

# Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL" or the "Company") should be read in conjunction with the audited annual consolidated financial statements and the accompanying notes on pages 91 to 171 of this Annual Report. The Company's audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"). The audited annual consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except where otherwise noted.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See Section 13, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

The Company operates through its two reportable operating segments: Loblaw Companies Limited ("Loblaw") and Choice Properties Real Estate Investment Trust ("Choice Properties"). Other and Intersegment includes eliminations, intersegment adjustments related to the consolidation and cash and short-term investments held by the Company. All other company level activities that are not allocated to the reportable operating segments, such as net interest expense, corporate activities and administrative costs are included in Other and Intersegment. See note 35, "Segment Information" in the Company's audited annual consolidated financial statements and the accompanying notes of this Annual Report for details.

In 2021, the Company completed the sale of the Weston Foods bakery business. The impacts of the sale of Weston Foods and the results of Weston Foods, net of intersegment eliminations, have been presented separately as discontinued operations in the Company's results. See note 7, "Discontinued Operations" in the Company's audited annual consolidated financial statements and the accompanying notes of this Annual Report for details.

Unless otherwise indicated, all financial information in this MD&A represents the Company's results from continuing operations<sup>(5)</sup>.

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

The information in this MD&A is current to March 1, 2023, unless otherwise noted.

## FOOTNOTE LEGEND

- 1 See Section 13, "Non-GAAP Financial Measures", of the Company's 2022 Management's Discussion and Analysis.
- 2 GWL Corporate refers to the non-consolidated financial results and metrics of GWL. GWL Corporate is a subset of Other and Intersegment.
- 3 To be read in conjunction with "Forward-Looking Statements" beginning on page 88.
- 4 For financial definitions and ratios refer to Glossary beginning on page 174.
- 5 In 2021, the Company completed the sale of the Weston Foods bakery business. The Company's interest in Weston Foods is presented separately as discontinued operations in the Company's results. See note 7, "Discontinued Operations".

## Table of Contents

<b>4</b>	<b>At a Glance</b>
<b>5</b>	<b>Our Business</b>
<b>8</b>	<b>Key Performance Indicators</b>
	<b>Operating Segments</b>
12	Loblaw
14	Choice Properties
<b>17</b>	<b>Financial Results</b>
<b>73</b>	<b>Outlook</b>
<b>74</b>	<b>Non-GAAP Financial Measures</b>
<b>88</b>	<b>Forward-Looking Statements</b>
<b>90</b>	<b>Additional Information</b>

# At a Glance

## Key financial highlights

As at or for the year ended December 31, 2022  
(\$ millions except where otherwise indicated)

Unless otherwise indicated, all financial information represents the Company's results from continuing operations<sup>(5)</sup>.

### Consolidated

#### REVENUE

**\$57,048**

**+6.1%**  
vs. 2021

#### OPERATING INCOME

**\$4,553**

**+13.1%**  
vs. 2021

#### ADJUSTED EBITDA<sup>(1)</sup>

**\$6,551**

**+9.3%**  
vs. 2021

#### ADJUSTED EBITDA MARGIN<sup>(1)</sup> (%)

**11.5%**

**+30bps**  
vs. 2021

#### NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS FROM CONTINUING OPERATIONS

**\$1,778**

**+150.8%**  
vs. 2021

#### ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS<sup>(1)</sup> FROM CONTINUING OPERATIONS

**\$1,432**

**+16.2%**  
vs. 2021

#### DILUTED NET EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS (\$)

**\$12.20**

**+161.8%**  
vs. 2021

#### ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE<sup>(1)</sup> FROM CONTINUING OPERATIONS (\$)

**\$9.81**

**+20.5%**  
vs. 2021

### GWL Corporate<sup>(2)</sup>

#### CASH FLOW FROM OPERATING BUSINESSES<sup>(1)</sup> FROM CONTINUING OPERATIONS

**\$602**

**+4.0%**  
vs. 2021

#### GWL CORPORATE<sup>(2)</sup> FREE CASH FLOW<sup>(1)</sup> FROM CONTINUING OPERATIONS

**\$893**

**-8.7%**  
vs. 2021

#### ANNUALIZED DIVIDENDS DECLARED PER SHARE (\$)

**\$2.64**

**+10.0%**  
vs. 2021

#### GWL CORPORATE<sup>(2)</sup> CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

**\$818**

**-38.9%**  
vs. 2021

1 See Section 13, "Non-GAAP Financial Measures", of the Company's 2022 Management's Discussion and Analysis.

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

5 In 2021, the Company completed the sale of the Weston Foods bakery business. The Company's interest in Weston Foods is presented separately as discontinued operations in the Company's results. See note 7, "Discontinued Operations".

# Our Business

## Our history as a family business

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

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

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

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

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

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

In 2021, George Weston Limited made the decision to sell its Weston Foods bakery business. The business had been the foundation for the Weston Group in Canada since its establishment in 1882. The sale of the business was completed at the end of 2021, positioning the Company to focus on its market-leading retail and real estate businesses.

For more than a century and a quarter, thousands of employees of George Weston Limited and its subsidiaries have built an enterprise that has persevered and prospered through good times and bad to become one of Canada's most successful companies.

## What we do

George Weston Limited is a Canadian public company, founded in 1882 and listed on the Toronto Stock Exchange (TSX:WN) since January 1928. The Company owns two businesses in retail and real estate.

## WESTON

GEORGE WESTON LIMITED



### Loblaw

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



### Choice Properties

Choice Properties REIT (TSX: CHP.UN) is a leading Real Estate Investment Trust that creates enduring value through the ownership, operation and development of high-quality commercial and residential properties. The Choice Properties portfolio is comprised of retail properties, primarily leased to necessity-based tenants, and high quality industrial, mixed use and residential assets, concentrated in attractive markets across Canada.

## **Our Operating and Value Creation Strategy**

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

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

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

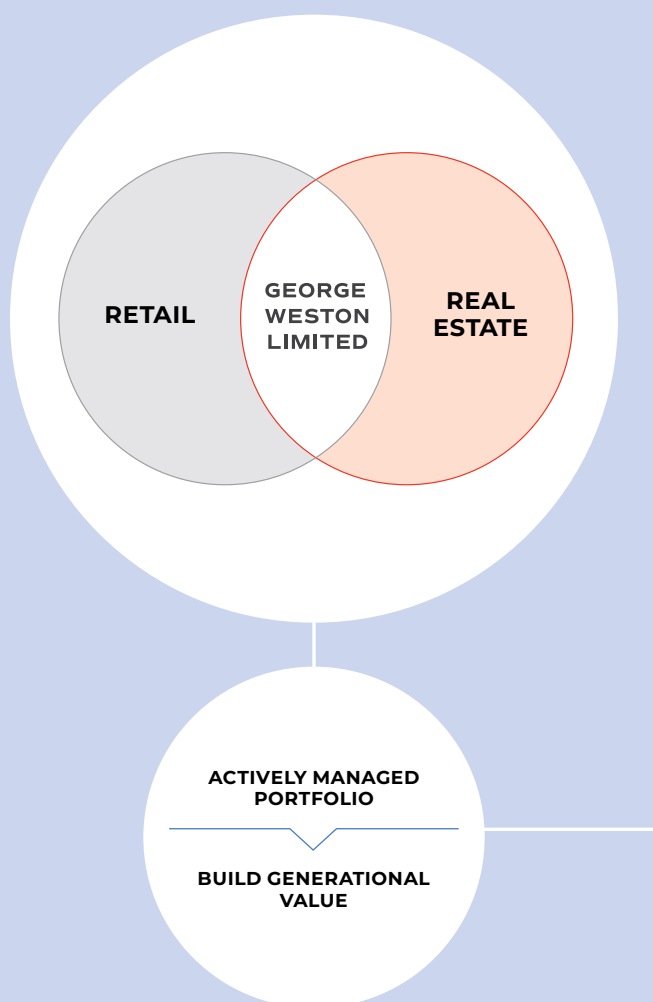
The Company is committed to supporting its portfolio of companies, providing expertise and decision support. This includes support in areas such as strategy, talent development, capital allocation and mergers and acquisitions.

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

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

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

# Our Operating and Value Creation Strategy



## Built on what we have in common

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



### CORE VALUES

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



### ETHICS & COMPLIANCE

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



### BLUE CULTURE

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



### SOCIAL RESPONSIBILITY

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

## Impacting

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



### SHAREHOLDERS

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



### COLLEAGUES

Our talent is central to achieving our long-term goals. Our focus on attracting and developing exceptional leaders is a strategic imperative and we are proud to offer challenging and rewarding careers.



### COMMUNITIES

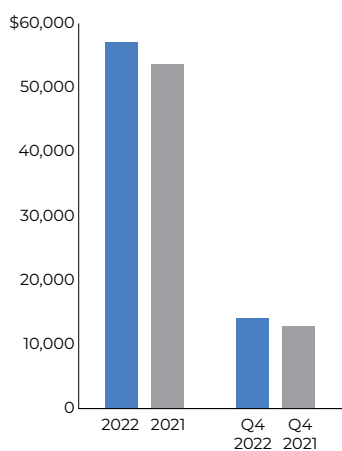
Consistent with our heritage and values, we are focused on improving the quality of life in the communities where we live and work.

# Key Performance Indicators

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

Unless otherwise indicated, all financial information represents the Company's results from continuing operations<sup>(5)</sup>.

## REVENUE

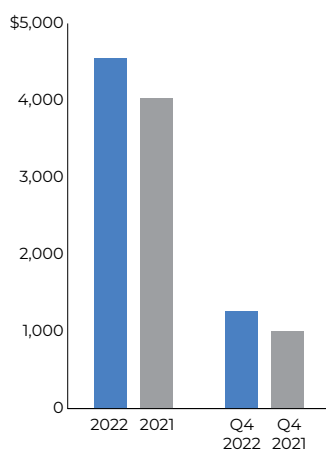


2022	57,048	+6.1%
2021	53,748	
Q4 2022	14,142	+9.6%
Q4 2021	12,902	

### Performance in 2022

Revenue growth of \$3,300 million driven by Loblaw.

## OPERATING INCOME

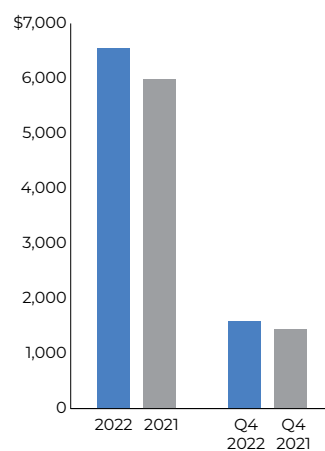


2022	4,553	+13.1%
2021	4,027	
Q4 2022	1,264	+25.3%
Q4 2021	1,009	

### Performance in 2022

Operating income increased by \$526 million. The increase was mainly attributable to the underlying operating performance of Loblaw and the favourable year-over-year net impact of adjusting items.

## ADJUSTED EBITDA<sup>(1)</sup>



2022	6,551	+9.3%
2021	5,995	
Q4 2022	1,590	+9.4%
Q4 2021	1,453	

### Performance in 2022

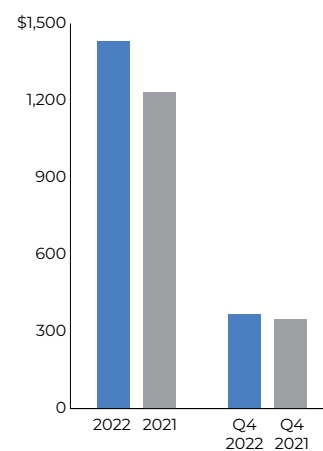
Adjusted EBITDA<sup>(1)</sup> increased by \$556 million, primarily driven by an improvement in the underlying operating performance of Loblaw.

## ADJUSTED EBITDA MARGIN<sup>(1)</sup> (%)

**11.5%** +30bps  
2022 vs. 2021

**11.2%** -10bps  
Q4 2022 vs. Q4 2021

## ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS<sup>(1)</sup> FROM CONTINUING OPERATIONS



2022	1,432	+16.2%
2021	1,232	
Q4 2022	369	+6.3%
Q4 2021	347	

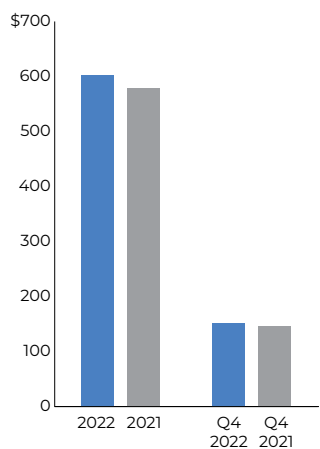
### Performance in 2022

Adjusted net earnings available to common shareholders from continuing operations<sup>(1)</sup> increased by \$200 million, due to an increase in the underlying operating performance of Loblaw, and a decrease in adjusted net interest expense and other financing charges<sup>(1)</sup>, partially offset by an increase in tax expense and the unfavourable year-over-year impact of asset impairments recorded on consolidation.

## ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE<sup>(1)</sup> FROM CONTINUING OPERATIONS (\$)

**\$9.81** +20.5%  
2022 vs. 2021

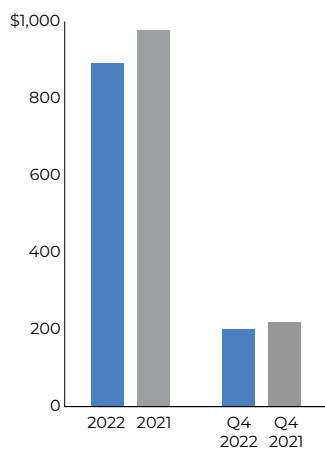
**\$2.59** +11.6%  
Q4 2022 vs. Q4 2021


**GWL CORPORATE<sup>(2)</sup> CASH FLOW FROM OPERATING BUSINESSES<sup>(1)</sup> FROM CONTINUING OPERATIONS**


2022	602	+4.0%
2021	579	
Q4 2022	151	+3.4%
Q4 2021	146	

**Performance in 2022**

GWL Corporate<sup>(2)</sup> cash flow from operating businesses<sup>(1)</sup> from continuing operations were higher due to the increase in dividends received from Loblaw.

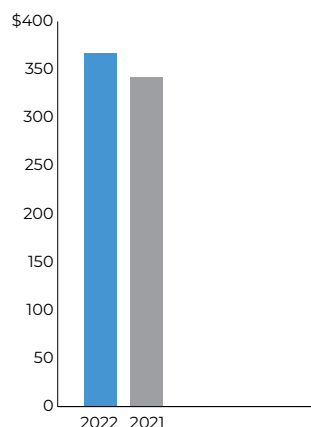
**GWL CORPORATE<sup>(2)</sup> FREE CASH FLOW<sup>(1)</sup> FROM CONTINUING OPERATIONS**


2022	893	-8.7%
2021	978	
Q4 2022	201	-5.6%
Q4 2021	213	

**Performance in 2022**

GWL Corporate<sup>(2)</sup> free cash flow<sup>(1)</sup> from continuing operations decreased, primarily due to higher income taxes paid, partially offset by an increase in dividends received from Loblaw.

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

**GWL CORPORATE<sup>(2)</sup> CASH AND CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS**


2022	367	+7.3%
2021	342	

**Performance in 2022**

GWL Corporate<sup>(2)</sup> dividends paid were higher due to an increase in the dividend per common share of 10.0% in the third quarter of 2022.

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

**\$818** -38.9%  
2022 vs. 2021

---

**\$1,338**  
2021

**Performance in 2022**

GWL Corporate<sup>(2)</sup> cash and cash equivalents and short-term investments included the proceeds received from the disposal of Weston Foods in 2021. The decrease since 2021 year end was primarily due to the repurchase of shares under the Company's Normal Course Issuer Bid, partially offset by the proceeds from GWL's participation in Loblaw's Normal Course Issuer Bid.

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

1 See Section 13, "Non-GAAP Financial Measures", of the Company's 2022 Management's Discussion and Analysis.

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

5 In 2021, the Company completed the sale of the Weston Foods bakery business. The Company's interest in Weston Foods is presented separately as discontinued operations in the Company's results. See note 7, "Discontinued Operations".

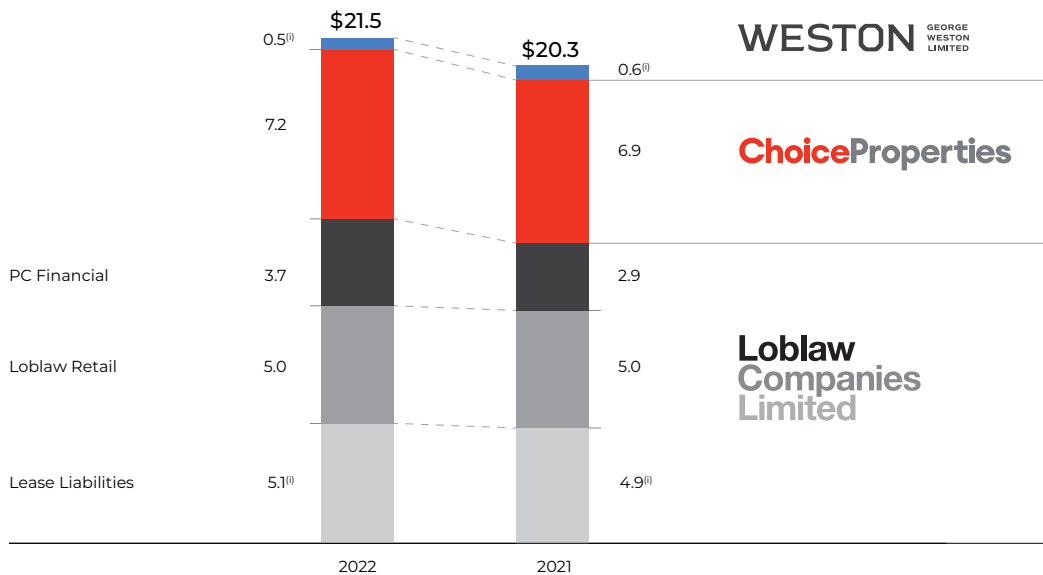
## Total Debt

The Company manages its debt on a segmented basis to ensure that each of its businesses is employing leverage that is appropriate. The following chart presents total consolidated debt by reportable operating segment as at December 31, 2022 and 2021. There is no recourse to the Company for debt incurred by its operating segments.

The consolidated debt for the group as at December 31, 2022 was \$21.5 billion. Indebtedness of Loblaw and Choice Properties is fully serviced by their respective operating cash flows. Indebtedness of GWL Corporate<sup>(2)(i)</sup> is comprised of \$450 million of senior unsecured debentures.

### TOTAL DEBT

As at December 31  
(\$ billions)



(i) In 2022, the Company recognized lease liabilities of \$5.1 billion (2021 – \$4.9 billion) on its consolidated balance sheet, which was fully attributable to Loblaw. Lease liabilities are recognized primarily for leases of real estate, vehicles and equipment.



## GWL Corporate<sup>(2)</sup> Free Cash Flow<sup>(1)</sup> from Continuing Operations

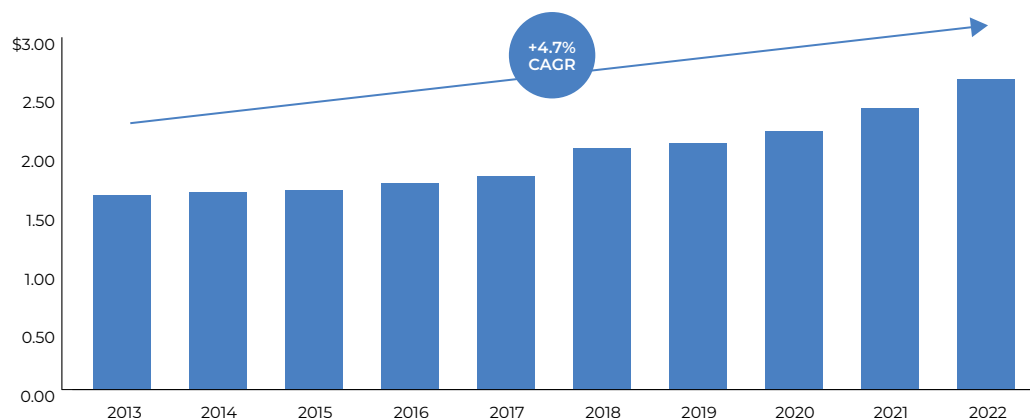
GWL Corporate<sup>(2)</sup> free cash flow<sup>(1)</sup> from continuing operations is generated from the dividends received from Loblaw, distributions received from Choice Properties, and proceeds from participation in Loblaw's Normal Course Issuer Bid, less corporate expenses, interest and income taxes paid.

For the quarters and years ended December 31 (\$ millions)	Quarters ended		Years ended	
	2022	2021	2022	2021
Dividends from Loblaw	69	64	272	249
Distributions from Choice Properties	82	82	330	330
<b>GWL Corporate<sup>(2)</sup> cash flow from operating businesses<sup>(1)</sup> from Continuing Operations</b>	<b>151</b>	<b>146</b>	<b>602</b>	<b>579</b>
Proceeds from participation in Loblaw's Normal Course Issuer Bid	49	89	558	563
GWL Corporate <sup>(2)</sup> , financing, and other costs <sup>(i)</sup>	2	14	(114)	(101)
Income taxes paid	(1)	(36)	(153)	(63)
<b>GWL Corporate<sup>(2)</sup> free cash flow<sup>(1)</sup> from Continuing Operations</b>	<b>201</b>	<b>213</b>	<b>893</b>	<b>978</b>

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

## Dividends

GWL increased its annualized dividend to \$2.64 per common share in 2022. The Company's objective is to increase the dividend per common share over time while retaining appropriate free cash flow to finance future growth. Since 2013, the dividend per common share has increased at a 4.7% CAGR.



