of options	**2.5 – 5.4 years**	4.0 – 5.5 years

Estimated forfeiture rates are incorporated into the measurement of the Unit Option expense. The forfeiture rate applied as at January 3, 2015 was nil (December 28, 2013 – nil).

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

(Number of awards)	2014	2013
Outstanding Restricted Units, beginning of year	**108,746**	—
Granted	**100,523**	105,948
Reinvested	**10,804**	2,798
Forfeited	**(35,919)**	—
Outstanding Restricted Units, end of year	**184,154**	108,746

RUs vest over a period of three years. There were no RUs vested as at January 3, 2015 (December 28, 2013 – nil).

Trustee Deferred Unit Plan A summary of the DU plan activity is as follows:

(Number of awards)	2014	2013
Outstanding Trustee Deferred Units, beginning of year	**31,936**	—
Granted	**64,150**	31,758
Reinvested	**3,144**	178
Outstanding Trustee Deferred Units, end of year	**99,230**	31,936

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

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

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

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

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

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

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

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

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

The Company expects to make contributions in 2015 to its defined benefit and defined contribution plans and the multi-employer pension plans in which it participates as well as benefit payments to the beneficiaries of the supplemental unfunded defined benefit pension plans, other defined benefit plans and other long term employee benefit plans.

Other Long Term Employee Benefits

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

Defined Benefit Pension Plans and Other Defined Benefit Plans

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

	2014		2013	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Present value of funded obligations	**$ (2,077)**	**$ —**	$ (1,597)	$ —
Present value of unfunded obligations	**(81)**	**(197)**	(71)	(167)
Total present value of defined benefit obligation	**(2,158)**	**(197)**	(1,668)	(167)
Fair value of plan assets	**2,136**	**—**	1,709	—
Total funded status of (obligations) surplus	**(22)**	**(197)**	41	(167)
Liability arising from minimum funding requirement for past service	**(2)**	**—**	(6)	—
Total net defined benefit plan (obligation) surplus	**$ (24)**	**$ (197)**	$ 35	$ (167)
Recorded on the consolidated balance sheets as follows:				
Other Assets (note 19)	**$ 90**	**$ —**	$ 106	$ —
Other Liabilities (note 23)	**$ (114)**	**$ (197)**	$ (71)	$ (167)

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

	2014			2013		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Changes in the fair value of plan assets						
Fair value, beginning of year	**$ 1,709**	**$ —**	**$ 1,709**	$ 1,532	$ —	$ 1,532
Additions from the acquisition of Shoppers Drug Mart	**161**	**—**	**161**	—	—	—
Employer contributions	**55**	**—**	**55**	99	—	99
Employee contributions	**3**	**—**	**3**	2	—	2
Benefits paid	**(83)**	**—**	**(83)**	(82)	—	(82)
Interest Income	**86**	**—**	**86**	62	—	62
Actuarial gains in other comprehensive (loss) income	**210**	**—**	**210**	101	—	101
Other	**(5)**	**—**	**(5)**	(5)	—	(5)
Fair value, end of year	**$ 2,136**	**$ —**	**$ 2,136**	$ 1,709	$ —	$ 1,709
Changes in the present value of the defined benefit plan obligations						
Balance, beginning of year	**$ 1,668**	**$ 167**	**$ 1,835**	$ 1,811	$ 247	$ 2,058
Additions from the acquisition of Shoppers Drug Mart	**173**	**6**	**179**	—	—	—
Current service cost	**51**	**7**	**58**	52	9	61
Interest cost	**86**	**8**	**94**	72	9	81
Benefits paid	**(87)**	**(6)**	**(93)**	(86)	(6)	(92)
Employee contributions	**3**	**—**	**3**	2	—	2
Actuarial losses (gains) in other comprehensive (loss) income	**261**	**15**	**276**	(159)	(62)	(221)
Plan amendments	**—**	**—**	**—**	(28)	(23)	(51)
Contractual termination benefits[i]	**1**	**—**	**1**	2	—	2
Special termination benefits[i]	**2**	**—**	**2**	—	—	—
Other	**—**	**—**	**—**	2	(7)	(5)
Balance, end of year	**$ 2,158**	**$ 197**	**$ 2,355**	$ 1,668	$ 167	$ 1,835

(i) Contractual and special termination benefits include $3 million (2013 – $2 million) related to the reduction of head office and administrative positions.

For the fiscal year ended 2014, the actual return on plan assets was $296 million (2013 – $163 million).

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

- Active plan participants 46% (2013 – 46%)
- Deferred plan participants 11% (2013 – 12%)
- Retirees 43% (2013 – 42%)

During 2015, the Company expects to contribute approximately $34 million (2014 – contributed $55 million) to its registered defined benefit pension plans. The actual amount paid may vary from the estimate based on actuarial valuations being completed, investment performance, volatility in discount rates, regulatory requirements and other factors.