1 See Section 13, "Non-GAAP Financial Measures", of the Company's 2022 Management's Discussion and Analysis.

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

# Loblaw

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

## Strategy

Loblaw is driven by its purpose to help Canadians *Live Life Well*<sup>®</sup> which guides its strategic framework. This framework centres around a passion for customers and drives investments in three key strategic priorities: Everyday Digital Retail, Payments and Rewards, and Connected Healthcare. Enabling these investments comes from a sharp focus on leveraging data driven insights and process efficiency excellence to deliver strong financial performance. The framework is supported by colleagues with a shared set of CORE values and culture principles that encourages colleagues to be authentic, build trust and make connections.

Loblaw strives to be the “best in food, health and beauty” and with its focus on retail excellence, it is constantly improving its retail operations to differentiate its customer offerings and deliver scale through its national logistics infrastructure. Building for the future, its purpose guides its investments in strategic growth initiatives to further differentiate its portfolio of assets, generate competitive advantages in products, services and price, improve its operational efficiencies, and create new areas of growth.

Loblaw’s purpose-led approach to addressing environmental, social and governance issues focuses on two priorities: *Fighting Climate Change* and *Advancing Social Equity*. Environmental, social and governance (“ESG”) considerations are central to decisions made across Loblaw. By integrating consideration of environmental and social risks and good governance practices in its day-to-day business activities, implementing robust compliance and ethics programs and supporting its colleagues and the communities in which it operates, Loblaw aims to be a leading contributor to Canadian society both today and for generations to come.

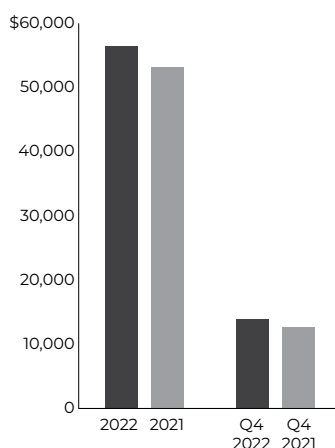
## Key highlights for the year

Loblaw continued to deliver strong and consistent financial and operating results in retail and financial services in 2022. Global inflationary pressures and a lessened impact from COVID-19 influenced consumer behaviours and positively impacted retail sales. Loblaw’s portfolio of best in class assets was well positioned to meet customer’s everyday needs across food, health and wellness, further bolstered by its acquisition of Lifemark Health Group (“Lifemark”) during the year. Loblaw’s relentless focus on retail excellence leveraged these assets to deliver strong sales growth, gross margin improvements, and operating cost leverage.

## Key performance indicators

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

### REVENUE

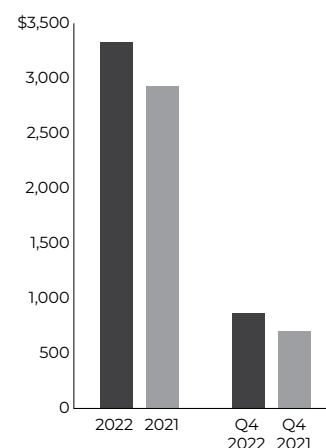


2022	56,504	+6.3%
2021	53,170	
Q4 2022	14,007	+9.8%
Q4 2021	12,757	

### Performance in 2022

Revenue increased by \$3,334 million driven by an increase in retail sales and an improvement in financial services revenue. The increase in retail sales was primarily due to positive same-store sales growth and Lifemark revenue since the date of acquisition.

### OPERATING INCOME



2022	3,334	+13.8%
2021	2,929	
Q4 2022	869	+23.6%
Q4 2021	703	

### Performance in 2022

Operating income increased by \$405 million compared to 2021. The increase was driven by an improvement in the underlying operating performance of retail, partially offset by a decline in financial services and the unfavourable year-over-year impact of certain adjusting items.

## Loblaw Offerings

### DIVISIONS:

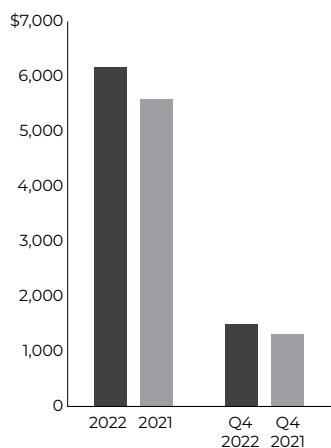
Discount  
Market  
Shoppers Drug Mart  
PC Financial  
Joe Fresh

### TOP BRANDS:

President’s Choice  
No Name  
Farmer’s Market  
T&T  
Life Brand  
PC Optimum  
PC Money



### ADJUSTED EBITDA<sup>(1)</sup>



2022	6,173	+10.6%
2021	5,579	
Q4 2022	1,491	+12.8%
Q4 2021	1,322	

#### Performance in 2022

Adjusted EBITDA<sup>(1)</sup> increased by \$594 million compared to 2021, primarily due to an increase in retail, partially offset by a decrease in financial services.

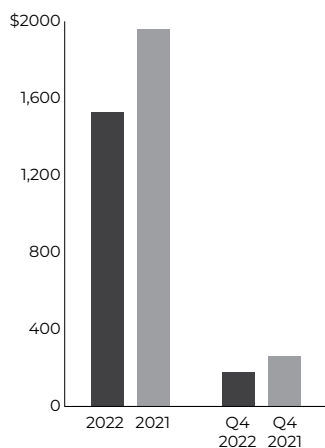
Adjusted EBITDA margin<sup>(1)</sup> increased due to an increase in retail adjusted gross profit percentage<sup>(1)</sup> driven by growth in higher margin drug retail front store categories, and a decrease in selling, general and administrative expenses ("SG&A") as a percentage of sales due to operating leverage gained from higher sales and lower COVID-19 related expenses. Compared to 2021, when inflation started to accelerate, food retail gross margins were flat.

### ADJUSTED EBITDA MARGIN<sup>(1)</sup> (%)

**10.9%**  
2022 vs. 2021  
**+40bps**

**10.6%**  
Q4 2022 vs. Q4 2021  
**+20bps**

### FREE CASH FLOW<sup>(1)(i)</sup>



2022	1,528	-22.0%
2021	1,959	
Q4 2022	179	-31.9%
Q4 2021	263	

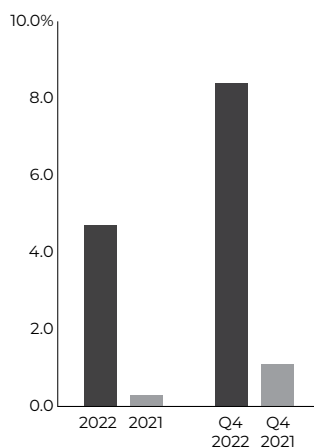
#### Performance in 2022

Free cash flow<sup>(1)(i)</sup> decreased primarily due to an unfavourable change in non-cash working capital, the growth in credit card receivables from an increase in the active customer base and a rise in customer spending and higher capital expenditures, partially offset by higher cash earnings and lower income taxes paid.

### CAPITAL EXPENDITURES

**1.6 billion** +32.8%  
2022 vs. 2021

### FOOD RETAIL SAME-STORE SALES GROWTH<sup>(1)</sup> (%)

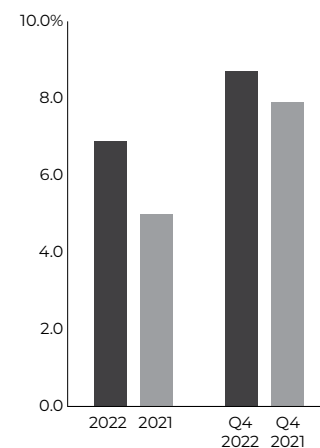


2022	4.7%	+440bps
2021	0.3%	
Q4 2022	8.4%	+730bps
Q4 2021	1.1%	

#### Performance in 2022

Food retail same-store sales growth<sup>(1)</sup> was 4.7%, mainly due to higher than normal inflation levels. Food retail traffic increased and basket size decreased slightly.

### DRUG RETAIL SAME-STORE SALES GROWTH<sup>(1)</sup> (%)



2022	6.9%	+190bps
2021	5.0%	
Q4 2022	8.7%	+80bps
Q4 2021	7.9%	

#### Performance in 2022

Drug retail same-store sales growth was 6.9%. Pharmacy and healthcare services same-store sales growth benefited from an increase in acute and chronic prescription volumes from the continued economic re-opening. Front store same-store sales growth benefited from the economic re-opening and higher consumer spending.

### RETAIL DEBT TO RETAIL ADJUSTED EBITDA<sup>(1)(i)</sup>

**2.4x**  
2022 vs. 2021  
**-0.2x**

<sup>1</sup> See Section 13, "Non-GAAP Financial Measures", of the Company's 2022 Management's Discussion and Analysis.  
<sup>(i)</sup> For more information on these measures, see the 2022 Annual Report filed by Loblaw, which is available on [sedar.com](http://sedar.com) or at [loblaw.ca](http://loblaw.ca).

# Choice Properties

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

## Strategy

The combination of stability and growth is at the core of Choice Properties' commitment to creating enduring value for its stakeholders and the communities in which it operates. Choice Properties' business strategy aims to provide net asset value appreciation, stable net operating income ("NOI") growth and capital preservation, all with a long term focus.

## Key highlights for the year

2022 was another year of positive momentum for Choice Properties demonstrated by its strong operating results, stability of its portfolio, and the strength of its balance sheet. In 2022, Choice Properties made the strategic decision to exit office as an asset class, and significantly increased the size and scale of its industrial development pipeline by taking advantage of market opportunities. Choice Properties continues to deliver operational excellence by remaining focused on its best-in-class operating platform of managing its income producing portfolio. In addition, Choice Properties took steps to ensure it maintained an industry leading balance sheet in a rising interest rate environment. Choice Properties continues to lead the way in sustainability and made significant advancements on its two pillars of *Fighting Climate Change* and *Advancing Social Equity*. As part of its efforts, Choice Properties built a pathway to net zero and a social equity framework to guide their approach and drive impact in the years to come.

## Top Retail tenants

- |                  |                                            |
|------------------|--------------------------------------------|
| 1. Loblaw        | 6. Staples                                 |
| 2. Canadian Tire | 7. Lowe's                                  |
| 3. TJX Companies | 8. Wal-Mart                                |
| 4. Dollarama     | 9. Sobeys                                  |
| 5. Goodlife      | 10. Liquor Control Board of Ontario (LCBO) |

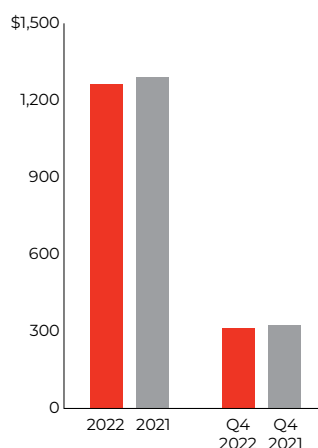
## Top Industrial tenants

- |                   |                             |
|-------------------|-----------------------------|
| 1. Loblaw         | 4. Wonder Brands Inc.       |
| 2. Amazon         | 5. Uline Canada Corporation |
| 3. Canada Cartage | 6. Canadian Tire            |

## Key performance indicators

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

### REVENUE



2022	1,265	-2.1%
2021	1,292	
Q4 2022	315	-3.1%
Q4 2021	325	

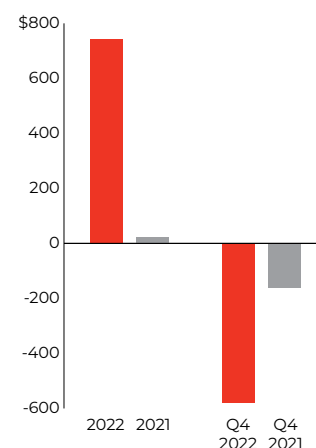
### Performance in 2022

Revenue decreased by \$27 million, primarily driven by foregone revenue following the disposition of six office assets (the "Office Asset Sale") to Allied Properties Real Estate Investment Trust ("Allied") in the second quarter of 2022, partially offset by improved occupancy and higher rental rates in the retail and industrial portfolios, and higher recoveries.

### OCCUPANCY RATE

**97.8%** +70bps  
vs. 2021

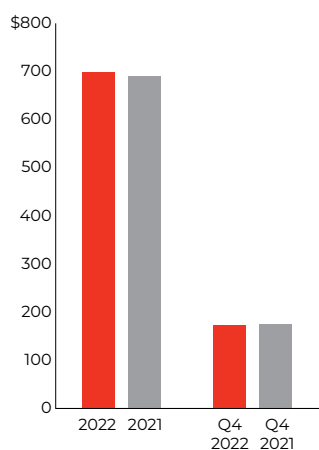
### NET INCOME (LOSS)



2022	744	+3,000%
2021	24	
Q4 2022	(579)	-257.4%
Q4 2021	(162)	

### Performance in 2022

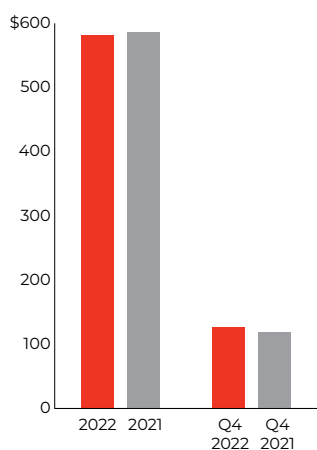
Net income increased by \$720 million compared to 2021 due to the favourable year-over-year impact of the fair value adjustment of its Class B LP units ("Exchangeable Units") as a result of the decrease in Choice Properties' Trust Unit price, partially offset by the unfavourable impact of the fair value adjustment on Choice Properties' investment in real estate securities of Allied as a result of a decrease in Allied's unit price since the close of the Office Asset Sale to the end of 2022, and the unfavourable year-over-year impact of the fair value adjustment of investment properties.

**FUNDS FROM OPERATIONS<sup>(1)</sup>**

2022	698	+1.2%
2021	690	
Q4 2022	174	-0.6%
Q4 2021	175	

**Performance in 2022**

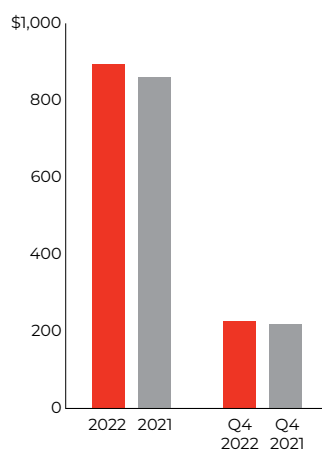
FFO<sup>(1)</sup> increased by \$8 million compared to 2021 primarily due to increased rental revenue from the retail and industrial portfolios, partially offset by increases in interest and general and administrative expenses and the impact of the Office Asset Sale.

**ADJUSTED FUNDS FROM OPERATIONS<sup>(1)</sup>**

2022	582	-0.9%
2021	587	
Q4 2022	127	+6.7%
Q4 2021	119	

**Performance in 2022**

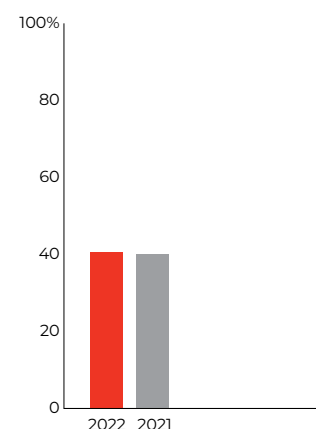
AFFO<sup>(1)</sup> decreased by \$5 million primarily due to an increase in capital spending, partially offset by the increase in FFO<sup>(1)</sup>.

**SAME-ASSET NOI, CASH BASIS<sup>(1)</sup>**

2022	894	+3.8%
2021	861	
Q4 2022	227	+3.7%
Q4 2021	219	

**Performance in 2022**

Same-asset NOI, cash basis<sup>(1)</sup> increased compared to 2021 mainly due to an increase in revenue from improved occupancy, contractual rent steps, higher recovery revenues, and a decrease in expected credit loss provisions.

**ADJUSTED DEBT TO TOTAL ASSETS<sup>(1)</sup>**

2022	40.6%	+50bps
2021	40.1%	

**Performance in 2022**

Adjusted debt to total assets<sup>(1)</sup> increased due to an increase in overall level of debt as advances on the credit facility and construction loans were used to fund development projects and acquisitions.

**ADJUSTED DEBT TO EBITDAFV<sup>(1)</sup>**

**7.5x**  
2022

**+0.3x**  
vs. 2021

**DEBT SERVICE COVERAGE<sup>(1)</sup>**

**3.1x**  
2022

**-0.2x**  
vs. 2021

1 See Section 13, "Non-GAAP Financial Measures", of the Company's 2022 Management's Discussion and Analysis.

(i) For more information on these measures, see the 2022 Annual Report filed by Choice Properties, which is available on [sedar.com](http://sedar.com) or at [choicereit.ca](http://choicereit.ca).



# Financial Highlights<sup>(4)</sup>

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

	2022	2021	% Change
<b>CONSOLIDATED OPERATING RESULTS</b>			
Revenue	\$ 57,048	\$ 53,748	6.1%
Operating income	4,553	4,027	13.1%
Adjusted EBITDA <sup>(ii)</sup>	6,551	5,995	9.3%
Depreciation and amortization <sup>(iii)</sup>	2,407	2,307	4.3%
Net interest expense and other financing charges	913	1,650	(44.7)%
Adjusted net interest expense and other financing charges <sup>(ii)</sup>	1,022	1,050	(2.7)%
Income taxes	831	630	31.9%
Adjusted income taxes <sup>(iii)</sup>	989	851	16.2%
Net earnings (loss)	2,803	1,425	96.7%
Continuing operations	2,809	1,747	60.8%
Discontinued operations	(6)	(322)	(98.1)%
Net earnings attributable to shareholders of the Company <sup>(iv)</sup> from continuing operations	1,822	753	142.0%
Net earnings (loss) available to common shareholders of the Company	1,772	387	357.9%
Continuing operations	1,778	709	150.8%
Discontinued operations	(6)	(322)	(98.1)%
Adjusted net earnings available to common shareholders of the Company <sup>(iii)</sup> from continuing operations	1,432	1,232	16.2%
<b>GWL CORPORATE<sup>(v)</sup></b>			
Cash flow from operating businesses <sup>(iii)</sup> from continuing operations	\$ 602	\$ 579	4.0%
<b>CONSOLIDATED FINANCIAL POSITION AND CASH FLOWS</b>			
Cash and cash equivalents, short-term investments and security deposits	\$ 2,852	\$ 3,938	(27.6)%
Cash flows from operating activities <sup>(i)(vi)</sup>	4,877	5,119	(4.7)%
Capital investments from continuing operations	1,893	1,381	37.1%
Free cash flow <sup>(i)(iii)</sup> from continuing operations	1,417	2,090	(32.2)%
Total debt including lease liabilities	21,523	20,309	6.0%
Total equity attributable to shareholders of the Company	6,841	6,959	(1.7)%
Total equity	13,180	13,137	0.3%
<b>CONSOLIDATED PER COMMON SHARE (\$)</b>			
Diluted net earnings (loss) per common share	\$ 12.16	\$ 2.52	382.5%
Continuing operations	12.20	4.66	161.8%
Discontinued operations	(0.04)	(2.14)	(98.1)%
Adjusted diluted net earnings per common share <sup>(iii)</sup> from continuing operations	\$ 9.81	\$ 8.14	20.5%
<b>CONSOLIDATED FINANCIAL MEASURES AND RATIOS</b>			
Adjusted EBITDA margin <sup>(iii)</sup> (%)	11.5%	11.2%	
Adjusted return on average equity attributable to common shareholders of the Company <sup>(iii)</sup> (%)	23.5%	18.7%	
Adjusted return on capital <sup>(iii)</sup> (%)	13.8%	12.6%	
<b>REPORTABLE OPERATING SEGMENTS</b>			
<b>Loblaw</b>			
Revenue	\$ 56,504	\$ 53,170	6.3%
Operating income	3,334	2,929	13.8%
Adjusted EBITDA <sup>(ii)</sup>	6,173	5,579	10.6%
Adjusted EBITDA margin <sup>(iii)</sup> (%)	10.9%	10.5%	
Depreciation and amortization <sup>(iii)</sup>	2,795	2,664	4.9%
<b>Choice Properties</b>			
Revenue	\$ 1,265	\$ 1,292	(2.1)%
Net income	744	24	3,000.0%
Funds from operations <sup>(iii)</sup>	698	690	1.2%

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

(ii) See Section 13, "Non-GAAP Financial Measures", of the Company's 2022 Management's Discussion and Analysis.

(iii) Depreciation and amortization includes \$497 million (2021 - \$506 million) of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation and Lifemark Health Group, recorded by Loblaw.

(iv) Includes net earnings available to common shareholders of the Company from continuing operations and preferred dividends.

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

(vi) Inclusive of discontinued operations.