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

(millions of Canadian dollars)	2014 Defined Benefit Pension Plans	2014 Other Defined Benefit Plans	2014 Total	2013 Defined Benefit Pension Plans	2013 Other Defined Benefit Plans	2013 Total
Current service cost	**$ 51**	**$ 7**	**$ 58**	$ 52	$ 9	$ 61
Interest cost on net defined benefit plan obligations	**—**	**8**	**8**	10	9	19
Contractual and special termination benefits[(i)]	**3**	**—**	**3**	2	—	2
Past service cost[(ii)]	**—**	**—**	**—**	(28)	(23)	(51)
Other	**5**	**—**	**5**	7	(3)	4
Net post-employment defined benefit cost	**$ 59**	**$ 15**	**$ 74**	$ 43	$ (8)	$ 35

(i) Includes $3 million (2013 – $2 million) of contractual and special termination benefits related to the reduction in head office and administrative positions (see note 21).

(ii) Relates to the announced amendments to certain of the Company's defined benefit plans impacting certain employees retiring after January 1, 2015.

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

(millions of Canadian dollars)	2014 Defined Benefit Pension Plans	2014 Other Defined Benefit Plans	2014 Total	2013 Defined Benefit Pension Plans	2013 Other Defined Benefit Plans	2013 Total
Return on plan assets, excluding amounts included in net interest expense and other financing charges	**$ (210)**	**$ —**	**$ (210)**	$ (101)	$ —	$ (101)
Experience adjustments	**11**	**(1)**	**10**	(10)	(51)	(61)
Actuarial losses from change in demographic assumptions	**23**	**3**	**26**	70	4	74
Actuarial losses (gains) from change in financial assumptions	**227**	**13**	**240**	(219)	(15)	(234)
Change in liability arising from minimum funding requirements for past service	**(4)**	—	**(4)**	3	—	3
Total net actuarial losses (gains) recognized in other comprehensive (loss) income before income taxes	**$ 47**	**$ 15**	**$ 62**	$ (257)	$ (62)	$ (319)
Income tax (recoveries) expenses on actuarial losses (gains) (note 7)	**(12)**	**(4)**	**(16)**	68	17	85
Actuarial losses (gains) net of income tax recoveries	**$ 35**	**$ 11**	**$ 46**	$ (189)	$ (45)	$ (234)

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

	2014			2013		
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Defined Benefit Plans**	**Total**	Defined Benefit Pension Plans	Other Defined Benefit Plans	Total
Cumulative amount, beginning of year	**$ 123**	**$ (31)**	**$ 92**	$ 380	$ 31	$ 411
Net actuarial losses (gains) recognized in the year before income taxes	**47**	**15**	**62**	(257)	(62)	(319)
Cumulative amount, end of year	**$ 170**	**$ (16)**	**$ 154**	$ 123	$ (31)	$ 92

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

(millions of Canadian dollars, except where otherwise indicated)	2014		2013	
Equity securities				
Canadian:				
- common	**$ —**	**—%**	$ 131	8%
- pooled funds	**303**	**14%**	178	10%
Foreign:				
- pooled funds	**$ 511**	**24%**	$ 518	30%
Total Equity Securities	**$ 814**	**38%**	$ 827	48%
Debt securities				
Fixed income securities:				
- government	**$ 665**	**31%**	$ 452	27%
- corporate	**239**	**11%**	151	9%
Fixed income pooled funds[(i)]:				
- government	**314**	**15%**	203	12%
- corporate	**19**	**1%**	20	1%
Total Debt Securities	**$ 1,237**	**58%**	$ 826	49%
Other investments	**54**	**3%**	—	—%
Cash and cash equivalents	**16**	**1%**	56	3%
Refundable tax on account with CRA	**15**	**—%**	—	—%
Total	**$ 2,136**	**100%**	$ 1,709	100%

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

As at January 3, 2015 and December 28, 2013, the defined benefit pension plans did not directly include any of the Company's securities.

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

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

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

	2014		2013	
	Defined Benefit Pension Plans	**Other Defined Benefit Plans**	Defined Benefit Pension Plans	Other Defined Benefit Plans
Defined Benefit Plan Obligations				
Discount rate	**4.00%**	**4.00%**	4.75%	4.50%
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**CPM-RPP2014 Pub/Priv Generational**	**CPM-RPP2014 Pub/Priv Generational**	CPM-RPP2014 Priv Generational	CPM-RPP2014 Priv Generational
Net Defined Benefit Plan Cost				
Discount rate	**4.75%**	**4.50%**	4.00%	4.00%
Rate of compensation increase	**3.50%**	**n/a**	3.50%	n/a
Mortality table	**CPM-RPP2014 Priv Generational**	**CPM-RPP2014 Priv Generational**	UP94@Fully Generational	UP94@Fully Generational

n/a – not applicable

The weighted average duration of the defined benefit obligation at the end of the reporting period is 15.8 years (2013 – 16.2 years).

The growth rate of health care costs, primarily drug and other medical costs, for the other defined benefit plan obligations as at the end of the year was estimated at 4.50% and is expected to remain at 4.50% at the end of 2015 and thereafter.

Sensitivity of Key Actuarial Assumptions The following table outlines the key assumptions for 2014 (expressed as weighted averages) and the sensitivity of a 1% change in each of these assumptions on the defined benefit plan obligations and the net defined benefit plan cost.

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

	2014			
	Defined Benefit Pension Plans		**Other Defined Benefit Plans**	
Increase (Decrease) (millions of Canadian dollars except where otherwise indicated)	**Defined Benefit Plan Obligations**	**Net Defined Benefit Plan Cost[(i)]**	**Defined Benefit Plan Obligations**	**Net Defined Benefit Plan Cost[(i)]**
Discount rate	**4.00%**	**4.75%**	**4.00%**	**4.50%**
Impact of:				
1% increase	**$ (316)**	**$ (29)**	**$ (24)**	**$ —**
1% decrease	**$ 371**	**$ 29**	**$ 31**	**$ 1**
Expected growth rate of health care costs			**4.50%**	**4.00%**
Impact of:				
1% increase	**n/a**	**n/a**	**$ 25**	**$ 2**
1% decrease	**n/a**	**n/a**	**$ (20)**	**$ (2)**

n/a – not applicable

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

Multi-Employer Pension Plans

During 2014, the Company recognized an expense of $55 million (2013 – $55 million) in operating income, which represents the contributions made in connection with multi-employer pension plans. During 2015, the Company expects to continue to make contributions into these multi-employer pension plans.

The Company, together with its independent franchises, is the largest participating employer in the Canadian Commercial Workers Industry Pension Plan ("CCWIPP"), with approximately 52,000 (2013 – 53,000) employees as members. Included in the 2014 expense described above are contributions of $54 million (2013 – $54 million) to CCWIPP.

Post-Employment and Other Long Term Employee Benefit Costs

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

(millions of Canadian dollars)	2014	2013
Net post-employment defined benefit cost	$ 74	$ 35
Defined contribution costs(i)	20	20
Multi-employer pension plan costs(ii)	55	55
Total net post-employment benefit costs	$ 149	$ 110
Other long term employee benefit costs(iii)	28	21
Net post-employment and other long term employee benefit costs	$ 177	$ 131
Recorded on the consolidated statements of earnings as follows:		
Selling, general and administrative expenses	$ 165	$ 108
Net interest expense and other financing charges	12	23
Net post-employment and other long term employee benefit costs	$ 177	$ 131

(i) Amounts represent the Company's contributions made in connection with defined contribution plans.
(ii) Amounts represent the Company's contributions made in connection with multi-employer pension plans.
(iii) Other long term employee benefit costs include $4 million (2013 – $4 million) of net interest expense and other financing charges.

Note 28. Employee Costs

Included in operating income are the following employee costs:

(millions of Canadian dollars)	2014	2013
Wages, salaries and other short term employment benefits	$ 4,494	$ 3,042
Post-employment benefits	141	91
Other long term employee benefits	24	17
Equity-based compensation	71	32
Capitalized to fixed assets	(30)	(10)
Total employee costs	$ 4,700	$ 3,172

Note 29. Leases

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

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

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

	Payments due by year							
(millions of Canadian dollars)	2015	2016	2017	2018	2019	Thereafter	**As at January 3, 2015 Total**	As at December 28, 2013 Total
Operating lease payments	$ 674	$ 654	$ 620	$ 573	$ 529	$ 2,818	**$ 5,868**	$ 1,224
Sub-lease income	(60)	(51)	(40)	(33)	(23)	(88)	**(295)**	(166)
Net operating lease payments	$ 614	$ 603	$ 580	$ 540	$ 506	$ 2,730	**$ 5,573**	$ 1,058

During 2014, the Company recorded $572 million (2013 – $206 million) as an expense included in operating income in respect of operating leases. During that period, contingent rent recognized as an expense in respect of operating leases totaled $1 million (2013 – $1 million), while sub-lease income earned totaled $58 million (2013 – $50 million) which is recognized in operating income. During 2014, contingent rent recognized as income in respect of sub-leased operating leases was $3 million (2013 – $1 million).

Operating Leases – As Lessor As at January 3, 2015, the Company leased certain owned land and buildings with a cost of $2,578 million (December 28, 2013 – $2,076 million) and related accumulated depreciation of $718 million (December 28, 2013 – $562 million). For the year ended January 3, 2015, rental income was $148 million (2013 – $136 million) and contingent rent was $3 million (2013 – $2 million), both of which were recognized in operating income.

	Payments to be received by year							
(millions of Canadian dollars)	2015	2016	2017	2018	2019	Thereafter	**As at January 3, 2015 Total**	As at December 28, 2013 Total
Net operating lease income	$ 137	$ 116	$ 93	$ 76	$ 55	$ 170	**$ 647**	$ 559

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

	Payments due by year							
(millions of Canadian dollars)	2015	2016	2017	2018	2019	Thereafter	**As at January 3, 2015 Total**	As at December 28, 2013 Total
Finance lease payments	$ 85	$ 88	$ 78	$ 65	$ 60	$ 715	**$ 1,091**	$ 771
Less future finance charges	(47)	(43)	(46)	(36)	(32)	(287)	**(491)**	(383)
Present value of minimum lease payments	$ 38	$ 45	$ 32	$ 29	$ 28	$ 428	**$ 600**	$ 388

During 2014, contingent rent recognized by the Company as an expense in respect of finance leases was $1 million (2013 – $1 million).