# Management's Discussion and Analysis

1.	Overall Financial Performance	19
1.1	Consolidated Results of Operations	19
1.2	Selected Annual Information	25
1.3	Consolidated Other Business Matters	29
2.	Results of Reportable Operating Segments	30
2.1	Loblaw Operating Results	30
2.2	Choice Properties Operating Results	33
3.	Liquidity and Capital Resources	34
3.1	Cash Flows	34
3.2	Liquidity	36
3.3	Components of Total Debt	37
3.4	Financial Condition	39
3.5	Credit Ratings	40
3.6	Share Capital	41
3.7	Off-Balance Sheet Arrangements	44
3.8	Contractual Obligations	45
4.	Quarterly Results of Operations	46
4.1	Quarterly Financial Information	46
4.2	Fourth Quarter Results	47
5.	Fourth Quarter Results of Reportable Operating Segments	54
5.1	Loblaw Fourth Quarter Operating Results	54
5.2	Choice Properties Fourth Quarter Operating Results	56
6.	Disclosure Controls and Procedures	57
7.	Internal Control Over Financial Reporting	57
8.	Enterprise Risks and Risk Management	58
8.1	Operating Risks and Risk Management	59
8.2	Financial Risks and Risk Management	68
9.	Related Party Transactions	70
10.	Critical Accounting Estimates and Judgments	71
11.	Future Accounting Standard	73
12.	Outlook	73
13.	Non-GAAP Financial Measures	74
13.1	Non-GAAP Financial Measures - Selected Comparative Reconciliation	84
14.	Forward-Looking Statements	88
15.	Additional Information	90



## 1. Overall Financial Performance

### 1.1 Consolidated Results of Operations

The Company's results reflect the year-over-year impact of the fair value adjustment of the Trust Unit liability as a result of the significant changes in Choice Properties' unit price, recorded in net interest expense and other financing charges. The Company's results are impacted by market price fluctuations of Choice Properties' Trust Units on the basis that the Trust Units held by unitholders, other than the Company, are redeemable for cash at the option of the holder and are presented as a liability on the Company's consolidated balance sheet. The Company's financial results are positively impacted when the Trust Unit price declines and negatively impacted when the Trust Unit price increases.

In 2021, the Company completed the sale of the Weston Foods bakery business. The Company's interest in Weston Foods is presented separately as discontinued operations in the Company's current and comparative results. Unless otherwise indicated, all financial information reflects the Company's results from continuing operations.

(\$ millions except where otherwise indicated)				
For the years ended as indicated				
	2022	2021	\$ Change	% Change
<b>Revenue</b>	\$ 57,048	\$ 53,748	\$ 3,300	6.1%
<b>Operating income</b>	\$ 4,553	\$ 4,027	\$ 526	13.1%
Adjusted EBITDA <sup>(1)</sup>	\$ 6,551	\$ 5,995	\$ 556	9.3%
Adjusted EBITDA margin <sup>(1)</sup>	11.5%	11.2%		
<b>Depreciation and amortization<sup>(i)</sup></b>	\$ 2,407	\$ 2,307	\$ 100	4.3%
<b>Net interest expense and other financing charges</b>	\$ 913	\$ 1,650	\$ (737)	(44.7)%
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 1,022	\$ 1,050	\$ (28)	(2.7)%
<b>Income taxes</b>	\$ 831	\$ 630	\$ 201	31.9%
Adjusted income taxes <sup>(1)</sup>	\$ 989	\$ 851	\$ 138	16.2%
Adjusted effective tax rate <sup>(1)</sup>	27.3%	27.1%		
<b>Net earnings attributable to shareholders of the Company from continuing operations</b>	\$ 1,822	\$ 753	\$ 1,069	142.0%
<b>Net earnings (loss) available to common shareholders of the Company</b>	\$ 1,772	\$ 387	\$ 1,385	357.9%
<b>Continuing operations</b>	\$ 1,778	\$ 709	\$ 1,069	150.8%
<b>Discontinued operations</b>	\$ (6)	\$ (322)	\$ 316	98.1%
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup> from continuing operations	\$ 1,432	\$ 1,232	\$ 200	16.2%
<b>Diluted net earnings (loss) per common share (\$)</b>	\$ 12.16	\$ 2.52	\$ 9.64	382.5%
<b>Continuing operations</b>	\$ 12.20	\$ 4.66	\$ 7.54	161.8%
<b>Discontinued operations</b>	\$ (0.04)	\$ (2.14)	\$ 2.10	98.1%
Adjusted diluted net earnings per common share <sup>(1)</sup> from continuing operations (\$)	\$ 9.81	\$ 8.14	\$ 1.67	20.5%

(i) Depreciation and amortization includes \$497 million (2021 - \$506 million) of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation and Lifemark Health Group, recorded by Loblaw.

# Management's Discussion and Analysis

## NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY FROM CONTINUING OPERATIONS

Net earnings available to common shareholders of the Company from continuing operations in 2022 were \$1,778 million (\$12.20 per common share), an increase of \$1,069 million (\$7.54 per common share) compared to \$709 million (\$4.66 per common share) in 2021. The increase was due to the favourable year-over-year net impact of adjusting items totaling \$869 million (\$5.87 per common share) and an improvement in the Company's consolidated underlying operating performance of \$200 million (\$1.67 per common share) described below.

- The favourable year-over-year net impact of adjusting items totaling \$869 million (\$5.87 per common share) was primarily due to:
  - the favourable year-over-year impact of the fair value adjustment of the Trust Unit liability of \$699 million (\$4.68 per common share) as a result of the decrease in Choice Properties' unit price during 2022;
  - the favourable year-over-year impact of the fair value adjustment on investment properties of \$375 million (\$2.65 per common share) driven by Choice Properties, net of consolidation adjustments in Other and Intersegment;
  - the favourable year-over-year impact of the prior year fair value adjustment of the forward sale agreement of Loblaw common shares of \$163 million (\$1.09 per common share). The Company settled the net debt associated with the forward sale agreement in the fourth quarter of 2021; and
  - the income tax recovery related to the remeasurement of deferred tax balances for the Choice Properties' disposition of six office assets (the "Office Asset Sale") to Allied Properties Real Estate Investment Trust ("Allied") of \$46 million (\$0.32 per common share). Refer to Section 2.2, "Choice Properties Operating Results" of this MD&A for more information;partially offset by,
  - the unfavourable impact of the fair value adjustment on Choice Properties' investment in real estate securities of Allied of \$228 million (\$1.57 per common share) as a result of a decrease in Allied's Class B Unit price since the closing of the Office Asset Sale on March 31, 2022 to the end of 2022;
  - the unfavourable year-over-year impact of the prior year recovery related to a favourable Court ruling regarding a Glenhuron Bank Limited ("Glenhuron") matter at Loblaw of \$142 million (\$0.94 per common share); and
  - the unfavourable year-over-year impact of the charge related to the commodity tax matter at Loblaw of \$45 million (\$0.31 per common share). Refer to Section 2.1, "Loblaw Operating Results" of this MD&A for more information.
- The improvement in the Company's consolidated underlying operating performance of \$200 million (\$1.67 per common share) was due to:
  - the favourable underlying operating performance of Loblaw; and
  - a decrease in adjusted net interest expense and other financing charges<sup>(1)</sup>;partially offset by,
  - the unfavourable year-over-year impact of Other and Intersegment, primarily driven by the year-over-year impact of asset impairments, net of recoveries recorded on consolidation of \$18 million, net of tax; and
  - an increase in the adjusted effective tax rate<sup>(1)</sup> primarily attributable to an increase in tax expense as a result of GWL's participation in Loblaw's Normal Course Issuer Bid ("NCIB") program.
- Diluted net earnings per common share from continuing operations also included the favourable impact of shares purchased for cancellation over the last 12 months (\$0.35 per common share) pursuant to the Company's NCIB.

Adjusted net earnings available to common shareholders of the Company<sup>(1)</sup> from continuing operations in 2022 were \$1,432 million, an increase of \$200 million, or 16.2%, compared to 2021. The increase was due to the improvement in the Company's consolidated underlying operating performance described above.

Adjusted diluted net earnings per common share<sup>(1)</sup> from continuing operations in 2022 were \$9.81 per common share, an increase of \$1.67 per common share, or 20.5%, compared to 2021. The increase was due to the favourable performance in adjusted net earnings available to common shareholders<sup>(1)</sup> from continuing operations and the favourable impact of share repurchases.

## REVENUE

(\$ millions except where otherwise indicated)				
For the years ended as indicated	2022	2021	\$ Change	% Change
Loblaw	\$ 56,504	\$ 53,170	\$ 3,334	6.3%
Choice Properties	\$ 1,265	\$ 1,292	\$ (27)	(2.1)%
Other and Intersegment <sup>(i)</sup>	\$ (721)	\$ (714)		
Consolidated	\$ 57,048	\$ 53,748	\$ 3,300	6.1%

(i) Other and Intersegment includes intercompany eliminations.

The Company's 2022 consolidated revenue was \$57,048 million, an increase of \$3,300 million, or 6.1%, compared to 2021. The Company's consolidated revenue was impacted by each of the Company's reportable operating segments as follows:

- Positively by 6.2% due to revenue growth of 6.3% at Loblaw, primarily driven by an increase in retail sales of \$3,223 million, or 6.2%, and an improvement in financial services revenue of \$156 million, or 13.2%. The increase in retail sales was due to positive same-store sales growth and Lifemark Health Group ("Lifemark") revenues of \$279 million.
- Negatively by a nominal amount due to decline in revenue of 2.1% at Choice Properties. The decrease of \$27 million was mainly due to foregone revenue following the Office Asset Sale, partially offset by an increase in rental revenues from the retail and industrial portfolios driven by improved occupancy and higher rental rates and increased capital recoveries.

## OPERATING INCOME

(\$ millions except where otherwise indicated)				
For the years ended as indicated	2022	2021	\$ Change	% Change
Loblaw	\$ 3,334	\$ 2,929	\$ 405	13.8%
Choice Properties	\$ 1,083	\$ 1,400	\$ (317)	(22.6)%
Other and Intersegment	\$ 136	\$ (302)		
Consolidated	\$ 4,553	\$ 4,027	\$ 526	13.1%

The Company's 2022 operating income was \$4,553 million compared to \$4,027 million in 2021, an increase of \$526 million, or 13.1%. The increase was mainly attributable to the improvement in underlying operating performance of \$447 million and the favourable year-over-year net impact of adjusting items totaling \$79 million, as described below:

- the improvement in underlying operating performance of \$447 million was due to:
  - the favourable underlying operating performance of Loblaw due to the improvement in retail, partially offset by a decline in financial services; partially offset by,
    - an increase in depreciation and amortization at Loblaw;
    - the unfavourable underlying operating performance at Choice Properties; and
    - the unfavourable year-over-year impact of Other and Intersegment, primarily due to the year-over-year impact of asset impairments, net of recoveries recorded on consolidation of \$25 million.
- the favourable year-over-year net impact of adjusting items totaling \$79 million was primarily due to:
  - the favourable year-over-year impact of the fair value adjustment of investment properties of \$405 million driven by Choice Properties, net of consolidation adjustments in Other and Intersegment; and
  - the favourable year-over-year impact from the gains on the sale of non-operating properties of \$43 million mainly at Loblaw; partially offset by,
    - the unfavourable impact of the fair value adjustment on Choice Properties' investment in real estate securities of Allied of \$248 million; and
    - the unfavourable impact of the charge related to the commodity tax matter at Loblaw of \$111 million.

# Management's Discussion and Analysis

## ADJUSTED EBITDA<sup>(1)</sup>

(\$ millions except where otherwise indicated)

For the years ended as indicated	2022	2021	\$ Change	% Change
Loblaw	\$ 6,173	\$ 5,579	\$ 594	10.6%
Choice Properties	\$ 897	\$ 903	\$ (6)	(0.7)%
Other and Intersegment	\$ (519)	\$ (487)		
Consolidated	\$ 6,551	\$ 5,995	\$ 556	9.3%

The Company's 2022 adjusted EBITDA<sup>(1)</sup> was \$6,551 million compared to \$5,995 million in 2021, an increase of \$556 million, or 9.3%. The increase was impacted by each of the Company's reportable operating segments as follows:

- Positively by 9.9% due to growth of 10.6% in adjusted EBITDA<sup>(1)</sup> at Loblaw driven by an increase in Loblaw retail, partially offset by a decrease in financial services. The increase in Loblaw retail adjusted EBITDA<sup>(1)</sup> was driven by an increase in retail gross profit, partially offset by an increase in retail selling, general and administrative expenses ("SG&A").
- Negatively by 0.1% due to a decrease of 0.7% in adjusted EBITDA<sup>(1)</sup> at Choice Properties, primarily driven by the decline in revenue described above and higher general and administrative expenses, partially offset by distribution income from the investment in real estate securities of Allied and a decline in expected credit loss provisions.

## DEPRECIATION AND AMORTIZATION

(\$ millions except where otherwise indicated)

For the years ended as indicated	2022	2021	\$ Change	% Change
Loblaw	\$ 2,795	\$ 2,664	\$ 131	4.9%
Choice Properties	\$ 3	\$ 3	\$ -	-%
Other and Intersegment	\$ (391)	\$ (360)		
Consolidated	\$ 2,407	\$ 2,307	\$ 100	4.3%

Depreciation and amortization in 2022 was \$2,407 million, an increase of \$100 million compared to 2021. Depreciation and amortization in 2022 included \$497 million (2021 - \$506 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") and Lifemark, recorded by Loblaw. Excluding these amounts, depreciation and amortization increased by \$109 million primarily driven by an increase in depreciation of information technology ("IT") and leased assets at Loblaw.

## NET INTEREST EXPENSE AND OTHER FINANCING CHARGES

(\$ millions except where otherwise indicated)  
For the years ended as indicated

	2022	2021	\$ Change	% Change
Net interest expense and other financing charges	\$ 913	\$ 1,650	\$ (737)	(44.7)%
Add (deduct) impact of the following:				
Fair value adjustment of the Trust Unit liability	98	(601)	699	116.3%
Recovery related to Glenhuron	11	189	(178)	(94.2)%
Fair value adjustment of the forward sale agreement of Loblaw common shares	–	(188)	188	100.0%
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 1,022	\$ 1,050	\$ (28)	(2.7)%

Net interest expense and other financing charges in 2022 were \$913 million, a decrease of \$737 million compared to 2021. The decrease was due to the favourable year-over-year net impact of adjusting items totaling \$709 million, itemized in the table above and a decrease in adjusted net interest expense and other financing charges<sup>(1)</sup> of \$28 million. Included in the adjusting items in 2022 was the favourable year-over-year fair value adjustment of the Trust Unit liability of \$699 million, as a result of the decrease in Choice Properties' unit price during 2022. The Company is exposed to market price fluctuations as a result of units held by unitholders other than the Company which are redeemable for cash at the option of the holder and are presented as a liability on the Company's consolidated balance sheet.

Adjusted net interest expense and other financing charges<sup>(1)</sup> in 2022 decreased by \$28 million, primarily driven by:

- an increase in interest income on certain short-term investments due to higher interest rates, and on mortgages and loans receivable at Choice Properties due to a higher outstanding balance;
  - lower interest expense in Other and Intersegment adjustments, primarily due to the full settlement of the net debt associated with the equity forward sale agreement in the fourth quarter of 2021; and
  - a reduction in interest expense from post-employment and other employee benefits;
- partially offset by,
- an increase in interest expense at Loblaw and Choice Properties mainly due to higher interest rates and an increase in long-term debt, including an early repayment premium of \$7 million at Loblaw recorded in 2022.

# Management's Discussion and Analysis

## INCOME TAXES

(\$ millions except where otherwise indicated)  
For the years ended as indicated

	2022	2021	\$ Change	% Change
Income taxes	\$ 831	\$ 630	\$ 201	31.9%
Add (deduct) impact of the following:				
Tax impact of items excluded from adjusted earnings before taxes <sup>(i)</sup>	83	99	(16)	(16.2)%
Remeasurement of deferred tax balances	46	–	46	100.0%
Recovery related to Glenhuron	33	128	(95)	(74.2)%
Outside basis difference in certain Loblaw shares	(4)	(6)	2	33.3%
Adjusted income taxes <sup>(1)</sup>	\$ 989	\$ 851	\$ 138	16.2%
Effective tax rate applicable to earnings before taxes	22.8%	26.5%		
Adjusted effective tax rate applicable to adjusted earnings before taxes <sup>(1)</sup>	27.3%	27.1%		

(i) See the adjusted EBITDA<sup>(1)</sup> table and the adjusted net interest expense and other financing charges<sup>(1)</sup> table included in Section 13, "Non-GAAP Financial Measures", of this MD&A for a complete list of items excluded from adjusted earnings before taxes<sup>(1)</sup>.

The effective tax rate in 2022 was 22.8%, compared to 26.5% in 2021. The decrease was primarily attributable to the year-over-year impact of the non-taxable fair value adjustment of the Trust Unit liability, partially offset by the recovery of income taxes related to Glenhuron in 2021 and the impact of the reversal of the non-deductible interest related to Glenhuron in 2021.

The adjusted effective tax rate<sup>(1)</sup> in 2022 was 27.3%, compared to 27.1% in 2021. The increase was primarily attributable to an increase in current tax expense related to GWL's participation in Loblaw's NCIB, partially offset by the impact of certain recoveries realized for prior taxation periods.

Between 2015 and 2019, Loblaw was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court of Canada ("Supreme Court") ruled in favour of Loblaw on the Glenhuron matter and Loblaw reversed \$301 million of previously recorded charges, of which \$173 million was recorded as interest income and \$128 million was recorded as income tax recovery, and an additional \$16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, Loblaw reversed another \$35 million of previously recorded charges, of which \$2 million was recorded as interest income and \$33 million was recorded as an income tax recovery, and an additional \$9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

**DISCONTINUED OPERATIONS** Net loss available to common shareholders of the Company from discontinued operations in 2022 of \$6 million (\$0.04 per common share) pertains to final closing adjustments. For further details of the sale, refer to Note 7, "Discontinued Operations" in the annual consolidated financial statements of this Annual Report.

## 1.2 Selected Annual Information

The selected information presented below has been derived from and should be read in conjunction with the annual consolidated financial statements of the Company dated December 31, 2022, 2021 and 2020. The analysis of the data contained in the table focuses on the trends and significant events or items affecting the results of operations and financial condition of the Company over the latest three year period.

Unless otherwise indicated, all financial information represents the Company's results from continuing operations.

For the years ended December 31 (\$ millions except where otherwise indicated)	2022 (52 weeks)	2021 (52 weeks)	2020 (53 weeks)
<b>Revenue</b>	\$ 57,048	\$ 53,748	\$ 53,270
<b>Operating income</b>	\$ 4,553	\$ 4,027	\$ 2,875
Adjusted EBITDA <sup>(1)</sup>	\$ 6,551	\$ 5,995	\$ 5,356
Adjusted EBITDA margin <sup>(1)</sup>	11.5%	11.2%	10.1%
Depreciation and amortization <sup>(i)</sup>	\$ 2,407	\$ 2,307	\$ 2,254
Net interest expense and other financing charges	\$ 913	\$ 1,650	\$ 829
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 1,022	\$ 1,050	\$ 1,115
Income taxes	\$ 831	\$ 630	\$ 470
Adjusted income taxes <sup>(1)</sup>	\$ 989	\$ 851	\$ 648
Adjusted effective tax rate <sup>(1)</sup>	27.3%	27.1%	26.0%
<b>Net earnings (loss)</b>	\$ 2,803	\$ 1,425	\$ 1,582
<b>Continuing operations</b>	\$ 2,809	\$ 1,747	\$ 1,576
<b>Discontinued operations</b>	\$ (6)	\$ (322)	\$ 6
<b>Net earnings attributable to shareholders of the Company</b>	\$ 1,816	\$ 431	\$ 963
<b>Net earnings (loss) available to common shareholders of the Company</b>	\$ 1,772	\$ 387	\$ 919
<b>Continuing operations</b>	\$ 1,778	\$ 709	\$ 913
<b>Discontinued operations</b>	\$ (6)	\$ (322)	\$ 6
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup> from continuing operations	\$ 1,432	\$ 1,232	\$ 993
<b>Net earnings (loss) per common share (\$) - diluted</b>	\$ 12.16	\$ 2.52	\$ 5.96
<b>Continuing operations</b>	\$ 12.20	\$ 4.66	\$ 5.92
<b>Discontinued operations</b>	\$ (0.04)	\$ (2.14)	\$ 0.04
Adjusted diluted net earnings per common share <sup>(1)</sup> from continuing operations	\$ 9.81	\$ 8.14	\$ 6.44
Dividends declared per share (\$):			
Common shares	\$ 2.580	\$ 2.300	\$ 2.125
Preferred shares – Series I	\$ 1.45	\$ 1.45	\$ 1.45
Preferred shares – Series III	\$ 1.30	\$ 1.30	\$ 1.30
Preferred shares – Series IV	\$ 1.30	\$ 1.30	\$ 1.30
Preferred shares – Series V	\$ 1.1875	\$ 1.1875	\$ 1.1875
<b>Total Assets and Long-Term Financial Liabilities</b>			
<b>Total assets</b>	\$ 48,958	\$ 47,083	\$ 48,078
Total long-term debt	\$ 14,784	\$ 14,010	\$ 14,443
Financial liabilities	668	664	666
Lease liabilities	5,158	4,984	5,005
Trust Unit liability	4,112	4,209	3,600
<b>Total long-term financial liabilities</b>	\$ 24,722	\$ 23,867	\$ 23,714

(i) Depreciation and amortization includes \$497 million (2021 – \$506 million; 2020 – \$509 million) of amortization of intangible assets, acquired with Shoppers Drug Mart and Lifemark, recorded by Loblaw.