Future sub-lease income relating to the Company's sub-lease agreements are as follows:

	Payments to be received by year						As at January 3, 2015	As at December 28, 2013
(millions of Canadian dollars)	2015	2016	2017	2018	2019	Thereafter	**Total**	Total
Sub-lease income	$ 16	$ 12	$ 11	$ 9	$ 8	$ 33	**$ 89**	$ 45

At January 3, 2015, the sub-lease payments receivable under finance leases was $16 million (December 28, 2013 – $14 million).

Note 30. Financial Instruments

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

				As at January 3, 2015				As at December 28, 2013
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets:								
Cash and cash equivalents	**$ 984**	**$ 15**	**$ —**	**$ 999**	$ 2,247	$ 13	$ —	$ 2,260
Short term investments	**19**	**2**	**—**	**21**	290	—	—	290
Security deposits	**7**	**—**	**—**	**7**	1,701	—	—	1,701
Franchise loans receivable	**—**	**—**	**399**	**399**	—	—	375	375
Certain other assets	**—**	**8**	**64**	**72**	—	8	59	67
Derivatives included in prepaid expenses and other assets	**—**	**10**	**—**	**10**	—	2	—	2
Financial liabilities:								
Derivatives included in trade payables and other liabilities	**—**	**11**	**4**	**15**	—	—	4	4
Trust unit liability	**722**	**—**	**—**	**722**	688	—	—	688
Long term debt	**—**	**12,508**	**—**	**12,508**	—	8,188	—	8,188
Capital securities(i)	**234**	**—**	**—**	**234**	236	—	—	236
Certain other liabilities	**—**	**—**	**28**	**28**	—	—	40	40

(i) As at January 3, 2015, capital securities were classified as current liabilities.

The carrying value of the Company's financial instruments approximates its fair value except for long term debt and capital securities.

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

The level 3 financial instruments classified as fair value through profit or loss as at January 3, 2015, and December 28, 2013 consist of embedded derivatives on purchase orders placed in neither Canadian dollars, nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any of the inputs would result in a significantly higher (lower) fair value measurement.

The fair value of the embedded foreign currency derivatives classified as Level 3 included in trade payables and other liabilities as at January 3, 2015 was $4 million (December 28, 2013 – $4 million). During 2014, a nominal loss (2013 – $3 million) was recorded in operating income. As at January 3, 2015, a 1% increase (decrease) in foreign currency exchange rates would result in a $1 million gain (loss) in fair value.

During 2014, the Company recognized a gain of $11 million (2013 – $33 million) in earnings before incomes taxes on financial instruments designated as fair value through profit or loss. In addition, during 2014 a loss of $18 million (2013 – $27 million) was recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

During 2014, net interest expense of $571 million (2013 – $446 million) was recorded related to financial instruments not classified or designated as fair value through profit or loss.

The following is a discussion of the Company's derivative instruments:

Cross Currency Swaps In 2013, Glenhuron Bank Limited ("Glenhuron") unwound its cross currency swaps and received a net cash settlement of $76 million, representing the cumulative fair value gain on the swaps. The swaps were offset by the effect of translation gains and losses relating to USD cash and cash equivalents, short term investments and security deposits.

In 2013, the Company settled its USD $300 million USPP cross currency swaps in conjunction with the settlement of the underlying USD $300 million USPP notes, and received a net cash settlement of $18 million (see note 22). The USPP cross currency swaps were used to manage the effect of translation (gains) losses on the underlying USD USPP notes in long term debt. As part of the full settlement, the Company settled its USD $150 million USPP cross currency swap, which matured on May 29, 2013. On settlement of the swap, an unrealized fair value gain of $5 million, net of tax of $2 million, which had been deferred in accumulated other comprehensive income was realized in operating income.

The following table summarizes the 2013 impact to operating income resulting from changes in the fair value of the cross currency swaps and the underlying exposures:

(millions of Canadian dollars)	Glenhuron Cross Currency Swaps 2013	USPP Cross Currency Swaps 2013
Fair value loss (gain) related to swaps[(i)]	$ 37	$ (11)
Translation (gain) loss related to the underlying exposures	(33)	14

(i) The impact to USPP cross currency swaps excludes the $7 million gain on derecognized derivative instruments, before income taxes, reclassified from accumulated other comprehensive income.

Interest Rate Swaps During 2013, the Company settled its notional $150 million in interest rate swaps and recognized a $5 million fair value gain in operating income related to these swaps.

Other Derivatives The Company also maintains other financial derivatives including foreign exchange forwards, electricity forwards and fuel exchange traded futures and options. During 2014, the Company recognized a $1 million loss (2013 – $7 million gain) in operating income related to these derivatives. The following table summarizes the cumulative unrealized impact of these derivatives included in the consolidated balance sheet:

(millions of Canadian dollars)	**2014**	2013
Cumulative unrealized gains recorded in prepaid expenses and other assets	**$ 10**	$ 2
Cumulative unrealized losses recorded in trade payables and other liabilities	**11**	—

In connection with the issuance of $1,600 million of senior unsecured notes in 2013 (see note 22), the Company hedged its exposure to interest rates in advance of the issuance. As this relationship did not qualify for hedge accounting, the resulting $10 million gain on settlement was recorded in operating income.

Trust Unit Liability As at January 3, 2015, the fair value of the Trust Unit Liability of $722 million (December 28, 2013 – $688 million) was recorded on the consolidated balance sheet. In 2014, the Company recorded a fair value loss of $17 million (2013 – $27 million), in net interest expense and other financing charges related to Choice Properties' Units.

As at January 3, 2015, 67,755,010 Choice Properties Units were held by unitholders other than the Company (December 28, 2013 – 66,114,229). During 2014, Choice Properties issued 1,640,781 Units (2013 – 114,229), to eligible unitholders under its distribution reinvestment plan. Units held by unitholders other than the Company are presented as a liability on the Company's consolidated balance sheet as the Units are redeemable for cash at the option of the holder, subject to certain restrictions. As at January 3, 2015, the Company held an 82.9% (December 28, 2013 – 82.2%) ownership interest in Choice Properties.

Franchise Loans Receivable and Franchise Investments in Other Assets The value of Loblaw franchise loans receivable of $399 million (December 28, 2013 – $375 million) was recorded on the consolidated balance sheets. In 2014, the Company recorded an impairment loss of $12 million (2013 – $14 million) in operating income related to these loans receivable.

The value of Loblaw franchise investments of $62 million (December 28, 2013 – $58 million) was recorded in other assets. In 2014, the Company recorded a $3 million loss (2013 – $6 million) in operating income related to these investments.

Note 31. Financial Risk Management

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

Level of Indebtedness To fund the cash portion of the Shoppers Drug Mart acquisition, the Company utilized excess cash and significantly increased its indebtedness. Although the Company has made progress in reducing its indebtedness subsequent to the acquisition of Shoppers Drug Mart, there can be no assurance that the Company will generate sufficient free cash flow to significantly further reduce indebtedness and maintain adequate cash reserves. A failure to achieve these objectives could adversely affect the Company's credit ratings and its cost of funding.

If the Company, PC Bank or Choice Properties' financial performance and condition deteriorate or downgrades in the Company's or Choice Properties' current credit ratings occur, their ability to obtain funding from external sources could be restricted, which could adversely affect the financial performance of the Company.

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.

The following are the undiscounted contractual maturities of significant financial liabilities as at January 3, 2015:

	2015	2016	2017	2018	2019	Thereafter	Total(i)
Derivative Financial Liabilities							
Foreign exchange forward contracts	$ 232	$ —	$ —	$ —	$ —	$ —	$ 232
Non-Derivative Financial Liabilities							
Short term debt(ii)	605	—	—	—	—	—	605
Bank Indebtedness	162	—	—	—	—	—	162
Long term debt including interest payments(iii)	911	1,445	1,278	1,767	2,920	8,263	16,584
Other liabilities(iv)	4	8	5	3	2	6	28
	$ 1,914	$ 1,453	$ 1,283	$ 1,770	$ 2,922	$ 8,269	$ 17,611

(i) Capital securities and their related dividends, and the Trust Unit Liability have been excluded as these liabilities do not have a contractual maturity date. The Company also excluded trade payables and other liabilities, which are due within the next 12 months.

(ii) These are obligations owed to independent securitization trusts which are collateralized by the Company's credit card receivables (see note 11).

(iii) Fixed interest payments are based on the maturing face values and annual interest for each instrument, including GICs, long term independent securitization trusts and an independent funding trust, as well as annual payment obligations for structured entities, mortgages and finance lease obligations. Variables interest payments are based on the forward rates as of January 3, 2015.

(iv) Contractual obligation related to certain other liabilities.

Choice Properties' Capital Availability The real estate industry is highly capital intensive. Choice Properties requires access to capital to maintain its properties, refinance its indebtedness as well as to fund its growth strategy and certain capital investments from time to time. Although Choice Properties expects to have access to its credit facility, there can be no assurance that it will otherwise have sufficient capital or access to capital on acceptable terms for future property acquisitions, refinancing indebtedness, financing or refinancing properties, funding operating expenses or for other purposes. Further, in certain circumstances, Choice Properties may not be able to borrow funds due to certain limitations. Failure by Choice Properties to access required capital could have a material adverse effect on the Company's ability to pay its financial or other obligations. An inability to access capital could also impact Choice Properties' ability to make distributions which could have a material adverse effect on the trading price of Units which would adversely affect the financial performance of the Company.