# Management's Discussion and Analysis

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

- Loblaw's retail sales have continued to grow despite the pressure of a competitive retail market, impacts of global economic uncertainties and regulatory environment over the last three years. In 2020, the COVID-19 pandemic had a significant impact on Loblaw's colleagues, customers, suppliers and other stakeholders. Loblaw experienced sales volatility and changes in sales mix as the pandemic impacted consumer behaviour throughout the year. In 2021, COVID-19 continued to have a significant impact on Loblaw, continuing to accelerate some long-term trends, enabling Loblaw to advance its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments and Rewards. In food retail, sales remained strong as eat-at-home trends remained elevated even in a period where social restrictions loosened. In drug retail, sales benefited from growth in pharmacy services as COVID-19 testing and vaccinations ramped up throughout the year. Higher margin front-store categories within drug retail, that had previously negatively impacted earnings, increased sales momentum as the economy opened up. In 2022, COVID-19 continued to impact retail sales through the first half of the year. Food retail benefited from elevated eat-at-home trends, and drug retail from strong cosmetics and over-the-counter ("OTC") product sales, as customers returned to pre-pandemic activities, while COVID-19 related testing and vaccines continued at elevated levels. Retail sales growth in second half of 2022 benefited from global inflationary pressures and reflected continued strength in cosmetics and OTC sales in drug retail.

During 2020, Loblaw's financial services revenue was negatively impacted by the COVID-19 pandemic from lower credit card related revenues from lower customer spending and lower sales attributable to the partial closure of *The Mobile Shop* kiosks during the second quarter of 2020. Loblaw's financial services also launched the *PC Money* Account in the third quarter of 2020. In 2021, the underlying operating performance of Loblaw's financial services improved as it benefited from an increase in customer spending and higher sales attributable to *The Mobile Shop* kiosks. In 2022, Loblaw's financial services revenue continued to benefit from an increase in customer spending. Further, Loblaw financial services benefited from growing credit card receivables in 2022 driven by growth in the active customer base.

- Choice Properties revenue decreased in 2020 primarily due to the foregone revenue from a disposition of a portfolio of properties in the third quarter of 2019, partially offset by additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space. Choice Properties revenue increased in 2021 primarily due to the contribution from acquisition and development transfers completed in 2020 and 2021, partially offset by foregone revenue from dispositions and vacancies in select office assets. In 2022, Choice Properties revenue declined due to foregone revenue following the Office Asset Sale, partially offset by an increase in rental revenues from the retail and industrial portfolios driven by improved occupancy and higher rental rates and increased capital recoveries.

**NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY FROM CONTINUING OPERATIONS AND DILUTED NET EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS** Net earnings available to common shareholders of the Company from continuing operations and diluted net earnings per common share from continuing operations for the last three years were impacted by certain adjusting items as described in Section 13, "Non-GAAP Financial Measures", of this MD&A and by the underlying operating performance of each of the Company's reportable operating segments.

Over the last three years, the Company's underlying operating performance was impacted by the following:

- changes in the underlying operating performance of Loblaw due to:
  - the impact of the 53rd week in fiscal year 2020;
  - changes in the underlying operating performance of Loblaw's retail due to COVID-19. Loblaw's financial results for the years 2022 and 2021 had higher revenue and cost of sales when compared to 2020. In addition, SG&A increased in 2020 as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers which stabilized in 2021 and 2022;
  - cost savings and operating efficiencies and investments in and benefits from strategic initiatives; and
  - fluctuations in the performance of Loblaw's financial services segment driven by the impact of the increase in customer spending, the reversal of certain commodity taxes accrued and year-over-year movement of the expected credit loss provision.



- changes in the underlying operating performance of Choice Properties due to:
  - the impact of COVID-19 resulting in an increase in expected credit losses in 2020 which stabilized in 2021 and 2022;
  - fluctuations in rental income from the unfavourable impact of dispositions of properties in 2019, partially offset by rental income generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space, and the favourable impact of contributions from acquisition and development transfers completed in 2020 and 2021, which were partially offset by foregone rental income from dispositions and vacancies in select office assets in 2021; and
  - in 2022, the underlying operating performance was unfavourably impacted by foregone rental income following the Office Asset Sale and higher general and administrative expenses, which was partially offset by distribution income from Choice Properties' investment in real estate securities of Allied.
- the impact of asset impairments, net of recoveries and certain one-time gains related to Choice Properties' transactions recorded on consolidation in Other and Intersegment;
- changes in adjusted net interest and other financing charges<sup>(1)</sup> as follows:
  - lower adjusted net interest and other financing charges<sup>(1)</sup> in 2022 due to:
    - an increase in interest income on certain short-term investments due to higher interest rates, and on mortgages and loans receivable at Choice Properties due to a higher outstanding balance;
    - lower interest expense in Other and Intersegment adjustments, primarily due to the full settlement of the net debt associated with the equity forward sale agreement in the fourth quarter of 2021; and
    - a reduction in interest expense from post-employment and other employee benefits;
 partially offset by,
    - an increase in interest expense at Loblaw and Choice Properties mainly due to higher interest rates and an increase in long-term debt, including an early repayment premium of \$7 million at Loblaw recorded in 2022.
  - lower adjusted net interest and other financing charges<sup>(1)</sup> in 2021 due to:
    - lower interest expense at Loblaw financial services;
    - a reduction in interest expense from lease liabilities at Loblaw, including Other and Intersegment adjustments; and
    - a decrease in interest expense in Choice Properties, including Other and Intersegment adjustments, primarily related to the special distribution in the fourth quarter of 2020, a decline in fees incurred on early repayment of senior unsecured debentures, lower overall debt levels compared to the prior year and the completion of refinancing activity over the past year at lower interest rates;
 partially offset by,
    - higher interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on Choice Properties' dispositions.
  - higher adjusted net interest expense and other financing charges<sup>(1)</sup> in 2020 due to:
    - an increase in interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on Choice Properties' dispositions; and
    - higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions.
- higher adjusted income taxes<sup>(1)</sup> primarily attributable to:
  - an increase in tax expense related to temporary differences in respect of GWL's investment in certain Loblaw shares as a result of GWL's participation in Loblaw's NCIB;
  - the unfavourable year-over-year impact of the non-taxable portion of the gain from Choice Properties' transactions in 2020 and 2021; and
  - the impact of certain other non-deductible items in 2020 and 2021;
  - in 2022, the increase was partially offset by the impact of certain recoveries realized for prior taxation periods.
- in 2022 and 2021, diluted net earnings per common share included the favourable impact of shares purchased for cancellation; and
- an increase in GWL's ownership interest in Loblaw in 2020 as a result of share repurchases at Loblaw. GWL's ownership of Loblaw has remained stable at approximately 52.6% as at the end of 2022, 2021 and 2020.

# Management's Discussion and Analysis

## TOTAL ASSETS AND LONG-TERM FINANCIAL LIABILITIES

In 2022, total assets of \$48,958 million increased by 4.0% as compared to 2021. The increase was primarily driven by an increase in inventory, credit card receivables, goodwill and equity accounted joint venture. This was partially offset by a decrease in cash and cash equivalents and short-term investments, and a decrease in income tax recoverable due to collection of income tax refunds from Glenhuron. Total long-term financial liabilities of \$24,722 million increased by 3.6% compared to 2021 driven by higher long-term debt due to an increase in guaranteed investment certificates ("GIC") at Loblaw and debt drawn on Choice Properties credit facility.

In 2021, total assets of \$47,083 million decreased by 2.1% as compared to 2020. The decrease was primarily driven by the decrease in fixed assets and intangible assets as a result of the disposal of the Weston Foods business, partially offset by higher cash and cash equivalents and an increase in investment properties. Total long-term financial liabilities of \$23,867 million increased by 0.6% compared to 2020 driven by an increase in the Trust Unit liability as a result of the significant changes in Choice Properties' unit price, partially offset by a decrease in long-term debt driven by George Weston Series A debenture repayments.

The Trust Unit liability is recognized at fair value on the consolidated balance sheets and fluctuates due to issuances and changes in the fair value of Choice Properties' Trust Units. As at December 31, 2022, 277,109,734 Units were held by unitholders other than the Company (2021 – 276,927,432; 2020 – 276,280,248) and the Company held an approximate 61.7% (2021 – 61.7%; 2020 – 61.8%) effective ownership interest in Choice Properties.

### 1.3 Consolidated Other Business Matters

**GWL CORPORATE<sup>(2)</sup> FINANCING ACTIVITIES** The Company completed the following financing activities during the periods indicated below. The cash impacts of these activities are set out below:

(\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
GWL's NCIB – purchased and cancelled	\$ (276)	\$ (167)	\$ (994)	\$ (744)
GWL's participation in Loblaw's NCIB	49	89	558	563
GWL's credit facility drawdown (repayment)	–	121	(121)	121
Settlement of net debt associated with equity forward sale agreement	–	(275)	–	(790)
Net cash flow used in above activities	\$ (227)	\$ (232)	\$ (557)	\$ (850)

**GWL's NCIB - Purchased and Cancelled Shares** In the fourth quarter and year-to-date 2022, the Company purchased and cancelled 1.7 million shares (2021 – 1.0 million shares) and 6.4 million shares (2021 – 5.9 million shares), respectively, under its NCIB. As at December 31, 2022, the Company had 140.6 million shares issued and outstanding, net of shares held in trusts (December 31, 2021 – 146.6 million shares).

In the fourth quarter of 2022, the Company entered into an automatic share purchase plan (“ASPP”) with a broker in order to facilitate the repurchase of the Company's common shares under its NCIB. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market.

Refer to Section 3.6, “Share Capital” of this MD&A for more information.

**GWL's Participation in Loblaw's NCIB** The Company participates in Loblaw's NCIB in order to maintain its proportionate percentage ownership interest. During the fourth quarter and year-to-date 2022, GWL received proceeds of \$49 million (2021 – \$89 million) and \$558 million (2021 – \$563 million), respectively, from the sale of Loblaw shares.

**GWL's Credit Facility** In 2021, GWL entered into a \$350 million revolving committed credit facility provided by a syndicate of lenders with a maturity date of September 13, 2024. The credit facility contains certain financial covenants. As at December 31, 2021, \$121 million was drawn on the facility which was repaid in the first quarter of 2022. As at December 31, 2022, no amounts were drawn on the facility.

# Management's Discussion and Analysis

## 2. Results of Reportable Operating Segments

The following discussion provides details of the 2022 results of operations of each of the Company's reportable operating segments.

### 2.1 Loblaw Operating Results

(\$ millions except where otherwise indicated)  
For the years ended as indicated

	2022	2021	\$ Change	% Change
Revenue	\$ 56,504	\$ 53,170	\$ 3,334	6.3%
Operating income	\$ 3,334	\$ 2,929	\$ 405	13.8%
Adjusted EBITDA <sup>(1)</sup>	\$ 6,173	\$ 5,579	\$ 594	10.6%
Adjusted EBITDA margin <sup>(1)</sup>	10.9%	10.5%		
Depreciation and amortization <sup>(i)</sup>	\$ 2,795	\$ 2,664	\$ 131	4.9%

(i) Depreciation and amortization includes \$497 million (2021 - \$506 million) of amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark.

**REVENUE** Loblaw revenue in 2022 was \$56,504 million, an increase of \$3,334 million, or 6.3%, compared to 2021, driven by an increase in retail sales and an improvement in financial services revenue.

Retail sales were \$55,492 million, an increase of \$3,223 million, or 6.2%, compared to 2021.

- food retail sales were \$39,398 million (2021 - \$37,481 million) and retail same-store sales growth was 4.7% (2021 - 0.3%).
  - the Consumer Price Index ("CPI") as measured by The Consumer Price Index for Food Purchased from Stores was 9.7% (2021 - 2.2%), which was generally in line with Loblaw's internal food inflation; and
  - food retail traffic increased and basket size decreased.
- drug retail sales were \$16,094 million (2021 - \$14,788 million) and drug retail same-store sales growth was 6.9% (2021 - 5.0%);
  - pharmacy same-store sales growth was 5.7% (2021 - 8.4%). Pharmacy and healthcare services same-store sales growth benefited from an increase in acute and chronic prescription volumes from the economic re-opening. The number of prescriptions dispensed increased by 2.5% (2021 - 0.9%). On a same-store basis, the number of prescriptions dispensed increased by 2.6% (2021 - 2.7%) and the average prescription value increased by 2.4% (2021 - 4.7%);
  - pharmacy and healthcare services sales included Lifemark revenue of \$279 million. Lifemark revenues are excluded from same-store sales; and
  - front store same-store sales growth was 8.2% (2021 - 2.1%). Front store same-store sales growth benefited from the economic re-opening and higher consumer spending.

In 2022, 13 food and drug stores were opened, and 10 food and drug stores were closed, and net retail square footage has remained constant at 71.2 million square feet.

Financial services revenue increased by \$156 million, or 13.2%, compared to 2021, primarily driven by higher interest income from growth in credit card receivables and higher interchange income and credit card related fees due to an increase in customer spending. This was partially offset by lower sales attributable to *The Mobile Shop*.

**OPERATING INCOME** Loblaw operating income in 2022 was \$3,334 million, an increase of \$405 million, or 13.8%, compared to 2021. The increase was driven by an improvement in underlying operating performance of \$454 million, partially offset by an unfavourable year-over-year net impact of adjusting items totaling \$49 million, as described below:

- the improvement in underlying operating performance of \$454 million was primarily due to the following:
  - an improvement in the underlying operating performance of retail due to an increase in retail gross profit, partially offset by an increase in SG&A and depreciation and amortization; partially offset by,
  - a decline in financial services primarily due to the year-over-year impact of the expected credit loss provision from lapping a larger prior year release versus the current year increase and from lapping a prior year reversal of certain commodity tax accrued.
- the unfavourable year-over-year net impact of adjusting items totaling \$49 million was primarily due to:
  - the unfavourable year-over-year impact of the charge related to a President's Choice Bank ("PC Bank") commodity tax matter of \$111 million; and
  - the unfavourable year-over-year impact of the Lifemark transaction costs of \$16 million; partially offset by,
  - the favourable year-over-year impact from the gains on the sale of non-operating properties of \$45 million; and
  - the favourable year-over-year change in restructuring and other related costs of \$28 million.

**ADJUSTED EBITDA<sup>(1)</sup>** Loblaw adjusted EBITDA<sup>(1)</sup> in 2022 was \$6,173 million, an increase of \$594 million, or 10.6%, compared to 2021. The increase was primarily due to an increase in retail of \$617 million, partially offset by a decrease in financial services of \$23 million.

Retail adjusted EBITDA<sup>(1)</sup> increased by \$617 million driven by an increase in retail gross profit of \$1,124 million, partially offset by an increase in retail SG&A of \$507 million.

- Retail gross profit percentage of 30.9% increased by 20 basis points compared to 2021, driven by growth in higher margin drug retail front store categories. Compared to 2021, when inflation started to accelerate, food retail gross margins were flat.
- Retail SG&A as a percentage of sales was 20.2%, a decrease of 30 basis points compared to 2021. The favourable decrease was primarily due to operating leverage gained from higher sales and lower COVID-19 related expenses.

Financial services adjusted EBITDA<sup>(1)</sup> decreased by \$23 million compared to 2021, primarily driven by higher loyalty program costs, operating costs, and contractual charge-off from an increase in customer spending, the prior year reversal of certain commodity tax accrued in the amount of \$37 million, and the impact of the expected credit loss provision from lapping a larger prior year release of \$32 million versus the current year increase of \$1 million. This decrease was partially offset by higher revenue as described above.

**DEPRECIATION AND AMORTIZATION** Loblaw's depreciation and amortization in 2022 was \$2,795 million, an increase of \$131 million compared to 2021. The increase in depreciation and amortization in 2022 was primarily driven by an increase in IT and leased assets, and accelerated depreciation of \$24 million (2021 - nil) due to the reassessment of the estimated useful life of certain IT assets. Depreciation and amortization in 2022 included \$497 million (2021 - \$506 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart and Lifemark.

**CONSOLIDATION OF FRANCHISES** Loblaw has more than 500 franchise food retail stores in its network. Non-controlling interests at Loblaw represents the share of earnings that relates to Loblaw's food retail franchisees and is impacted by the timing of when profit sharing with franchisees is agreed and finalized under the terms of the agreements. Loblaw's net earnings attributable to non-controlling interests were \$73 million in 2022. When compared to 2021, this represented a decrease of \$28 million or 27.7%. The decrease in non-controlling interests at Loblaw was primarily driven by the normalizing of franchisee earnings after profit sharing.

# Management's Discussion and Analysis

## LOBLAW OTHER BUSINESS MATTERS

**Lifemark Health Group** On May 10, 2022, Loblaw acquired all of the outstanding common shares of Lifemark for total cash purchase consideration of \$829 million. Lifemark is the Canadian leading provider of outpatient physiotherapy, massage therapy, occupational therapy, chiropractic, mental health, and other ancillary rehabilitation services through its more than 300 clinics across Canada. The acquisition of Lifemark adds to Loblaw's growing role as a healthcare service provider, with a network of health and wellness solutions, accessible in-person and digitally. In the fourth quarter of 2022, revenue of \$110 million and nominal net earnings were contributed by Lifemark. Net earnings included amortization related to the acquired intangible assets of \$3 million in the fourth quarter of 2022. Year-to-date revenue of \$279 million and nominal net earnings were contributed by Lifemark from the date of acquisition. Year-to-date net earnings included amortization related to the acquired intangible assets of \$8 million.

**PC Bank Commodity Tax Matter** In July 2022, the Tax Court of Canada ("Tax Court") released a decision relating to PC Bank, a subsidiary of Loblaw. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaw's Inc. in respect of redemptions of loyalty points. On September 29th, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. Although, Loblaw believes in the merits of its position, it recorded a charge of \$111 million, inclusive of interest, in the second quarter of 2022. Loblaw believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

**Network Optimization** In the fourth quarter of 2022, Loblaw finalized network optimization plans that will result in banner conversions and right-sizing of an additional 34 underperforming retail locations across a range of banners and formats. Charges associated with network optimization will be recorded as incurred and are expected to include equipment, severance, lease related and other costs, and will not be considered an adjusting item. Loblaw expects to realize approximately \$40 million in annualized EBITDA run-rate savings related to these plans. In the fourth quarter of 2022, Loblaw recorded charges of \$11 million as a result of this network optimization project and expects to record additional charges of approximately \$50 million to \$60 million as they are incurred throughout 2023.

## 2.2 Choice Properties Operating Results

(\$ millions except where otherwise indicated)  
For the years ended as indicated

	2022	2021	\$ Change	% Change
Revenue	\$ 1,265	\$ 1,292	\$ (27)	(2.1)%
Net interest expense and other financing charges <sup>(i)</sup>	\$ 339	\$ 1,377	\$ (1,038)	(75.4)%
Net income	\$ 744	\$ 24	\$ 720	3,000.0%
Funds from Operations <sup>(1)</sup>	\$ 698	\$ 690	\$ 8	1.2%

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

**REVENUE** Revenue was \$1,265 million in 2022, a decrease of \$27 million, or 2.1%, compared to 2021 and included \$728 million (2021 – \$722 million) generated from tenants within Loblaw retail. The decrease in revenue was primarily driven by:

- foregone revenue following the Office Asset Sale as described below in Choice Properties Other Business Matters; partially offset by,
- an increase in rental revenues from the retail and industrial portfolios driven by improved occupancy and higher rental rates; and
- higher recoveries.

**NET INTEREST EXPENSE AND OTHER FINANCING CHARGES** Net interest expense and other financing charges in 2022 were \$339 million compared to \$1,377 million in 2021. The decrease of \$1,038 million was primarily driven by the favourable year-over-year impact of the fair value adjustment on the Class B LP units (“Exchangeable Units”) of \$1,033 million as a result of the decrease in the unit price.

**NET INCOME** Net income in 2022 was \$744 million, compared to \$24 million in 2021. The increase of \$720 million was primarily driven by:

- lower net interest expense and other financing charges as described above; partially offset by,
- the unfavourable change in the adjustment to fair value of investment properties, including those held within equity accounted joint ventures, driven by capitalization rate expansion in the retail portfolio as a result of rising interest rates, partially offset by achieved milestones in development and leasing and cash flow growth in the industrial portfolios;
- the unfavourable change in the adjustment to fair value of investment in real estate securities as a result of a decrease in Allied’s unit price; and
- the decline in revenue described above.

**FUNDS FROM OPERATIONS<sup>(1)</sup>** Funds from Operations<sup>(1)</sup> in 2022 was \$698 million, an increase of \$8 million compared to 2021. The increase was primarily due to an increase in rental revenues from the retail and industrial portfolios, which was partially offset by increases in interest expense and general and administrative expenses and the impact of the Office Asset Sale. The impact of the Office Asset Sale includes foregone rental income, partially offset by the distributions from Choice Properties’ investment in real estate securities of Allied and interest income from the consideration received in exchange for assets sold.

### CHOICE PROPERTIES OTHER BUSINESS MATTERS

**Strategic Disposition** On March 31, 2022, Choice Properties completed the Office Asset Sale. The consideration received consisted of 11,809,145 exchangeable Class B limited partnership units of Allied Properties Exchangeable Limited Partnership (“Allied Class B Units”), an affiliated entity of Allied, with a fair value of \$551 million on the transaction date, and a promissory note with a fair value of \$193 million (face value of \$200 million). See note 21, “Other Assets” in the Company’s consolidated financial statements and the accompanying notes of this Annual Report.