Credit The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company. Exposure to credit risk relates to 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 independent 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 independent franchisees, governments, prescription sales covered by third-party drug plans, independent accounts and amounts owed from vendors, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

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

Interest Rates The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt and financial instruments, net of cash and cash equivalents, short term investments and security deposits. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt, net of cash and cash equivalents, short term investments and security deposits, and by taking action as necessary to maintain an appropriate balance considering current market conditions. The Company estimates that a 1% increase (decrease) in short term interest rates, with all other variables held constant, would result in a increase (decrease) of $16 million to net interest expense and other financing charges.

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

Commodity Prices The Company is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. 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. Rising commodity prices could adversely affect the financial performance of the Company. The Company estimates that based on the outstanding derivative contracts held by the Company as at January 3, 2015, a 10% decrease in relevant energy prices, with all other variables held constant, would result in a net loss of $3 million on earnings before income taxes.

Choice Properties Unit Price The Company is exposed to market price risk as a result of Choice Properties' Units that are held by unitholders other than the Company. These Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder. The liability is recorded at fair value at each reporting period based on the market price of Units. The change in the fair value of the liability negatively impacts net earnings when the Unit price increases and positively impacts net earnings when the Unit price declines. A one dollar increase in the market value of Units, with all other variables held constant, would result in $68 million increase to net interest expense and other financing charges.

Note 32. Contingent Liabilities

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

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

Shoppers Drug Mart has been served with an Amended Statement of Claim in a proposed class action proceeding that has been filed under 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 proposed 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. While Shoppers Drug Mart continues to believe that the claim is without merit and will vigorously defend the claim, the outcome of this matter cannot be predicted with certainty.

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

In 2012, the Company received indication from the Canada Revenue Agency (the "CRA") that the CRA intends to proceed with reassessments of the tax treatment of the Company's wholly owned subsidiary, Glenhuron. The CRA's position is that certain income earned by Glenhuron in Barbados in respect of the 2000 to 2010 taxation years should be treated, and taxed, as income in Canada.

Based on the proposal letter from the CRA, if the CRA and the relevant provincial tax authorities were to prevail in all of these reassessments, which the Company believes would be unlikely, the estimated total tax and interest for the 2000 to 2010 taxation years would be approximately $440 million, which would increase as interest accrues. However, the Company is in discussions with the CRA about the amount of taxes in dispute. The Company believes it is likely that the CRA and the relevant provincial tax authorities will issue reassessments for 2011 to 2013 on the same or similar basis. No amount for any reassessments has been provided for in the Company's consolidated financial statements.

Subsequent to the end of 2014, the Company received a letter from the CRA stating that the CRA will be proceeding with the reassessments. The Company expects to receive reassessments from the CRA and the relevant provincial tax authorities sometime in the coming months. The Company strongly disagrees with the CRA's position and intends to vigorously defend its position including appealing the reassessments as and when they are received. The Company will make cash payments or provide other forms of security on a portion of the taxes in dispute. If the Company is successful in defending its position, in whole or in part, some or all of the cash payments or security would be returned to the Company.

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

Note 33. Financial Guarantees

The Company established letters of credit used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and performance guarantees with a gross potential liability of approximately $293 million (December 28, 2013 – $348 million). In addition, the Company has provided to third parties the following significant guarantees:

Associate Guarantees The Company has arranged for its Shoppers Drug Mart 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 3, 2015, the Company's maximum obligation in respect of such guarantees was $570 million with an aggregate amount of $476 million in available lines of credit allocated to the Associates by the various banks. As at January 3, 2015, Associates had drawn an aggregate amount of $162 million against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheet. As recourse in the event that any payments are made under the guarantees, the Company holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

Independent Funding Trusts The full balance relating to the debt of the independent funding trusts has been consolidated on the balance sheet of the Company (see note 22). As at January 3, 2015 the Company has agreed to provide a credit enhancement of $50 million (December 28, 2013 – $48 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2013 – 10%) of the principal amount of loans outstanding. This credit enhancement allows the independent funding trusts to provide financing to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trusts for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trusts would assign the loan to the Company and draw upon this standby letter of credit. This standby letter of credit has never been drawn upon. The Company has agreed to reimburse the issuing bank for any amount drawn on the standby letter of credit.

Lease Obligations In connection with historical dispositions of certain of its assets, the Company has assigned leases to third parties. The Company remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. The minimum rent, which does not include other lease related expenses such as property tax and common area maintenance charges, is in aggregate, approximately $17 million (December 28, 2013 – $14 million). Additionally, the Company has guaranteed lease obligations of a third party distributor in the amount of $13 million (December 28, 2013 – $17 million).

Financial Services The Company has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at January 3, 2015, the guarantee on behalf of PC Bank to MasterCard® was USD $170 million (December 28, 2013 – USD $170 million).

In 2014, the Company arranged for an irrevocable standby letter of credit from a major Canadian chartered bank on behalf of one of its wholly-owned subsidiaries in the amount of $91 million.