**Subsequent Events** On February 16, 2023, Choice Properties announced that it agreed to issue, on a private placement basis, \$550 million aggregate principal amount of series S senior unsecured debentures that will bear interest at a rate of 5.4% per annum and will mature on March 1, 2033.

On February 15, 2023, Choice Properties announced an increase in the annual distribution by 1.4% to \$0.75 per unit. The increase will be effective for Choice Properties’ unitholders of record on March 31, 2023.

On January 18, 2023, Choice Properties paid in full upon maturity, at par, plus accrued and unpaid interest thereon, the \$125 million aggregate principal amount of the Series D-C senior unsecured debentures outstanding. The repayment of the Series D-C senior unsecured debenture was funded by an advance on Choice Properties’ credit facility.

Subsequent to year end, Choice Properties entered into commitments for approximately \$162 million of mortgage financing.

# Management's Discussion and Analysis

## 3. Liquidity and Capital Resources

### 3.1 Cash Flows

The following Cash Flow components are inclusive of continuing and discontinued operations.

(\$ millions)

For the years ended as indicated	2022	2021 <sup>(i)</sup>	\$ Change
Cash and cash equivalents, beginning of year	\$ 2,984	\$ 2,581	\$ 403
Cash flows from operating activities	\$ 4,877	\$ 5,119	\$ (242)
Cash flows used in investing activities	\$ (2,540)	\$ (291)	\$ (2,249)
Cash flows used in financing activities	\$ (3,011)	\$ (4,426)	\$ 1,415
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ 3	\$ 1	\$ 2
Cash and cash equivalents, end of year	\$ 2,313	\$ 2,984	\$ (671)

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

**CASH FLOWS FROM OPERATING ACTIVITIES** Cash flows from operating activities were \$4,877 million in 2022, a decrease of \$242 million compared to 2021. The decrease in cash flows from operating activities was primarily driven by an unfavourable change in non-cash working capital and growth in credit card receivables from a rise in customer spending, partially offset by higher cash earnings and net lower income taxes paid due to the recovery of cash taxes related to Glenhuron.

**CASH FLOWS USED IN INVESTING ACTIVITIES** Cash flows used in investing activities were \$2,540 million in 2022, an increase of \$2,249 million compared to 2021. The increase in cash flows used in investing activities was primarily due to the net consideration from the disposal of Weston Foods business received in the prior year, the acquisition of Lifemark and higher capital investments, partially offset by the decrease in short-term investments.

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

(\$ millions)

For the years ended as indicated	2022	2021
Loblaw <sup>(i)</sup>	\$ 1,571	\$ 1,183
Choice Properties	321	196
Other and Intersegment	1	2
Capital investments from continuing operations	\$ 1,893	\$ 1,381
Discontinued operations	–	76
Total capital investments	\$ 1,893	\$ 1,457

(i) During 2022, there were no additions to Loblaw fixed assets related to prepayments that were made in 2021 and transferred from other assets. During 2021, additions to Loblaw fixed assets included prepayments that were made in 2020 and transferred from other assets of \$1 million.



**CASH FLOWS USED IN FINANCING ACTIVITIES** Cash flows used in financing activities were \$3,011 million in 2022, a decrease of \$1,415 million compared to 2021. The decrease in cash flows used in financing activities was primarily driven by the higher net issuances of long-term debt and an increase in short-term debt, the settlement of the net debt associated with the equity forward sale agreement in the prior year, partially offset by higher GWL and Loblaw repurchases of common shares under their respective NCIB programs.

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

**FREE CASH FLOW<sup>(1)</sup>**

(\$ millions)

For the years ended as indicated	2022	2021 <sup>(i)</sup>	\$ Change
Cash flows from operating activities	\$ 4,877	\$ 5,119	\$ (242)
Less: Cash flows from operating activities from discontinued operations	–	–	–
Cash flows from operating activities from continuing operations	\$ 4,877	\$ 5,119	\$ (242)
Less: Interest paid	818	853	(35)
Capital Investments	1,893	1,381	512
Lease payments, net	749	795	(46)
Free cash flow <sup>(1)</sup> from continuing operations	\$ 1,417	\$ 2,090	\$ (673)

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

Free cash flow<sup>(1)</sup> from continuing operations in 2022 was \$1,417 million, a decrease of \$673 million compared to 2021. The decrease in free cash flow<sup>(1)</sup> was primarily driven by growth in credit card receivables from an increase in the active customer base and a rise in customer spending, an unfavourable change in non-cash working capital and higher capital investments, partially offset by higher cash earnings and lower income taxes paid.

# Management's Discussion and Analysis

## 3.2 Liquidity

The Company (excluding Loblaw and Choice Properties) expects that cash and cash equivalents, short-term investments, future operating cash flows and the amounts available to be drawn against its committed credit facility will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding requirements and financial obligations, over the next 12 months. The Company (excluding Loblaw and Choice Properties) does not foresee any impediments in obtaining financing to satisfy its long-term obligations.

Loblaw expects that cash and cash equivalents, short-term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable it to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements and financial obligations. PC Bank expects to obtain long-term financing for its credit card portfolio through the issuance of *Eagle* notes and Guaranteed Investment Certificates ("GICs").

Choice Properties expects to obtain long-term financing for the acquisition of properties primarily through the issuance of unsecured debentures and equity.

For details on the Company's cash flows, see Section 3.1 "Cash Flows", of this MD&A.

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

(\$ millions)	Dec. 31, 2022				Dec. 31, 2021			
	Loblaw	Choice Properties	Other and Intersegment	Total	Loblaw	Choice Properties	Other and Intersegment	Total
Bank indebtedness	\$ 8	\$ –	\$ –	\$ 8	\$ 52	\$ –	\$ –	\$ 52
Demand deposits from customer	125	–	–	125	75	–	–	75
Short-term debt	700	–	–	700	450	–	–	450
Long-term debt due within one year	727	656	–	1,383	1,002	518	–	1,520
Long-term debt	7,056	5,896	449	13,401	6,211	5,709	570	12,490
Certain other liabilities <sup>(i)</sup>	80	668	–	748	74	664	–	738
Total debt excluding lease liabilities	\$ 8,696	\$ 7,220	\$ 449	\$ 16,365	\$ 7,864	\$ 6,891	\$ 570	\$ 15,325
Lease liabilities due within one year <sup>(ii)</sup>	\$ 1,401	\$ 2	\$ (568)	\$ 835	\$ 1,297	\$ 1	\$ (556)	\$ 742
Lease liabilities <sup>(iii)</sup>	\$ 7,714	\$ 2	\$ (3,393)	\$ 4,323	\$ 7,542	\$ 1	\$ (3,301)	\$ 4,242
Total debt including total lease liabilities	\$ 17,811	\$ 7,224	\$ (3,512)	\$ 21,523	\$ 16,703	\$ 6,893	\$ (3,287)	\$ 20,309

(i) Includes financial liabilities of \$668 million (December 31, 2021 – \$664 million) recorded primarily as a result of Choice Properties' transactions.

(ii) Lease liabilities due within one year of \$2 million (December 31, 2021 – \$2 million) and lease liabilities of \$5 million (December 31, 2021 – \$7 million) relating to CWL Corporate are included in Other and Intersegment.

Management targets credit metrics consistent with those of an investment grade profile. GWL Corporate holds cash and cash equivalents and short-term investments and as a result monitors its leverage on a net debt basis. GWL Corporate has total debt including lease liabilities of \$456 million (December 31, 2021 – \$579 million) and cash and cash equivalents and short-term investments of \$818 million (December 31, 2021 – \$1,338 million), resulting in a net cash position of \$362 million (December 31, 2021 – net cash of \$759 million).

Loblaw's management is focused on managing its capital structure on a segmented basis to ensure that each of its operating segments is employing a capital structure that is appropriate for the industry in which it operates.

- Loblaw targets maintaining retail segment credit metrics consistent with those of investment grade retailers. Loblaw monitors the retail segment's debt to retail adjusted EBITDA<sup>(1)</sup> ratio as a measure of the leverage being employed. Loblaw retail segment debt to adjusted EBITDA<sup>(1)</sup> ratio decreased compared to 2021 primarily due to an improvement in adjusted EBITDA<sup>(1)</sup>.
- PC Bank's capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory requirements as defined by the Office of the Superintendent of Financial Institutions.

Choice Properties targets maintaining credit metrics consistent with those of investment grade Real Estate Investment Trusts ("REIT"). Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio.

**COVENANTS AND REGULATORY REQUIREMENTS** The Company, Loblaw and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at year end 2022 and throughout the year, the Company, Loblaw and Choice Properties were in compliance with their respective covenants.

As at year end 2022 and throughout the year, PC Bank and Choice Properties met all applicable regulatory requirements.

### 3.3 Components of Total Debt

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

(\$ millions)	Interest Rate	Maturity Date	2022	2021
			Principal Amount	Principal Amount
Loblaw				
- Senior unsecured note	5.01%	September 13, 2032	\$ 400	\$ -
- Senior unsecured note	5.34%	September 13, 2052	400	-
Choice Properties senior unsecured debentures				
- Series Q	2.46%	November 30, 2026	-	350
- Series R	6.00%	June 24, 2032	500	-
Total debentures issued			\$ 1,300	\$ 350

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

(\$ millions)	Interest Rate	Maturity Date	2022	2021
			Principal Amount	Principal Amount
George Weston debenture - Series A	7.00%	November 10, 2031 <sup>(i)</sup>	\$ -	\$ 466
Loblaw senior unsecured note	4.86%	September 12, 2023 <sup>(ii)</sup>	800	-
Choice Properties senior unsecured debentures				
- Series 9	3.60%	September 20, 2021	-	200
- Series 10	3.84%	September 20, 2022 <sup>(iii)</sup>	300	-
- Series I	3.01%	March 21, 2022	-	300
Total debentures repaid			\$ 1,100	\$ 966

(i) In 2021, the Company settled the net debt associated with the equity forward sale agreement. As a result, the 9.6 million Loblaw shares securing the net debt were released from security and the Company's economic interest in Loblaw is now equal to its voting interest. In aggregate, \$790 million was paid to settle the net debt, resulting in the extinguishment of the Series A Debentures (\$466 million), Series B Debentures (\$784 million), plus accrued interest, and the settlement of the equity forward sale agreement (\$464 million gain).

(ii) Loblaw senior unsecured debenture was redeemed on September 21, 2022.

(iii) Choice Properties senior unsecured Series 10 debenture was redeemed on June 26, 2022.

# Management's Discussion and Analysis

**COMMITTED CREDIT FACILITIES** The components of the committed lines of credit available as at year end 2022 and 2021 were as follows:

(\$ millions)	Maturity Date	As at			
		Dec. 31, 2022		Dec. 31, 2021	
		Available Credit	Drawn	Available Credit	Drawn
George Weston	September 13, 2024	\$ 350	\$ –	\$ 350	\$ 121
Loblaw	July 15, 2027	1,000	–	1,000	–
Choice Properties	September 1, 2027	1,500	260	1,500	–
Total committed credit facilities		\$ 2,850	\$ 260	\$ 2,850	\$ 121

**George Weston** In 2021, GWL entered into a \$350 million revolving committed credit facility provided by a syndicate of lenders with a maturity date of September 13, 2024. As at December 31, 2021, \$121 million was drawn on the facility which was repaid in the first quarter of 2022. As at December 31, 2022, no amounts were drawn on the facility.

**Loblaw** Loblaw has a \$1 billion committed credit facility with a maturity date of July 15, 2027, provided by a syndicate of lenders. Loblaw extended the maturity date during 2022 with all other terms and conditions remaining substantially the same. As at December 31, 2022, there were no amounts drawn under the facility (December 31, 2021 – no amounts were drawn).

**Choice Properties** Choice Properties has a \$1.5 billion senior unsecured committed revolving credit facility maturing September 1, 2027, provided by a syndicate of lenders. During 2022, the maturity date of the credit facility was extended to September 1, 2027 with all other terms and conditions remaining substantially the same. As at December 31, 2022, \$260 million was drawn under the facility (December 31, 2021 – no amounts were drawn).

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

The following table summarizes the amounts securitized to independent securitization trusts:

(\$ millions)	As at	
	Dec. 31, 2022	Dec. 31, 2021
Securitized to independent securitization trusts:		
Securitized to <i>Eagle Credit Card Trust</i> ®	\$ 1,350	\$ 1,350
Securitized to Other Independent Securitization Trusts	700	450
Total securitized to independent securitization trusts	\$ 2,050	\$ 1,800

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at year end 2022 and throughout the year.

During 2022, *Eagle* filed a Short Form Base Shelf Prospectus, which allows for the issuance of up to \$1.25 billion of notes over a 25-month period.

During 2022, *Eagle* issued \$250 million (2021 – \$300 million) of senior and subordinated term notes with a maturity date of July 17, 2027 (2021 – June 17, 2026) at a weighted average interest rate of 4.89% (2021 – 1.61%). In connection with this issuance, \$140 million (2021 – \$175 million) of bond forward agreements were settled, resulting in a realized fair value gain of \$8 million (2021 – loss of \$1 million) before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to the settlement of the agreement. The gain will be reclassified to the consolidated statements of earnings over the life of the *Eagle* notes. This settlement resulted in a net effective interest rate of 4.24% (2021 – 1.65%) on the *Eagle* notes issued.

During 2022, \$250 million of senior and subordinated term notes at weighted average interest rate of 2.71%, previously issued by *Eagle*, matured and were repaid on October 17, 2022. As a result, during 2022, there was no net change in the balances related to *Eagle* notes.

There were no repayments of notes issued by *Eagle* in 2021.

**INDEPENDENT FUNDING TRUSTS** As at year end 2022, the independent funding trusts had drawn \$574 million (2021 – \$570 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at year end 2022, Loblaw has agreed to provide a credit enhancement of \$64 million (2021 – \$64 million) in the form of a standby letter of credit for the benefit of the independent funding trusts representing not less than 10% (2021 – not less than 10%) of the principal amount of the loans outstanding.

Loblaw has a \$700 million revolving committed credit facility that is the source of funding to the independent funding trusts that has a maturity date of April 14, 2025. Loblaw extended the maturity date during 2022 with all other terms and conditions remaining substantially the same.

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

(\$ millions)	2022	2021
Balance, beginning of year	\$ 996	\$ 1,185
GICs issued	764	414
GICs matured	(193)	(603)
Balance, end of year	\$ 1,567	\$ 996

As at year end 2022, \$477 million in GICs were recorded as long-term debt due within one year (2021 – \$182 million).

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

(\$ millions)	Maturity Date	As at	
		Dec. 31, 2022	Dec. 31, 2021
Debentures	2024 - 2033	\$ 450	\$ 450
George Weston credit facility	2024	–	121
Transaction costs and other	n/a	(1)	(1)
Other and Intersegment debt		\$ 449	\$ 570

**Associate Guarantees** Loblaw has arranged for its pharmacist owners of corporations licensed to operate retail drug stores at specific location using Loblaw's trademarks ("Associates") to obtain financing to facilitate their inventory purchases and fund their working capital requirements by providing guarantees to various Canadian chartered banks that support Associate loans. As at year end 2022, Loblaw's maximum obligation in respect of such guarantees was \$580 million (2021 – \$580 million) with an aggregate amount of \$473 million (2021 – \$469 million) in available lines of credit allocated to the Associates by the various banks. As at year end 2022, the Associates had drawn an aggregate amount of \$8 million (2021 – \$52 million) against these available lines of credit. Any amounts drawn by the Associates are included in bank indebtedness on the Company's consolidated balance sheets. As recourse, in the event that any payments are made under the guarantees, Loblaw holds a first-ranking security interest on all assets of Associates, subject to certain prior-ranking statutory claims.

### 3.4 Financial Condition

	As at	
	Dec. 31, 2022	Dec. 31, 2021
Adjusted return on average equity attributable to common shareholders of the Company <sup>(1)</sup>	23.5%	18.7%
Adjusted return on capital <sup>(1)</sup>	13.8%	12.6%

The adjusted return on average equity attributable to common shareholders of the Company<sup>(1)</sup> increased as at year end 2022 compared to 2021, primarily due to an increase in adjusted net earnings available to common shareholders of the Company<sup>(1)</sup> from continuing operations and a decrease in average equity attributable to common shareholders of the Company<sup>(1)</sup>.

The adjusted return on capital<sup>(1)</sup> increased as at year end 2022 compared to 2021, primarily due to an increase in adjusted operating income<sup>(1)</sup> as a result of an improvement in the Company's consolidated underlying performance.

# Management's Discussion and Analysis

## 3.5 Credit Ratings

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

Credit Ratings (Canadian Standards)	DBRS		S&P	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Medium term notes	BBB	Stable	BBB-	n/a
Other notes and debentures	BBB	Stable	BBB	n/a
Preferred shares	Pfd-3	Stable	P-3 (high)	n/a

During 2022, S&P Global Ratings ("S&P") confirmed the above ratings and outlook of GWL, and Dominion Bond Rating Service Morningstar ("DBRS") confirmed the above ratings and trend of GWL.

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

Credit Ratings (Canadian Standards)	DBRS		S&P	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB (high)	Stable	BBB	Stable
Medium term notes	BBB (high)	Stable	BBB	n/a
Other notes and debentures	BBB (high)	Stable	BBB	n/a
Second Preferred shares, Series B	Pfd-3 (high)	Stable	P-3 (high)	n/a

During 2022, S&P confirmed the above ratings and outlook of Loblaw, and DBRS confirmed the above ratings and trend of Loblaw.

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

Credit Ratings (Canadian Standards)	DBRS		S&P	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB (high)	Stable	BBB	Stable
Senior unsecured debentures	BBB (high)	Stable	BBB	n/a

During 2022, S&P confirmed the above ratings and outlook of Choice Properties, and DBRS confirmed the above ratings and trend of Choice Properties.

### 3.6 Share Capital

**OUTSTANDING SHARE CAPITAL AND CAPITAL SECURITIES** GWL's outstanding share capital is comprised of common shares and preferred shares. The following table details the authorized and outstanding common shares and preferred shares as at December 31, 2022:

(number of common shares)	Authorized	Outstanding
Common shares	Unlimited	140,737,942
Preferred shares – Series I	10,000,000	9,400,000
– Series II	10,600,000	–
– Series III	10,000,000	8,000,000
– Series IV	8,000,000	8,000,000
– Series V	8,000,000	8,000,000

**COMMON SHARE CAPITAL** Common shares issued are fully paid and have no par value. The following table summarizes the activity in the Company's common shares issued and outstanding for the years ended December 31, 2022 and December 31, 2021:

(\$ millions except where otherwise indicated)	2022		2021	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of year	146,789,503	\$ 2,714	152,374,416	\$ 2,786
Issued for settlement of stock options	337,615	41	323,461	36
Purchased and cancelled <sup>(i)(ii)</sup>	(6,389,176)	(136)	(5,908,374)	(108)
Issued and outstanding, end of year	140,737,942	\$ 2,619	146,789,503	\$ 2,714
Shares held in trusts, beginning of year	(141,106)	\$ (2)	(254,525)	\$ (4)
Purchased for future settlement of RSUs and PSUs	(99,000)	(2)	–	–
Released for settlement of RSUs and PSUs	79,641	1	113,419	2
Shares held in trusts, end of year	(160,465)	\$ (3)	(141,106)	\$ (2)
Issued and outstanding, net of shares held in trusts, end of year	140,577,477	\$ 2,616	146,648,397	\$ 2,712
Weighted average outstanding, net of shares held in trusts	144,244,034		149,893,834	

(i) Number of common shares repurchased and cancelled as at December 31, 2022 does not include shares that may be repurchased subsequent to year end under the ASPP as described below.

(ii) Includes 1,930 shares cancelled during 2021 in a private transaction and are excluded from the Company's Normal Course Issuer Bid.

**PREFERRED SHARE CAPITAL** GWL may, at its option, redeem for cash, in whole or in part, the preferred shares Series I, Series III, Series IV and Series V outstanding on or after the redemption dates specified by the terms of each series of preferred shares. GWL may at any time after issuance give the holders of these preferred shares the right, at the option of the holder, to convert the holder's preferred shares into preferred shares of a further series designated by GWL on a share-for-share basis on a date specified by GWL.

## Management's Discussion and Analysis

**DIVIDENDS** The declaration and payment of dividends on the Company's common shares and the amount thereof are at the discretion of the Company's Board of Directors ("Board") which takes into account the Company's financial results, capital requirements, available cash flow, future prospects of the Company's business and other factors considered relevant from time to time. Over time, it is the Company's intention to increase the amount of the dividend while retaining appropriate free cash flow to finance future growth. In the second quarter of 2022 and in the third quarter of 2021, the Board raised the quarterly common share dividend by \$0.060 to \$0.66 and \$0.050 to \$0.60 per share, respectively. The Board declared dividends for the years ended as follows:

(\$)	2022	2021
Dividends declared per share <sup>(i)</sup> :		
Common share	\$ 2.58	\$ 2.30
Preferred share:		
Series I	\$ 1.45	\$ 1.45
Series III	\$ 1.30	\$ 1.30
Series IV	\$ 1.30	\$ 1.30
Series V	\$ 1.1875	\$ 1.1875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were paid on January 1, 2023. Dividends declared on Preferred Shares, Series I were paid on December 15, 2022.

The following table summarizes the Company's cash dividends declared subsequent to year end 2022:

(\$)		
Dividends declared per share <sup>(i)</sup>	- Common share	\$ 0.660
	- Preferred share:	
	Series I	\$ 0.3625
	Series III	\$ 0.3250
	Series IV	\$ 0.3250
	Series V	\$ 0.296875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V are payable on April 1, 2023. Dividends declared on Preferred Shares, Series I are payable on March 15, 2023.

At the time such dividends are declared, GWL identifies on its website ([www.weston.ca](http://www.weston.ca)) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency.



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

(\$ millions except where otherwise indicated)	2022	2021
Purchased for future settlement of RSUs and PSUs (number of shares)	99,000	–
Purchased for current settlement of RSUs and DSUs (number of shares)	15,716	10,862
Purchased and cancelled (number of shares)	6,389,176	5,906,444
Cash consideration paid		
Purchased and held in trusts	\$ (14)	\$ –
Purchased and settled	(2)	–
Purchased and cancelled <sup>(i)</sup>	(994)	(744)
Premium charged to retained earnings		
Purchased and held in trusts	\$ 12	\$ –
Purchased and settled	1	–
Purchased and cancelled <sup>(ii)</sup>	1,002	642
Reduction in share capital <sup>(iii)</sup>	\$ 136	\$ 108

(i) Included in 2022 is a net cash timing adjustment of \$6 million (2021 – \$(6) million) of common shares repurchased under the NCIB for cancellation.

(ii) Includes \$133 million (2021 – nil) related to the ASPP, as described below.

(iii) Includes \$17 million (2021 – nil) related to the ASPP, as described below.

In 2022, GWL renewed its NCIB to purchase on the TSX or through alternative trading systems up to 7,304,927 of its common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares.

From time to time, the Company participates in an ASPP with a broker in order to facilitate the purchase of the Company's common shares under its NCIB. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market. As at December 31, 2022, an obligation to repurchase shares of \$150 million was recognized under the ASPP in trade payables and other liabilities.

As of December 31, 2022, 4,786,792 common shares were purchased under the Company's current NCIB.

# Management's Discussion and Analysis

## 3.7 Off-Balance Sheet Arrangements

The following is a summary of the Company's off-balance sheet arrangements. Certain significant arrangements have also been discussed in Section 3.3, "Components of Total Debt".

**LETTERS OF CREDIT** Standby and documentary letters of credit are used in connection with certain obligations mainly related to real estate transactions, benefit programs, purchase orders and other performance guarantees, surety bond, securitization of PC Bank's credit card receivables, letters of credit and third-party financing made available to Loblaw's franchisees. As at year end 2022, the aggregate gross potential liability related to the Company's letters of credit was approximately \$551 million (2021 - \$629 million).

**GUARANTEES** In addition to the letters of credit mentioned above, the Company has entered into various guarantee arrangements including obligations to indemnify third parties in connection with leases, business dispositions and other transactions in the normal course of the Company's business. Additionally, Loblaw has provided a guarantee on behalf of PC Bank to MasterCard® International Incorporated ("MasterCard®") for accepting PC Bank as a card member and licensee of MasterCard®. As at year end 2022, the guarantee on behalf of PC Bank to MasterCard® was U.S. dollars \$190 million (2021 - U.S. dollars \$190 million).

**LEASE OBLIGATIONS** In connection with historical dispositions of certain of its assets, Loblaw has assigned leases to third parties. Loblaw remains contingently liable for these lease obligations in the event any of the assignees are in default of their lease obligations. Loblaw has guaranteed lease obligations of a third-party distributor in the amount of \$4 million (2021 - \$2 million).

**CASH COLLATERALIZATION** As at year end 2022, GWL had no agreements to cash collateralize uncommitted credit facilities (2021 - \$45 million) and had no deposits with major financial institutions (2021 - \$45 million) and classified as security deposits on the consolidated balance sheets. As at year end 2022, Loblaw had agreements to cash collateralize certain uncommitted credit facilities up to amounts of \$93 million (2021 - \$93 million), of which a nominal amount (2021 - nominal) was deposited with major financial institutions and classified as security deposits on the consolidated balance sheets.

### 3.8 Contractual Obligations

The following table summarizes certain of the Company's significant contractual obligations and other obligations as at year end 2022:

#### SUMMARY OF CONTRACTUAL OBLIGATIONS

(\$ millions)	Payments due by year						Total
	2023	2024	2025	2026	2027	Thereafter	
Total debt <sup>(i)</sup>	\$ 2,802	\$ 2,786	\$ 2,301	\$ 1,341	\$ 1,536	\$ 9,197	\$ 19,963
Foreign exchange forward contracts	543	157	–	–	–	–	700
Financial liabilities <sup>(ii)</sup>	49	50	54	49	47	174	423
Lease payments	850	782	716	565	467	1,930	5,310
Contracts for purchases of real property and capital investment projects <sup>(iii)</sup>	561	180	137	40	157	47	1,122
Purchase obligations <sup>(iv)</sup>	900	707	554	523	16	16	2,716
Total contractual obligations	\$ 5,705	\$ 4,662	\$ 3,762	\$ 2,518	\$ 2,223	\$ 11,364	\$ 30,234

- (i) Includes short-term debt, bank indebtedness, demand deposits, and Loblaw's certain other liabilities. Total debt also includes fixed interest payments on long-term debt which are based on the maturing face values and annual interest for each instrument, including GICs, and an independent funding trust, as well as annual payment obligations for consolidated structured entities and mortgages. Variable interest payments are based on the forward rates as at year end 2022.
- (ii) Represents the contractual payments that Loblaw is committed to related to the Choice Properties' dispositions.
- (iii) Includes agreements for the purchase of real property and capital commitments for construction, expansion and renovation of buildings. These agreements may contain conditions that may or may not be satisfied. If the conditions are not satisfied, it is possible the Company will no longer have the obligation to proceed with the underlying transactions.
- (iv) Includes contractual obligations of a material amount to purchase goods or services where the contract prescribes fixed or minimum volumes to be purchased or payments to be made within a fixed period of time for a set or variable price. These are only estimates of anticipated financial commitments under these arrangements and the amount of actual payments will vary. The purchase obligations do not include purchase orders issued or agreements made in the ordinary course of business which are solely for goods that are meant for resale, nor do they include any contracts which may be terminated on relatively short notice or with relatively insignificant cost or liability to the Company.

As at year end 2022, the Company had additional long-term liabilities which included post-employment and other long-term employee benefit plan liabilities, deferred vendor allowances, deferred income tax liabilities, Trust Unit liability and provisions, including insurance liabilities. These long-term liabilities have not been included in the table above as the timing and amount of future payments are uncertain.

# Management's Discussion and Analysis

## 4. Quarterly Results of Operations

### 4.1 Quarterly Financial Information

The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2022 and December 31, 2021 contained 52 weeks. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year contains 53 weeks, the fourth quarter is 13 weeks in duration.

Unless otherwise indicated, all financial information represents the Company's results from continuing operations.

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

(\$ millions except where otherwise indicated)	2022					2021				
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)
Revenue	\$ 12,407	\$ 12,979	\$ 17,520	\$ 14,142	\$ 57,048	\$ 12,017	\$ 12,637	\$ 16,192	\$ 12,902	\$ 53,748
Operating income	\$ 1,166	\$ 649	\$ 1,474	\$ 1,264	\$ 4,553	\$ 828	\$ 1,065	\$ 1,125	\$ 1,009	\$ 4,027
Adjusted EBITDA <sup>(1)</sup>	\$ 1,422	\$ 1,588	\$ 1,951	\$ 1,590	\$ 6,551	\$ 1,300	\$ 1,462	\$ 1,780	\$ 1,453	\$ 5,995
Depreciation and amortization <sup>(i)</sup>	\$ 549	\$ 552	\$ 729	\$ 577	\$ 2,407	\$ 525	\$ 541	\$ 704	\$ 537	\$ 2,307
Net earnings from continuing operations	\$ 615	\$ 874	\$ 1,185	\$ 135	\$ 2,809	\$ 118	\$ 361	\$ 513	\$ 755	\$ 1,747
Net earnings (loss) attributable to shareholders of the Company from continuing operations	\$ 373	\$ 650	\$ 903	\$ (104)	\$ 1,822	\$ (52)	\$ 125	\$ 252	\$ 428	\$ 753
Net earnings (loss) available to common shareholders of the Company	\$ 363	\$ 634	\$ 889	\$ (114)	\$ 1,772	\$ (62)	\$ 108	\$ 124	\$ 217	\$ 387
Continuing operations	\$ 363	\$ 640	\$ 889	\$ (114)	\$ 1,778	\$ (62)	\$ 115	\$ 238	\$ 418	\$ 709
Discontinued operations	\$ -	\$ (6)	\$ -	\$ -	\$ (6)	\$ -	\$ (7)	\$ (114)	\$ (201)	\$ (322)
Net earnings (loss) per common share (\$) - basic	\$ 2.47	\$ 4.35	\$ 6.20	\$ (0.81)	\$ 12.29	\$ (0.41)	\$ 0.71	\$ 0.83	\$ 1.48	\$ 2.59
Continuing operations	\$ 2.47	\$ 4.39	\$ 6.20	\$ (0.81)	\$ 12.33	\$ (0.41)	\$ 0.75	\$ 1.59	\$ 2.84	\$ 4.73
Discontinued operations	\$ -	\$ (0.04)	\$ -	\$ -	\$ (0.04)	\$ -	\$ (0.04)	\$ (0.76)	\$ (1.36)	\$ (2.14)
Net earnings (loss) per common share (\$) - diluted	\$ 2.45	\$ 4.32	\$ 6.14	\$ (0.83)	\$ 12.16	\$ (0.41)	\$ 0.70	\$ 0.82	\$ 1.44	\$ 2.52
Continuing operations	\$ 2.45	\$ 4.36	\$ 6.14	\$ (0.83)	\$ 12.20	\$ (0.41)	\$ 0.74	\$ 1.58	\$ 2.80	\$ 4.66
Discontinued operations	\$ -	\$ (0.04)	\$ -	\$ -	\$ (0.04)	\$ -	\$ (0.04)	\$ (0.76)	\$ (1.36)	\$ (2.14)
Adjusted diluted net earnings per common share <sup>(1)</sup> from continuing operations (\$)	\$ 1.90	\$ 2.23	\$ 3.12	\$ 2.59	\$ 9.81	\$ 1.60	\$ 1.80	\$ 2.43	\$ 2.32	\$ 8.14

(i) Depreciation and amortization includes amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark, recorded by Loblaw.

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

- Loblaw's revenue was impacted by various factors including the following:
  - COVID-19 pandemic related impacts;
  - seasonality, which was greatest in the fourth quarter and least in the first quarter;
  - the timing of holidays;
  - macro-economic conditions impacting food and drug retail prices; and
  - changes in net retail square footage. Over the past eight quarters, net retail square footage has increased by 0.2 million square feet to 71.2 million square feet.

- Choice Properties revenue was impacted by the following:
  - foregone revenue from dispositions;
  - increased capital recoveries;
  - higher rental rates on renewals in the retail and industrial portfolio;
  - contribution from acquisitions, and development transfers;
  - vacancies in select office assets; and
  - increase in lease surrender revenue.

**NET EARNINGS (LOSS) AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY FROM CONTINUING OPERATIONS AND DILUTED NET EARNINGS (LOSS) PER COMMON SHARE FROM CONTINUING OPERATIONS** Net earnings (loss) available to common shareholders of the Company from continuing operations and diluted net earnings (loss) per common share from continuing operations for the last eight quarters were impacted by the underlying operating performance of each of the Company's reportable operating segments and certain adjusting items as described in Section 13.1, "Non-GAAP Financial Measures - Selected Comparative Reconciliation", of this MD&A.

The Company's underlying operating performance for the last eight quarters included the following:

- change in Loblaw's underlying operating performance was driven by:
  - COVID-19 pandemic related impacts;
  - seasonality, which was greatest in the fourth quarter and least in the first quarter;
  - the timing of holidays;
  - cost savings, operating efficiencies and benefits from strategic initiatives; and
  - the 2021 reversal of certain commodity taxes accrued.
- change in Choice Properties' underlying operating performance was driven by:
  - distributions from the investment in real estate securities of Allied;
  - the change in revenue as described above; and
  - a decline in expected credit loss provisions.
- the impact of asset impairments, net of recoveries and certain one-time gains related to Choice Properties' transactions recorded on consolidation in Other and Intersegment;
- diluted net earnings (loss) per common share included the favourable impact of shares purchased for cancellation.

## 4.2 Fourth Quarter Results

Loblaw continued to deliver strong financial and operating results in the fourth quarter. Retail sales grew 9.7% reflecting strong growth in both food and drug businesses. Drug retail sales growth was driven by continued strong demand for cough and cold products and strength in high margin beauty and cosmetics categories. Food retail sales reflected Loblaw's efforts to provide value to its customers. Loblaw's discount stores outperformed, benefiting from an increased consumer focus on price. Market stores extended strong performance relative to peers with impactful promotional strategies. Gross margins were slightly lower largely related to the no name® price freeze and increased commitment to promotional activity, partially offset by continued strength in higher margin front-store sales in the drug business. Higher sales and leverage from focused cost control measures drove earnings growth in the quarter.

Choice Properties delivered solid operating and financial results in the fourth quarter. Choice Properties' performance was driven by the strength of its grocery anchored and necessity-based retail portfolio, the realization of embedded rent growth in its well located generic industrial portfolio and its growing mixed-use and residential platform. In addition to its strong results, Choice Properties continued to focus on improving the quality of its portfolio and driving growth through development. In 2022, Choice Properties completed over \$1.2 billion of real estate transactions and made significant advances in its industrial and mixed-use development pipelines. Subsequent to the end of the quarter, Choice Properties announced a distribution increase which reflects the confidence it has in its portfolio to continue to deliver steady and growing cash flows, and its strong financial position.

The following is a summary of selected consolidated unaudited financial information for the fourth quarter. The analysis of the data contained in the table focuses on the results of operations and changes in the financial condition and cash flows in the fourth quarter.

# Management's Discussion and Analysis

Unless otherwise indicated, all financial information represents the Company's results from continuing operations.

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

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
<b>Revenue</b>	\$ 14,142	\$ 12,902	\$ 1,240	9.6%
<b>Operating income</b>	\$ 1,264	\$ 1,009	\$ 255	25.3%
Adjusted EBITDA <sup>(1)</sup>	\$ 1,590	\$ 1,453	\$ 137	9.4%
Adjusted EBITDA margin <sup>(1)</sup>	11.2%	11.3%		
<b>Depreciation and amortization<sup>(i)</sup></b>	\$ 577	\$ 537	\$ 40	7.4%
<b>Net interest expense and other financing charges</b>	\$ 916	\$ 190	\$ 726	382.1%
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 254	\$ 253	\$ 1	0.4%
<b>Income taxes</b>	\$ 213	\$ 64	\$ 149	232.8%
Adjusted income taxes <sup>(1)</sup>	\$ 235	\$ 204	\$ 31	15.2%
Adjusted effective tax rate <sup>(1)</sup>	26.9%	26.2%		
<b>Net (loss) earnings attributable to shareholders of the Company from continuing operations</b>	\$ (104)	\$ 428	\$ (532)	(124.3)%
<b>Net (loss) earnings available to common shareholders of the Company</b>	\$ (114)	\$ 217	\$ (331)	(152.5)%
<b>Continuing operations</b>	\$ (114)	\$ 418	\$ (532)	(127.3)%
<b>Discontinued operations</b>	\$ –	\$ (201)	\$ 201	100.0%
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup> from continuing operations	\$ 369	\$ 347	\$ 22	6.3%
<b>Diluted net (loss) earnings per common share (\$)</b>	\$ (0.83)	\$ 1.44	\$ (2.27)	(157.6)%
<b>Continuing operations</b>	\$ (0.83)	\$ 2.80	\$ (3.63)	(129.6)%
<b>Discontinued operations</b>	\$ –	\$ (1.36)	\$ 1.36	100.0%
Adjusted diluted net earnings per common share <sup>(1)</sup> from continuing operations (\$)	\$ 2.59	\$ 2.32	\$ 0.27	11.6%
Dividends declared per share (\$):				
Common shares	\$ 0.660	\$ 0.600		
Preferred shares – Series I	\$ 0.3625	\$ 0.3625		
Preferred shares – Series III	\$ 0.3250	\$ 0.3250		
Preferred shares – Series IV	\$ 0.3250	\$ 0.3250		
Preferred shares – Series V	\$ 0.296875	\$ 0.296875		

(i) Depreciation and amortization includes \$115 million (2021 – \$117 million) of amortization of intangible assets, acquired with Shoppers Drug Mart and Lifemark, recorded by Loblaw.

## NET (LOSS) EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY FROM CONTINUING OPERATIONS

In the fourth quarter of 2022, the Company recorded net loss available to common shareholders of the Company from continuing operations of \$114 million (\$0.83 per common share), a decrease of \$532 million (\$3.63 per common share) compared to the same period in 2021. The decrease was due to the unfavourable year-over-year net impact of adjusting items totaling \$554 million (\$3.90 per common share), partially offset by an improvement of \$22 million (\$0.27 per common share) in the consolidated underlying operating performance of the Company described below.

- The unfavourable year-over-year net impact of adjusting items totaling \$554 million (\$3.90 per common share) was primarily due to:
  - the unfavourable year-over-year impact of the fair value adjustment of the Trust Unit liability of \$540 million (\$3.86 per common share) as a result of the increase in Choice Properties' unit price in the fourth quarter of 2022;
  - the unfavourable impact of the prior year recovery related to a favourable Court ruling regarding a Glenhuron matter at Loblaw of \$165 million (\$1.12 per common share); and
  - the unfavourable impact of the fair value adjustment on Choice Properties' investment in real estate securities of Allied of \$18 million (\$0.13 per common share) as a result of a decrease in Allied's Class B Unit price in the fourth quarter of 2022;partially offset by,
  - the favourable year-over-year impact of the fair value adjustment on investment properties of \$153 million (\$1.12 per common share) driven by Choice Properties, net of consolidation adjustments in Other and Intersegment; and
  - the favourable year-over-year impact from the gains on the sale of non-operating properties at Loblaw of \$17 million (\$0.12 per common share).
- The improvement in the Company's consolidated underlying operating performance of \$22 million (\$0.27 per common share) was primarily due to:
  - the favourable underlying operating performance of Loblaw;partially offset by,
  - the unfavourable year-over-year impact of Other and Intersegment, primarily driven by the year-over-year impact of asset impairments, net of recoveries recorded on consolidation of \$18 million, net of tax.
- Diluted net loss per common share from continuing operations also included the favourable impact of shares purchased for cancellation over the last 12 months (\$0.11 per common share) pursuant to the Company's NCIB.

Adjusted net earnings available to common shareholders of the Company<sup>(1)</sup> from continuing operations in the fourth quarter of 2022 were \$369 million, an increase of \$22 million, or 6.3%, compared to the same period in 2021 due to the improvement in the Company's consolidated underlying operating performance described above.

Adjusted diluted net earnings per common share<sup>(1)</sup> from continuing operations were \$2.59 per common share in the fourth quarter of 2022, an increase of \$0.27 per common share, or 11.6%, compared to the same period in 2021. The increase was due to the favourable performance in adjusted net earnings available to common shareholders<sup>(1)</sup> from continuing operations and the favourable impact of share repurchases.

# Management's Discussion and Analysis

## REVENUE

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Loblaws	\$ 14,007	\$ 12,757	\$ 1,250	9.8%
Choice Properties	\$ 315	\$ 325	\$ (10)	(3.1)%
Other and Intersegment <sup>(i)</sup>	\$ (180)	\$ (180)		
Consolidated	\$ 14,142	\$ 12,902	\$ 1,240	9.6%

(i) Other and Intersegment includes intercompany eliminations.

Revenue in the fourth quarter of 2022 was \$14,142 million, an increase of \$1,240 million, or 9.6%, compared to the same period in 2021. The increase in revenue in the fourth quarter of 2022 was impacted by each of its reportable operating segments as follows:

- Positively by 9.7% due to revenue growth of 9.8% at Loblaws, primarily driven by an increase in retail sales of \$1,208 million, or 9.7%, and an improvement in financial services revenue of \$57 million. The increase in retail sales was due to positive same-store sales growth and Lifemark revenues of \$110 million.
- Negatively by 0.1% due to a decline in revenue of 3.1% at Choice Properties. The decrease of \$10 million was mainly due to foregone revenue following the Office Asset Sale, partially offset by an increase in rental revenues from the retail and industrial portfolios driven by improved occupancy and higher rental rates, and higher recoveries.

## OPERATING INCOME

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Loblaws	\$ 869	\$ 703	\$ 166	23.6%
Choice Properties	\$ 404	\$ 336	\$ 68	20.2%
Other and Intersegment	\$ (9)	\$ (30)		
Consolidated	\$ 1,264	\$ 1,009	\$ 255	25.3%

Operating income in the fourth quarter of 2022 was \$1,264 million compared to \$1,009 million in the same period in 2021, an increase of \$255 million, or 25.3%. The increase was mainly attributable to the favourable year-over-year net impact of adjusting items totaling \$160 million and the improvement in underlying operating performance of \$95 million described below:

- the favourable year-over-year net impact of adjusting items totaling \$160 million was primarily due to:
  - the favourable year-over-year impact of the fair value adjustment of investment properties of \$139 million driven by Choice Properties, net of consolidation adjustments in Other and Intersegment; and
  - the favourable year-over-year impact from the gains on the sale of non-operating properties of \$48 million; partially offset by,
  - the unfavourable impact of the fair value adjustment on Choice Properties' investment in real estate securities of Allied of \$20 million.
- the improvement in underlying operating performance of \$95 million was due to:
  - the favourable underlying operating performance of Loblaws due to the improvement in retail; partially offset by,
  - an increase in depreciation and amortization at Loblaws;
  - the unfavourable underlying operating performance of Choice Properties; and
  - the unfavourable year-over-year impact of Other and Intersegment, primarily due to the year-over-year impact of asset impairments, net of recoveries recorded on consolidation of \$25 million.