Letters of credit for the benefit of independent securitization trusts with respect to the securitization programs of PC Bank have been issued by major financial institutions. These standby letters of credit can be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. As at January 3, 2015, the aggregate gross potential liability under these arrangements for the Other Independent Securitization Trusts was $61 million (December 28, 2013 – $54 million), which represented 10% (2013 – 9%) of the securitized credit card receivables amount (see note 20). As at January 3, 2015, the aggregate gross potential liability under these arrangements for *Eagle* was $68 million (December 28, 2013 – nil), which represented 9% (2013 – nil) of the *Eagle* notes outstanding (see note 22).

Choice Properties issues letters of credit to support performance guarantees related to its investment properties including maintenance and development obligations to municipal authorities. As at January 3, 2015, the aggregate gross potential liability related to these letters of credit totaled $23 million (December 28, 2013 – $20 million).

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

Note 34. Related Party Transactions

The Company's controlling shareholder is Weston, which owns, directly and indirectly, 187,815,136 of the Company's common shares, representing approximately 46% of the Company's outstanding common shares. Mr. W. Galen Weston controls Weston, directly and indirectly through private companies which he controls, including Wittington who owns a total of 80,746,099 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)	**2014**	2013
Included in Cost of Merchandise Inventories Sold		
Inventory purchases from a subsidiary of Weston	**$ 615**	$ 601
Inventory purchases from a related party[(i)]	**24**	22
Operating Income		
Cost sharing agreements with Parent[(ii)]	**$ 20**	$ 9
Net administrative services provided by Parent[(iii)]	**18**	13
Choice Properties distributions to Parent[(iv)]	**14**	6
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 3, 2015 was $3 million (December 28, 2013 – $4 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 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 2014, Choice Properties issued 1,306,847 Units (2013 – 107,810 Units) to Weston under its DRIP at a weighted average price of $10.30 (2013 – $10.05) per Unit.

The net balances due to Weston are comprised as follows:

(millions of Canadian dollars)	**As at January 3, 2015**	As at December 28, 2013
Trade payables and other liabilities	**$ 7**	$ 27

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 3, 2015, the joint venture did not have any operating activity. Choice Properties uses the equity method of accounting to record its 40% interest in the joint venture, which is included in other assets (see note 19).

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

Income Tax Matters From time to time, the Company, Weston and its affiliates may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations. In 2014, 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)	**2014**	2013
Salaries, director fees and other short term employee benefits	**$ 9**	$ 8
Equity-based compensation	**3**	6
Total compensation	**$ 12**	$ 14

Note 35. Segment Information

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

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

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA[(1)] and adjusted operating income[(1)], as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

					2014					2013[(i)]
(millions of Canadian dollars)	Retail	Financial Services[(ii)]	Choice Properties[(ii)]	Consolidation and Eliminations[(iii)]	Total	Retail	Financial Services	Choice Properties	Consolidation and Eliminations[(iii)]	Total
Revenue[(iv)]	**$ 41,731**	**$ 810**	**$ 683**	**$ (613)**	**$ 42,611**	$ 31,600	$ 739	$ 319	$ (287)	$ 32,371
EBITDA[(v)]	**$ 1,950**	**$ 171**	**$ 568**	**$ (555)**	**$ 2,134**	$ 1,989	$ 151	$ 370	$ (365)	$ 2,145
Adjustments[(vi)]	**1,088**	**—**	**14**	**—**	**1,102**	(42)	—	3	—	(39)
Adjusted EBITDA[(vi)]	**$ 3,038**	**$ 171**	**$ 582**	**$ (555)**	**$ 3,236**	$ 1,947	$ 151	$ 373	$ (365)	$ 2,106
Depreciation and Amortization[(vii)]	**1,036**	**7**	**—**	**12**	**1,055**	809	9	—	6	824
Adjusted Operating Income[(vi)]	**$ 2,002**	**$ 164**	**$ 582**	**$ (567)**	**$ 2,181**	$ 1,138	$ 142	$ 373	$ (371)	$ 1,282
Net interest expense and other financing charges	**$ 386**	**$ 53**	**$ 369**	**$ (224)**	**$ 584**	$ 315	$ 49	$ 303	$ (199)	$ 468

(i) Certain 2013 figures have been amended to conform with the current year's presentation. See Accounting Standards Implemented in 2014 and Changes to Significant Accounting policies beginning on page 73.

(ii) For segment presentation purposes, the results are for the year ended December 31, 2014, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to January 3, 2015, are included in Consolidation and Eliminations.