## ADJUSTED EBITDA<sup>(1)</sup>

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Loblaw	\$ 1,491	\$ 1,322	\$ 169	12.8%
Choice Properties	\$ 223	\$ 229	\$ (6)	(2.6)%
Other and Intersegment	\$ (124)	\$ (98)		
Consolidated	\$ 1,590	\$ 1,453	\$ 137	9.4%

Adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2022 was \$1,590 million compared to \$1,453 million in the same period in 2021, an increase of \$137 million, or 9.4%. The increase was impacted by each of the Company's reportable operating segments as follows:

- Positively by 11.6% due to an increase of 12.8% in adjusted EBITDA<sup>(1)</sup> at Loblaw, primarily driven by improvements in Loblaw retail, partially offset by a decline in Loblaw financial services. The improvements in Loblaw retail were driven by an increase in retail gross profit, partially offset by an unfavourable increase in retail SG&A.
- Negatively by 0.4% due to a decrease of 2.6% in adjusted EBITDA<sup>(1)</sup> at Choice Properties, primarily driven by the decline in revenue described above and higher general and administrative expenses, partially offset by distribution income from the investment in real estate securities of Allied.

## DEPRECIATION AND AMORTIZATION

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Loblaw	\$ 667	\$ 623	\$ 44	7.1%
Choice Properties	\$ 1	\$ –	\$ 1	100.0%
Other and Intersegment	\$ (91)	\$ (86)		
Consolidated	\$ 577	\$ 537	\$ 40	7.4%

Depreciation and amortization in the fourth quarter of 2022 was \$577 million, an increase of \$40 million compared to the same period in 2021. Depreciation and amortization in the fourth quarter included \$115 million (2021 – \$117 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart and Lifemark, recorded by Loblaw. Excluding these amounts, depreciation and amortization increased by \$42 million primarily driven by an increase in depreciation of IT and leased assets at Loblaw.

## NET INTEREST EXPENSE AND OTHER FINANCING CHARGES

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Net interest expense and other financing charges	\$ 916	\$ 190	\$ 726	382.1%
(Deduct) add impact of the following:				
Fair value adjustment of the Trust Unit liability	(662)	(122)	(540)	(442.6)%
Recovery related to Glenhuron	–	189	(189)	(100.0)%
Fair value adjustment of the forward sale agreement for Loblaw common shares	–	(4)	4	100.0%
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 254	\$ 253	\$ 1	0.4%

Net interest expense and other financing charges in the fourth quarter of 2022 were \$916 million, an increase of \$726 million compared to the same period in 2021. The increase was primarily due to the unfavourable year-over-year impact of adjusting items totaling \$725 million. Included in the adjusting items was the unfavourable year-over-year fair value adjustment of the Trust Unit liability of \$540 million, as a result of the increase in Choice Properties' unit price during the fourth quarter of 2022 and the unfavourable year-over-year recovery of interest expense related to Glenhuron of \$189 million.

# Management's Discussion and Analysis

In the fourth quarter of 2022, adjusted net interest expense and other financing charges<sup>(1)</sup> increased by \$1 million primarily driven by:

- an increase in interest expense at Loblaw and Choice Properties mainly due to higher interest rates and an increase in long-term debt;

partially offset by,

- an increase in interest income on certain short-term investments due to higher interest rates, and on mortgages and loans receivable at Choice Properties' due to a higher outstanding balance; and
- a reduction in interest expense from post-employment and other employee benefits.

## INCOME TAXES

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Income taxes	\$ 213	\$ 64	\$ 149	232.8%
Add (deduct) impact of the following:				
Tax impact of items excluded from adjusted earnings before taxes <sup>(i)</sup>	25	11	14	127.3%
Recovery related to Glenhuron	–	128	(128)	(100.0)%
Outside basis difference in certain Loblaw shares	(3)	1	(4)	(400.0)%
Adjusted income taxes <sup>(1)</sup>	\$ 235	\$ 204	\$ 31	15.2%
Effective tax rate applicable to earnings before taxes	61.2%	7.8%		
Adjusted effective tax rate applicable to adjusted earnings before taxes <sup>(1)</sup>	26.9%	26.2%		

- (i) See the adjusted EBITDA<sup>(1)</sup> table and the adjusted net interest expense and other financing charges<sup>(1)</sup> table included in Section 13, "Non-GAAP Financial Measures", of this MD&A for a complete list of items excluded from adjusted earnings before taxes<sup>(1)</sup>.

The effective tax rate in the fourth quarter of 2022 was 61.2%, compared to 7.8% in the same period in 2021. The increase was primarily attributable to the year-over-year impact of the non-taxable fair value adjustment of the Trust Unit liability, the recovery of income taxes related to Glenhuron in 2021 and the impact of the non-deductible interest related to Glenhuron in 2021.

The adjusted effective tax rate<sup>(1)</sup> for the fourth quarter of 2022 was 26.9%, compared to 26.2% in the same period in 2021. The increase was primarily attributable to the impact of certain non-deductible items.

Between 2015 and 2019, Loblaw was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of Loblaw on the Glenhuron matter and Loblaw reversed \$301 million of previously recorded charges, of which \$173 million was recorded as interest income and \$128 million was recorded as income tax recovery, and an additional \$16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds.

**CASH FLOWS** The following Cash Flow components are inclusive of continuing and discontinued operations.

(\$ millions)	Quarters Ended		
	Dec. 31, 2022	Dec. 31, 2021 <sup>(i)</sup>	Change
Cash and cash equivalents, beginning of period	\$ 2,078	\$ 2,013	\$ 65
Cash flows from operating activities	\$ 1,268	\$ 1,146	\$ 122
Cash flows (used in) from investing activities	\$ (444)	\$ 696	\$ (1,140)
Cash flows used in financing activities	\$ (592)	\$ (872)	\$ 280
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ 3	\$ 1	\$ 2
Cash and cash equivalents, end of period	\$ 2,313	\$ 2,984	\$ (671)

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

**CASH FLOWS FROM OPERATING ACTIVITIES** Cash flows from operating activities were \$1,268 million in the fourth quarter of 2022, an increase of \$122 million compared to the fourth quarter of 2021. The increase in cash flows from operating activities was primarily due to higher cash earnings and lower income taxes paid, partially offset by an unfavourable change in non-cash working capital.

**CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES** Cash flows used in investing activities were \$444 million in the fourth quarter of 2022 compared to cash flows from investing activities of \$696 million in the fourth quarter of 2021. The change of \$1,140 million in cash flows used in investing activities was primarily due to the net consideration from the disposal of the Weston Foods business received in the prior year and higher capital investments in the current year, partially offset by the release of \$250 million in security deposits to repay *Eagle* notes maturing in the fourth quarter of 2022 and a decrease in short-term investments.

The following table summarizes the Company's capital investments by each of its reportable operating segments for the quarters ended as indicated:

(\$ millions)	Quarters Ended	
	Dec. 31, 2022	Dec. 31, 2021
Loblaw	\$ 651	\$ 392
Choice Properties	149	95
Capital Investments from continuing operations	\$ 800	\$ 487

**CASH FLOWS USED IN FINANCING ACTIVITIES** Cash flows used in financing activities were \$592 million in the fourth quarter of 2022, a decrease of \$280 million compared to the fourth quarter of 2021. The decrease in cash flows used in financing activities was primarily driven by the settlement of net debt associated with the equity forward sale agreement in the prior year, lower repayment of bank indebtedness and higher net issuances of long-term debt, partially offset by higher repurchases of the Company's common shares under its NCIB.

**FREE CASH FLOW<sup>(i)</sup>**

(\$ millions)	Quarters Ended		
	Dec. 31, 2022	Dec. 31, 2021 <sup>(i)</sup>	Change
Cash flows from operating activities	\$ 1,268	\$ 1,146	\$ 122
Less: Cash flows from operating activities from discontinued operations	–	12	(12)
Cash flows from operating activities from continuing operations	\$ 1,268	\$ 1,134	\$ 134
Less: Interest paid	195	173	22
Capital Investments	800	487	313
Lease payments, net	139	202	(63)
Free cash flow <sup>(1)</sup> from continuing operations	\$ 134	\$ 272	\$ (138)

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

Free cash flow<sup>(1)</sup> from continuing operations in the fourth quarter of 2022 was \$134 million, a decrease of \$138 million compared to the fourth quarter of 2021. The decrease in free cash flow<sup>(1)</sup> is primarily due to an increase in capital investments and an unfavourable change in non-cash working capital, partially offset by higher cash earnings and lower net lease payments.

# Management's Discussion and Analysis

## 5. Fourth Quarter Results of Reportable Operating Segments

The following discussion provides details of the 2022 fourth quarter results of operations of each of the Company's reportable operating segments.

### 5.1 Loblaw Fourth Quarter Operating Results

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Revenue	\$ 14,007	\$ 12,757	\$ 1,250	9.8%
Operating income	\$ 869	\$ 703	\$ 166	23.6%
Adjusted EBITDA <sup>(1)</sup>	\$ 1,491	\$ 1,322	\$ 169	12.8%
Adjusted EBITDA margin <sup>(1)</sup>	10.6%	10.4%		
Depreciation and amortization <sup>(1)</sup>	\$ 667	\$ 623	\$ 44	7.1%

(i) Depreciation and amortization includes \$115 million (2021 - \$117 million) of amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark.

**REVENUE** Loblaw revenue in the fourth quarter of 2022 was \$14,007 million, an increase of \$1,250 million, or 9.8%, compared to the same period in 2021, driven by an increase in retail sales and an improvement in financial services revenue.

Retail sales in the fourth quarter of 2022 were \$13,694 million, an increase of \$1,208 million, or 9.7%, compared to the same period in 2021. The increase was primarily driven by the following factors:

- food retail sales were \$9,514 million (2021 - \$8,742 million) and food retail same-store sales grew by 8.4% (2021 - 1.1%) for the quarter;
  - the CPI as measured by The Consumer Price Index for Food Purchased from Stores was 11.2% (2021 - 4.8%) which was generally in line with Loblaw's internal food inflation; and
  - food retail traffic increased and basket size decreased slightly.
- drug retail sales were \$4,180 million (2021 - \$3,744 million) and drug retail same-store sales grew by 8.7% (2021 - 7.9%) for the quarter;
  - pharmacy and healthcare services same-store sales growth was 5.4% (2021 - 10.2%), benefiting from an increase in prescription volumes from the economic re-opening. The number of prescriptions dispensed increased by 2.0% (2021 - decreased by 0.5%). On a same-store basis, the number of prescriptions dispensed increased by 2.2% (2021 - 8.8%) and the average prescription value increased by 2.3% (2021 - 1.1%);
  - pharmacy and healthcare services sales included Lifemark revenues of \$110 million. Lifemark revenues are excluded from same-store sales; and
  - front store same-store sales increased by 11.5% (2021 - 6.1%), benefiting from the economic re-opening and higher consumer spending.

Financial services revenue in the fourth quarter of 2022 increased by \$57 million compared to the same period in 2021. The increase was primarily driven by higher interest income from growth in credit card receivables and higher interchange income and credit card related fees from an increase in customer spending.

**OPERATING INCOME** Loblaw operating income in the fourth quarter of 2022 was \$869 million, an increase of \$166 million, or 23.6%, compared to the same period in 2021. The increase included improvements in the underlying operating performance of \$123 million and the favourable year-over-year net impact of adjusting items totaling \$43 million, as described below:

- the improvements in underlying operating performance of \$123 million was primarily due to an increase in retail gross profit, partially offset by an increase in retail SG&A and depreciation and amortization;
- the favourable year-over-year net impact of adjusting items totaling \$43 million was primarily due to:
  - the favourable impact of the net gain on sale of non-operating properties of \$50 million; partially offset by,
  - the unfavourable impact of prior year restructuring and other related recoveries of \$8 million.

**ADJUSTED EBITDA<sup>(1)</sup>** Loblaw adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2022 was \$1,491 million, an increase of \$169 million, or 12.8%, compared to the same period in 2021. The increase was primarily due to an increase in retail of \$174 million, partially offset by a decrease in financial services of \$5 million.

Retail adjusted EBITDA<sup>(1)</sup> in the fourth quarter of 2022 increased by \$174 million driven by an increase in retail gross profit of \$329 million, partially offset by an unfavourable increase in retail SG&A of \$155 million.

- Retail gross profit percentage of 30.6% decreased by 30 basis points (2021 – increased by 150 basis points) compared to the same period in 2021, primarily driven by a decrease in food retail margin, partially offset by growth in higher margin drug retail front store categories.
- Retail SG&A as a percentage of sales was 20.2%, a favourable decrease of 70 basis points compared to the same period in 2021. The favourable decrease was primarily due to operating leverage from higher sales.

Financial services adjusted EBITDA<sup>(1)</sup> decreased by \$5 million compared to the same period in 2021, primarily driven by higher loyalty program costs, operating costs and contractual charge-off from an increase in consumer spending and the prior year reversal of certain commodity tax accrued in the amount of \$27 million, partially offset by higher revenue as described above.

**DEPRECIATION AND AMORTIZATION** Loblaw depreciation and amortization in the fourth quarter of 2022 was \$667 million, an increase of \$44 million compared to the same period in 2021. The increase in depreciation and amortization in the fourth quarter of 2022 was primarily driven by an increase in IT and leased assets, and accelerated depreciation of \$10 million (2021 – nil) due to the reassessment of the estimated useful life of certain IT assets. Depreciation and amortization in the fourth quarter of 2022 included the amortization of intangible assets related to the acquisitions of Shoppers Drug Mart and Lifemark of \$115 million (2021 – \$117 million).

**CONSOLIDATION OF FRANCHISES** Loblaw's net loss attributable to non-controlling interests was \$14 million in the fourth quarter of 2022, a decrease of \$14 million, or 50.0% when compared to net loss attributable to non-controlling interests of \$28 million in the same period in 2021. The change in non-controlling interests were primarily driven by the normalizing of franchisee earnings after profit sharing.

#### **LOBLAW OTHER BUSINESS MATTERS**

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

# Management's Discussion and Analysis

## 5.2 Choice Properties Fourth Quarter Operating Results

(\$ millions except where otherwise indicated)	Quarters Ended			
	Dec. 31, 2022	Dec. 31, 2021	\$ Change	% Change
Revenue	\$ 315	\$ 325	\$ (10)	(3.1)%
Net interest expense and other financing charges <sup>(i)</sup>	\$ 983	\$ 499	\$ 484	97.0%
Net (loss) income	\$ (579)	\$ (162)	\$ (417)	(257.4)%
Funds from Operations <sup>(1)</sup>	\$ 174	\$ 175	\$ (1)	(0.6)%

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

**REVENUE** Revenue in the fourth quarter of 2022 was \$315 million, a decrease of \$10 million, or 3.1%, compared to the same period in 2021. Revenue included \$181 million (2021 – \$183 million) generated from tenants within Loblaw. The decrease in revenue was primarily driven by:

- foregone revenue following the Office Asset Sale; partially offset by,
- an increase in rental revenues from the retail and industrial portfolios driven by improved occupancy and higher rental rates; and
- higher recoveries.

**NET INTEREST EXPENSE AND OTHER FINANCING CHARGES** Net interest expense and other financing charges in the fourth quarter of 2022 were \$983 million compared to \$499 million in the same period in 2021. The increase of \$484 million was primarily driven by the unfavourable year-over-year impact of the fair value adjustment on the Class B LP units ("Exchangeable Units") of \$487 million as a result of the increase in the unit price.

**NET LOSS** Net loss in the fourth quarter of 2022 was \$579 million, compared to net loss of \$162 million in the same period in 2021. The change of \$417 million was primarily driven by:

- higher net interest expense and other financing charges as described above; and
  - the unfavourable change in the adjustment to fair value of investment in real estate securities as a result of the decrease in Allied's unit price;
- partially offset by,
- the favourable change in the adjustment to fair value of investment properties, including those held within equity accounted joint ventures, primarily driven by leasing and cash flow growth in the industrial portfolio.

**FUNDS FROM OPERATIONS<sup>(1)</sup>** Funds from Operations<sup>(1)</sup> in the fourth quarter of 2022 declined slightly by \$1 million to \$174 million compared to the same period in 2021. Increases in rental revenue from the retail and industrial portfolios were largely offset by an increase in interest expense, higher general and administrative expenses and the impact of the Office Asset Sale. The impact of the Office Asset Sale includes foregone rental income, partially offset by the distributions from Choice Properties' investment in real estate securities of Allied and interest income from the consideration received in exchange for assets sold. In addition, a non-recurring gain recognized in the prior year due to the reversal of an expected credit loss related to a specific mortgage receivable contributed to the decline in Funds from Operations<sup>(1)</sup>.

### CHOICE PROPERTIES OTHER BUSINESS MATTERS

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

## 6. Disclosure Controls and Procedures

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

As required by National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings" ("NI 52-109") the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") caused the effectiveness of the disclosure controls and procedures to be evaluated. Based on that evaluation, they concluded that the design and operation of the system of disclosure controls and procedures were effective as at December 31, 2022.

## 7. Internal Control Over Financial Reporting

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

As required by NI 52-109, the Chairman and CEO and the CFO have caused the effectiveness of the internal controls over financial reporting to be evaluated using the framework established in 'Internal Control - Integrated Framework (COSO Framework)' published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO), 2013. Based on that evaluation, they have concluded that the design and operation of the Company's internal controls over financial reporting were effective as at December 31, 2022.

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

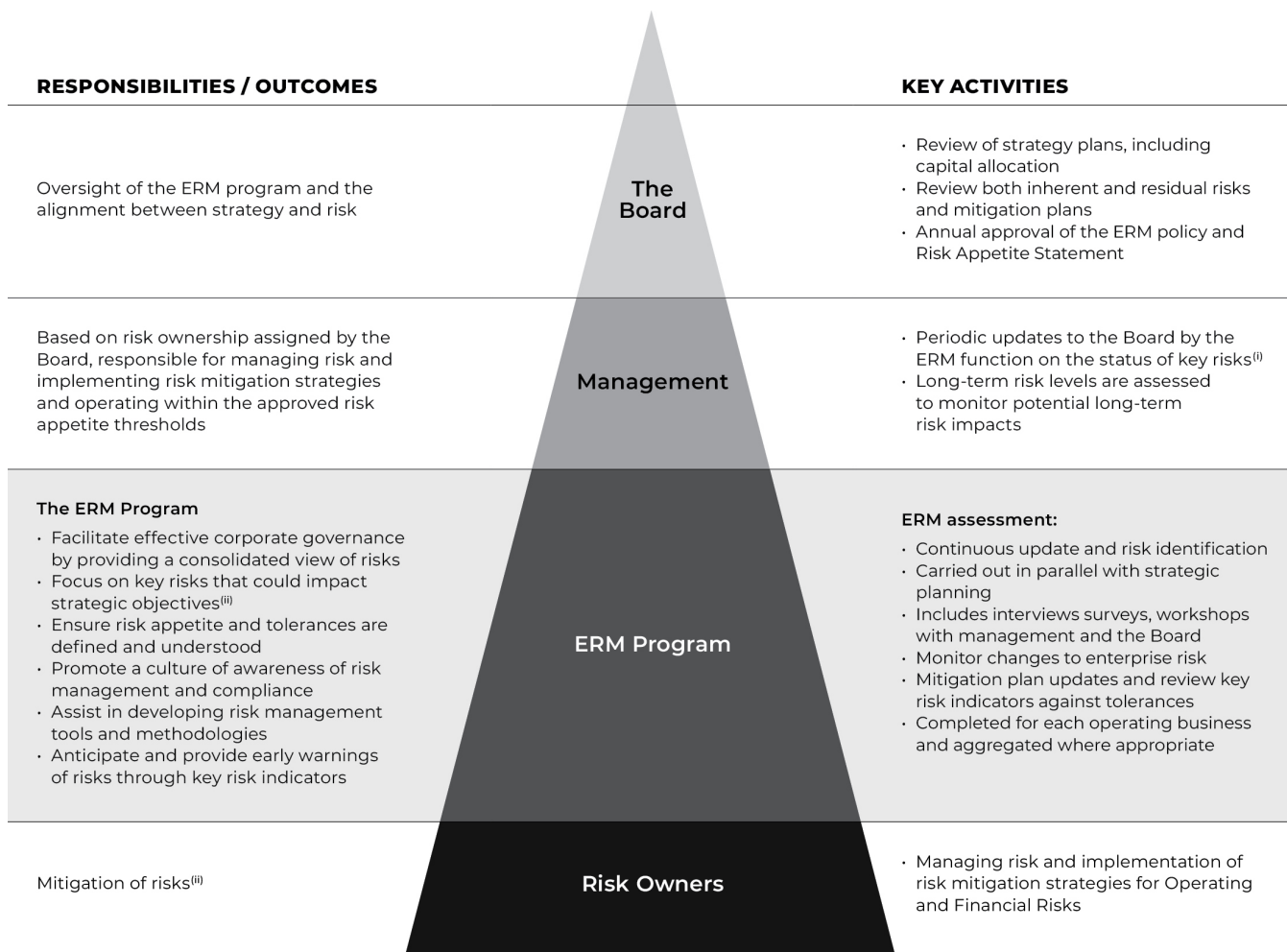
**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING** There were no changes in the Company's internal controls over financial reporting in 2022 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

# Management’s Discussion and Analysis

## 8. Enterprise Risks and Risk Management

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

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



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



## 8.1 Operating Risks and Risk Management

**OPERATING RISKS** The following discussion of risks identifies significant factors that could have a material adverse effect on the Company's business, operations, financial condition or future financial performance. The COVID-19 pandemic may continue to affect the operations and financial performance of the Company and its operating segments, including as a result of uncertain economic conditions, volatile debt and equity markets, and impacts to its workforce, supply chain, and distribution channels that affect the products and services it is able to offer and/or its ability to engage in cross-border commerce.