(iii) Consolidation and Eliminations includes the following items:

- Revenue includes the elimination of $471 million (2013 – $221 million) of rental revenue and $142 million (2013 – $66 million) of cost recovery recognized by Choice Properties, received from the Retail segment.
- Operating income includes the elimination of the $471 million (2013 – $221 million) impact of rental revenue described above; the elimination of a $82 million gain (2013 – $144 million) recognized by Choice Properties related to the fair value adjustments on investment properties, which are classified as Fixed Assets or Investment Properties by the Company and measured at cost; the recognition of $12 million (2013 – $6 million) of depreciation expense for certain investment properties recorded by Choice Properties and measured at fair value; and the elimination of $2 million (2013 – nil) intercompany charges.
- Net interest expense and other financing charges includes the elimination of $297 million (2013 – $144 million) of interest expense included in Choice Properties related to debt owing to the Company; Unit distributions to external unitholders of $44 million (2013 – $21 million), which excludes distributions paid to the Company, and Choice Properties Unit issuance costs of nil (2013 – $44 million), which are reflected as a reduction of equity in Choice Properties, and presented as interest expense for the consolidated Company; the elimination of a $12 million fair value gain (2013 – $147 million loss) recognized by Choice Properties on Class B Limited Partnership units held by the Company; and a $17 million fair value loss (2013 – $27 million) on the Company's Trust Unit Liability.

(iv) Included in Financial Services revenue is $356 million (2013 – $325 million) of interest income.

(v) EBITDA[(1)] is equal to Operating Income of $662 million (2013 – $1,321 million) plus Depreciation and Amortization of $1,472 million (2013 – $824 million).

(vi) Certain items are excluded from operating income and EBITDA[(1)] to derive adjusted operating income[(1)] and adjusted EBITDA[(1)], respectively. Adjusted operating income[(1)] and adjusted EBITDA[(1)] are used internally by management when analyzing segment underlying performance. Adjustments include: Recognition of fair value increment on inventory sold; Amortization of intangible assets acquired with Shoppers Drug Mart; Charge related to inventory measurement and other conversion differences; Shoppers Drug Mart acquisition-related costs and net divestitures loss; Restructuring costs; Restructuring of franchise fees; Fixed asset and other related impairments, net of recoveries; Choice Properties general and administrative costs; Fair value adjustment on Shoppers Drug Mart's equity-based compensation liability; Fair value adjustments on fuel and foreign currency contracts; Defined benefit plan amendments; Choice Properties start-up costs.

(vii) Depreciation and amortization for the calculation of adjusted EBITDA[(1)] excludes $417 million (2013 – nil) of amortization of intangible assets acquired with Shoppers Drug Mart.

(1) See Section 20 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis.

(millions of Canadian dollars)		As at January 3, 2015		As at December 28, 2013
Total Assets				
Retail	**$**	**29,973**	$	17,290
Financial Services[(i)]		**3,094**		2,801
Choice Properties[(i)]		**8,192**		7,448
Consolidation and Eliminations[(ii)]		**(7,575)**		(6,798)
Total	**$**	**33,684**	$	20,741

(i) For segment presentation purposes, the amounts are for the year ended December 31, 2014, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to January 3, 2015, are included in Consolidation and Eliminations.

(ii) Consolidation and Eliminations includes the elimination of certain investment properties held by Choice Properties measured at fair value, which are presented in the consolidated results as fixed assets and investment properties measured at cost.

(millions of Canadian dollars)		As at January 3, 2015		As at December 28, 2013
Additions to Fixed Assets and Intangible Assets				
Retail[(i)]	**$**	**941**	$	835
Financial Services[(ii)]		**18**		6
Choice Properties[(ii)]		**280**		7,129
Consolidation and Eliminations[(iii)]		**(153)**		(7,093)
Total	**$**	**1,086**	$	877

(i) Excludes approximately $11,300 million of fixed assets, investment properties and intangible assets, resulting from the acquisition of Shoppers Drug Mart (see note 5).

(ii) For segment presentation purposes, the results are for the year ended December 31, 2014, consistent with the fiscal calendars of both Financial Services and Choice Properties. Adjustments to January 3, 2015, are included in Consolidation and Eliminations.

(iii) Consolidations and Eliminations includes the elimination of $179 million (2013 – $7,093 million) of investment properties acquired by Choice Properties from the Retail Segment.

Note 36. Subsequent Events

The following events have occurred subsequent to the end of the year:

The Company sold a warehouse to Choice Properties for approximately $81 million. The warehouse is fully occupied by the Company as the single tenant with a 20-year initial lease term with six five-year renewal options.

The Company sold a parcel of land to Choice Properties for approximately $12 million. Consideration for the acquisition included 265,665 Class B Limited Partnership units, $7 million in cash and the assumption of a $2 million obligation. The Class B Limited Partnership units issued to the Company as partial consideration for this transaction did not impact the Company's effective ownership percentage.

Choice Properties issued $250 million aggregate principal amount of Series E senior unsecured debentures bearing interest at a rate of 2.30% per annum and maturing in 2020. The net proceeds from the issuance were used by Choice Properties to repay existing indebtedness and for general business purposes.

The Company, through PC Bank, extended the maturity date for certain Other Independent Securitization Trust agreements from the second quarter of 2016 to the second quarter of 2017, with all other terms and conditions remaining substantially the same.

PC Bank entered into USD foreign exchange forward agreements, which mature by December 2015. The notional amounts of the contracts total USD $27 million.

Pursuant to the Consent Agreement reached with the Competition Bureau in 2014 (see note 5), the Company sold the remaining three Shoppers Drug Mart stores for estimated proceeds of $9 million.