The following risks are a subset of the key risks identified through the ERM program. They should be read in conjunction with the full set of risks inherent in the Company's business, as included in the Company's Annual Information Form ("AIF") for the year ended December 31, 2022, which is hereby incorporated by reference:

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

**ECONOMIC CONDITIONS** The Company's revenue and profitability are impacted by general economic conditions. These economic conditions include inflation, levels of employment, costs of borrowing, household debt, political uncertainty and government regulation, the impact of natural disasters, war or acts of terrorism, pandemics, changes in interest rates, tax rates, or exchange rates and access to consumer credit. A number of these conditions could negatively impact consumer spending. As a result, these economic conditions may adversely impact demand for the Company's products and services which could adversely affect the Company's operations or financial performance.

**COLLEAGUE ATTRACTION, DEVELOPMENT AND SUCCESSION PLANNING** The Company's operations and continued growth are dependent on its ability to hire, retain and develop colleagues, including leaders. Any failure to effectively attract and retain colleagues and leaders, including those with scarce and/or specialized skills, and to establish adequate leadership succession planning, could result in a lack of requisite knowledge, skill and experience. This could erode the Company's competitive position or result in increased costs due to the competition for, or high turn-over of, colleagues. Any of the foregoing could negatively affect the Company's ability to operate its business, which in turn, could adversely affect the Company's reputation, operations or financial performance.

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

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

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

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

# Management's Discussion and Analysis

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

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

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

**DISTRIBUTION AND SUPPLY CHAIN** Loblaw's ability to satisfy its customers' demands and achieve its cost objectives depends on its ability to maintain key logistic and transport arrangements. Loblaw's distribution and supply chain could be negatively affected by unforeseen disruptions due to fire, severe weather conditions, natural disasters, or other catastrophic events, public health events, labour disagreements, or other transportation problems. The loss of or disruption to these types of arrangements could interrupt product supply, which in turn could adversely affect the assortment and product availability at the store and digital retail level. If not effectively managed or remedied, these events could negatively impact customer experience and Loblaw's ability to attract and retain customers, and could adversely affect the Company's operations or financial performance.

**HEALTHCARE REFORM** Loblaw is reliant on prescription drug sales for a significant portion of its sales and profits. Prescription drugs and their sales are subject to numerous federal, provincial, territorial and local laws and regulations. Changes to these laws and regulations, including the potential implementation of a national pharmacare system, changes in the models used to fund prescription drugs such as the introduction of a pharmacare system, or non-compliance with these laws and regulations, could adversely affect the reputation, operations or financial performance of the Company.

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

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

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

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

allowances for a public drug plan could also impact pharmacy reimbursement and manufacturer allowances for private payers. In addition, private payers could reduce pharmacy reimbursement for prescription drugs provided to their members or could elect to reimburse members only for products included on closed formularies or available from preferred providers.

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

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

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

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

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

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

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

**PROPERTY DEVELOPMENT AND CONSTRUCTION** Choice Properties engages in development, redevelopment and major renovation activities with respect to certain properties. It is subject to certain risks, including: (a) the availability and pricing of financing on satisfactory terms or availability at all; (b) the availability and timely receipt of zoning, occupancy, land use and other regulatory and governmental approvals; (c) changes in zoning and land use laws; (d) the ability to achieve an acceptable level of occupancy upon completion; (e) the potential that Choice Properties may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (f) the potential that Choice Properties may expend funds on and devote management time to projects which are not completed; (g) construction or redevelopment costs of a project, including rising construction costs and development charges and shortages of experienced labour in certain construction related trades, may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable; (h) the time required to complete the construction or redevelopment of a project or to lease-up the completed project may be greater than originally anticipated, thereby adversely affecting Choice Properties' cash flows and liquidity; (i) the

# Management's Discussion and Analysis

cost and timely completion of construction (including risks beyond Choice Properties' control, such as weather, labour conditions or material shortages); (j) contractor and subcontractor disputes, strikes, labour disputes or supply disruptions; (k) occupancy rates and rents of a completed project may not be sufficient to make the project profitable; (l) Choice Properties' ability to dispose of properties redeveloped with the intent to sell could be impacted by the ability of prospective buyers to obtain financing given the current state of the credit markets; and (m) the availability and pricing of financing to fund Choice Properties' development activities on favourable terms or availability at all.

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

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

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

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

**BUSINESS CONTINUITY** The Company's ability to continue critical operations and processes could be negatively impacted by adverse events resulting from various incidents, including severe weather, work stoppages, prolonged IT systems failure, terrorist activity, power failures, border closures or a pandemic or other national or international catastrophe. The Company has business continuity plans in place to manage any such events. Despite this, ineffective contingency planning, business interruptions, crises or potential disasters could adversely affect the reputation, operations or financial performance of the Company.

**FOOD, DRUG, PRODUCT AND SERVICES SAFETY** Loblaw's products may expose it to risks associated with product safety and defects and product handling in relation to the manufacturing, design, packaging and labeling, storage, distribution, and display of products. Loblaw cannot be certain that active management of these risks, including maintaining strict and rigorous controls and processes in its manufacturing facilities and distribution systems, will eliminate all the risks related to food and product safety. Loblaw could be adversely affected in the event of a significant outbreak of food-borne illness or food safety issues, including food tampering or contamination. In addition, failure to trace or locate any contaminated or defective products could affect Loblaw's ability to be effective in a recall situation. Loblaw is also subject to risk associated with the distribution of drug products, errors related to medication dispensing or compounding, injections, patient services or consultation. The occurrence of such events or incidents, as well as any failure to maintain the cleanliness and health standards at Loblaw's store level, could result in harm to customers and negative publicity, could adversely affect the Company's brands, reputation, operations or financial performance and could lead to unforeseen liabilities from legal claims or otherwise.

**ENVIRONMENTAL AND SOCIAL** The Company and its operating segments are committed to creating positive environmental and social change by focusing on issues that matter most to the Company's customers, employees, communities and other stakeholders, with a particular focus on combatting climate change and advancing social equity. Any failure or perceived failure to advance the environmental or social priorities of the Company or its stakeholders may negatively affect the Company's reputation, operations or financial performance.

## *Environmental*

The Company and its operating segments face environmental risks that could, directly or indirectly, negatively impact the Company's reputation, operations or performance over the short or long-term.

In particular, the Company and its operating segments are confronted with issues relating to climate change. The Company has the opportunity to make a significant positive impact on the environment. To address this opportunity, the Company and its operating segments are focused on several strategic initiatives, including reducing emissions, food and plastic waste. Federal and provincial governments are also striving to combat climate change, including through the consideration and/or implementation of carbon reduction targets and financial mechanisms to reduce carbon emissions, such as carbon taxes, carbon pricing and caps and trade. In addition to its own initiatives, the Company and its operating segments may be required to make operational changes and/or incur significant financial costs to comply with the various governmental reforms, which may differ across jurisdictions. Additionally, certain global climate change patterns (e.g. rising sea levels, changing rain fall) may impact sourcing of food and food ingredients. Any failure to meet its strategic objectives, adhere to climate change reforms or to adapt to the impacts of climate change, such as failure to reduce emissions, eliminate food and plastic waste or mitigate sourcing and supply chain disruptions, could result in fines or could adversely affect the Company's reputation, operations or financial performance.

The Company and its operating segments maintain a portfolio of real estate and other facilities and are subject to environmental risks associated with the contamination of such properties and facilities, whether by previous owners or occupants, neighbouring properties or by the Company itself. In particular, Loblaw has a number of underground fuel storage tanks, the majority of which are used for its supply chain transport fleets. Contamination resulting from leaks from these tanks is possible. Additional environmental issues relating to matters or sites may require the Company to incur significant additional costs. Loblaw also operates refrigeration equipment in its stores and distribution centres to preserve perishable products as they pass through the supply chain and ultimately to consumers. These systems contain refrigerant gases which could be released if equipment fails or leaks. A release of these gases could have adverse effects on the environment. Failure to properly manage any of these environmental risks could adversely affect the reputation, operations or financial performance of the Company.

Loblaw is subject to legislation that imposes liabilities on retailers, brand owners and importers for costs associated with recycling and disposal of consumer goods packaging and printed materials distributed to consumers. There is a risk that the Company will be subject to increased costs associated with these laws. In addition, the Company could be subject to increased or unexpected costs associated with environmental incidents and the related remediation activities, including litigation and regulatory related costs, all of which could adversely affect the reputation or financial performance of the Company.

### *Social*

The Company and its operating segments face risks associated with social issues and have established certain priorities in response, including achieving adequate representation of traditionally under-represented groups in management positions and the colleague population as a whole, building a culture of inclusion and investing in communities, particularly by supporting women's and children's health. In the event that the Company is not perceived to have robust diversity and inclusion programs, its ability to attract, develop and retain colleagues could be compromised. The Company recognizes its responsibility to respect and protect the human rights of all people who support and intersect with the business, and is committed to not tolerating abuse, discrimination or harassment in any form. Ineffective action or inaction in response to social matters, including a failure or perceived failure to adequately address its priorities, could adversely affect the Company's reputation or financial performance.

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

**LEGAL PROCEEDINGS** In the ordinary course of business, the Company is involved in and potentially subject to legal proceedings. The proceedings may involve suppliers, customers, patients, Associates, franchisees, regulators, tax authorities or other persons. The potential outcome of legal proceedings and claims is uncertain.

Shoppers Drug Mart was previously served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice ("Superior Court") by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who were parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. A summary judgment trial of the matter was held in December 2022 and on February 17, 2023, the Superior Court released its decision in relation to those summary judgment motions (the "Decision"). The Superior Court dismissed the plaintiffs' claims on the majority of the issues including a request for damages at this stage of proceedings. The Court also held that Shoppers Drug Mart breached the 2002 form of Associate Agreement when it did not remit certain amounts that it received from generic drug manufacturers to Associates. Loblaw is still assessing the Decision and has not yet determined whether it plans to appeal any aspect of it. Accordingly, Loblaw has not recorded any

# Management's Discussion and Analysis

amounts related to the potential liability associated with this lawsuit. Loblaw does not believe that the ultimate resolution of this matter will have a material adverse impact on its financial condition or prospects.

In 2017, the Company and Loblaw announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Loblaw as well as a number of other major grocery retailers and another bread wholesaler. In December 2019, a proposed class action on behalf of independent distributors was commenced against the Company. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Loblaw believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's and Loblaw's cash balances far exceed any realistic damages scenario and therefore the Company and Loblaw do not anticipate any impacts on the Company's or Loblaw's dividend, dividend policy or share buyback plan. The Company and Loblaw have not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2022 or prior on the basis that a reliable estimate of the liability cannot be determined at this time. The Company and Loblaw will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Loblaw will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including Loblaw and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks unquantified damages for the expenses incurred by the federal government, provinces, and territories of Canada in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in Canada. During the second quarter of 2021, the claim against Loblaw Companies Limited was discontinued. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. In February 2022, the plaintiff and Sanis Health Inc. agreed to settle the Quebec action for a nominal amount, with no admission of liability and for the express purpose of avoiding the delays, disruption, and expenses associated with the litigation. The settlement has been approved by the court and is now final. In December 2019, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and Loblaw. The allegations in the Ontario, Quebec and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and December 2019 claims seek recovery of damages on behalf of opioid users directly. In April 2021, Loblaw, Shoppers Drug Mart Inc., and Sanis Health Inc. were served with another opioid-related class action that was started in Alberta against multiple defendants. The claim seeks damages on behalf of municipalities and local governments in relation to public safety, social service, and criminal justice costs allegedly incurred due to the opioid crisis. In September 2021, Loblaw, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with a class action started in Saskatchewan by Peter Ballantyne Cree Nation and Lac La Ronge Indian Band on behalf of all Indigenous, Metis, First Nation and Inuit communities and governments in Canada to recover costs they have incurred as a result of the opioid crisis, including healthcare costs, policing costs and societal costs. Loblaw believes these proceedings are without merit and is vigorously defending them. Loblaw does not currently have any significant accruals or provisions for these matters recorded in the consolidated financial statements.

Between 2015 and 2019, Loblaw was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of Loblaw on the Glenhuron matter and Loblaw reversed \$301 million of previously recorded charges, of which \$173 million was recorded as interest income and \$128 million was recorded as income tax recovery, and an additional \$16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, Loblaw reversed another \$35 million of previously recorded charges, of which \$2 million was recorded as interest income and \$33 million was recorded as an income tax recovery, and an additional \$9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

In July 2022, the Tax Court released a decision relating to PC Bank, a subsidiary of Loblaw. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. Although Loblaw believes in the merits of its position, Loblaw recorded a charge of \$111 million, inclusive of interest, in the second quarter of 2022. Loblaw believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

**COMPETITIVE ENVIRONMENT AND STRATEGY** The Company operates in highly competitive industries.

Loblaw competes against a wide variety of retailers including supermarket and retail drug store operators, as well as mass merchandisers, warehouse clubs, online retailers, mail order prescription drug distributors, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors offer a selection of food, drug and general

merchandise, while others remain focused on supermarket-type merchandise. In addition, Loblaw is subject to competitive pressures from new entrants into the marketplace and from the expansion or renovation of existing competitors, particularly those expanding into the grocery and retail drug markets and those offering e-commerce retail platforms. Loblaw's loyalty program is a valuable offering to customers and provides a key differentiating marketing tool for the business. The marketing, promotional and other business activities related to Loblaw's loyalty program must be well managed and coordinated to preserve positive customer perception. Loblaw has made significant investments in support of its strategic growth areas of Everyday Digital Retail, Payments and Rewards and Connected Healthcare, which are all subject to competitive pressures. Failure to achieve these or other strategic priorities could adversely affect the Company's financial position and its competitiveness.

Loblaw's inability to effectively predict market activity, leverage customer preferences and spending patterns and respond in a timely manner to trends, or compete effectively with its current or future competitors could result in, among other things, reduced market share and reduced profitability. If Loblaw is ineffective in responding to consumer trends or in executing its strategic plans, its financial performance could be adversely affected. Loblaw's failure to effectively respond to customer trends may adversely impact Loblaw's relationship with its customers. Loblaw closely monitors market developments and market share trends.

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

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

**ELECTRONIC COMMERCE AND DISRUPTIVE TECHNOLOGIES** Loblaw's e-commerce strategy is a growing business initiative. Customers expect innovative concepts and a positive customer experience, including a user-friendly website, customer offerings that are integrated with Loblaw's loyalty program, reliable data, safe and reliable processing of payments and a well-executed merchandise pick up or delivery process. If systems are damaged or cease to function properly, capital investment may be required. Loblaw is also vulnerable to various additional uncertainties associated with e-commerce including website downtime and other technical failures, changes in applicable federal and provincial regulations, security breaches, and consumer privacy concerns. If these technology-based systems and related processes do not function effectively, or if Loblaw is unable to identify and adapt to technological efficiencies, such as artificial/cognitive intelligence or automation in a timely manner, Loblaw's ability to grow its e-commerce business could be adversely affected. Loblaw has increased its investment in improving the digital customer experience, but there can be no assurances that Loblaw will be able to recover the costs incurred to date.

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

**CHANGE MANAGEMENT, PROCESS AND EFFICIENCY** Many initiatives are underway to reduce the complexity and cost of the Company's business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. These efforts include initiatives focused on improving processes and generating efficiencies across the Company's administrative, store, and distribution network infrastructures.

The success of these initiatives is dependent on effective leadership and realizing intended benefits. Ineffective change management could result in a lack of integrated processes and procedures, unclear accountabilities and decision-making rights, decreased colleague engagement, ineffective communication and training or a lack of requisite knowledge. Any of the foregoing could disrupt operations, increase the risk of customer dissatisfaction, adversely affect the Company's reputation or financial performance or adversely affect the ability of the Company to implement and achieve its long-term strategic objectives.

**IT SYSTEMS IMPLEMENTATIONS AND DATA MANAGEMENT** The operations of the Company are reliant on the continuous and uninterrupted operations of critical technology systems. Any technology failure/outage pertaining to the availability, capacity or sustainability of the Company's IT systems may result in disruptions impacting the Company's customers or financial performance, or may negatively impact the Company's reputation. The Company continues to make investments in new IT systems to improve the operating effectiveness of the organization. Failure to successfully migrate from legacy systems to new IT systems or a significant disruption in the Company's current IT systems during the implementation of new systems could result in a lack of accurate data to effectively manage day-to-day operations of the business or achieve its operational objectives, causing significant disruptions to the business and potential financial losses.

# Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

**EXECUTION OF STRATEGIC INITIATIVES** The Company undertakes from time to time acquisitions and dispositions that meet its strategic objectives. The Company holds cash and short-term investments and is continuing to evaluate strategic opportunities for the use or deployment of these funds. The use or deployment of the funds and the execution of the Company's capital plans could pose a risk if they do not align with the Company's strategic objectives or if the Company experiences integration difficulties on the acquisition of any businesses. Execution of the strategic plan requires prudent operational planning, availability and attention of key personnel, timely implementation and effective change management. In addition, the Company may not be able to realize upon the synergies, business opportunities and growth prospects expected from any such investment opportunities or from the execution of the Company's strategies. Finally, any acquisition or divestiture activities may present unanticipated costs and managerial and operational risks, including the diversion of management's time and attention from day-to-day activities. If the Company's strategies are not effectively developed and executed, it could negatively affect the reputation, operations or financial performance of the Company.

# Management's Discussion and Analysis

## 8.2 Financial Risks and Risk Management

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

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

Liquidity	Trust Unit Prices
Commodity Prices	Interest Rates
Currency Exchange Rates	Credit Ratings
Credit	

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

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

**COMMODITY PRICES** Loblaw is exposed to increases in the prices of commodities in operating its stores and distribution networks, as well as to the indirect effect of changing commodity prices on the price of consumer products. Rising commodity prices could adversely affect the financial performance of Loblaw. To manage a portion of this exposure, Loblaw uses purchase commitments and derivative instruments in the form of exchange traded futures contracts and forward contracts to minimize cost volatility related to commodities.

**CURRENCY EXCHANGE RATES** The Company is exposed to foreign currency exchange rate variability, primarily on its U.S. dollar denominated purchases in trade payables and other liabilities. A depreciating Canadian dollar relative to the U.S. dollar 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 U.S. dollar will have the opposite impact. To manage a portion of this exposure, the Company uses derivative instruments in the form of futures contracts and forward contracts to minimize cost volatility related to foreign exchange.

**CREDIT** The Company is exposed to credit risk resulting from the possibility that counterparties could default on their financial obligations to the Company, including derivative instruments, cash and cash equivalents, short-term investments, security deposits, PC Bank's credit card receivables, Loblaw's finance lease receivable, pension assets held in the Company's defined benefit plans, and Loblaw's accounts receivable, including amounts due from government and third-party drug plans arising from prescription drug sales, 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.

Loblaw's finance lease receivable and Loblaw's accounts receivable including amounts due from government and third-party drug plans arising from prescription drug sales, independent accounts and amounts owed from vendors and tenants, are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Despite the mitigation strategies described above, it is possible that the Company's financial performance could be negatively impacted by the failure of a counterparty to fulfill its obligations.

**TRUST UNIT PRICES** The Company is exposed to market price risk from Choice Properties' Trust Units that are held by unitholders other than the Company. These Trust Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holders. The liability is recorded at fair value at each reporting period based on the market price of Trust Units. The change in the fair value of the liability negatively impacts net earnings when the Trust Unit price increases and positively impacts net earnings when the Trust Unit price declines.

**INTEREST RATES** The Company is exposed to interest rate risk from fluctuations in interest rates on its floating rate debt, and from the refinancing of existing financial instruments. An increase in interest rates could adversely affect the operations or financial performance of the Company. The Company manages interest rate risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions, with the objective of maintaining the majority of its debt at fixed interest rates.

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

# Management's Discussion and Analysis

## 9. Related Party Transactions

Galen G. Weston beneficially owns or controls, directly and indirectly, through Wittington Investments, Limited ("Wittington"), a total of 78,650,662 of GWL's common shares, representing approximately 55.9% of GWL's outstanding common shares (2021 - 53.6%).

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

In 2022, inventory purchases from Associated British Foods plc, a related party by virtue of a common director of such entity's parent company and GWL's parent company, amounted to \$39 million (2021 - \$42 million). As at year end 2022, \$6 million (2021 - \$1 million) was included in trade payables and other liabilities relating to these inventory purchases.

**TRANSACTION BETWEEN LOBLAW AND CHOICE PROPERTIES** In the second quarter of 2022, Loblaw announced that it intends to build an industrial facility on part of a property in East Gwillimbury, Ontario owned by a joint venture in which Choice Properties has an ownership interest. Loblaw expects to bring the industrial facility into its operations in the first quarter of 2024. For the first phase of the development, Loblaw entered into a 25-year land lease with the joint venture. Loblaw took possession of the land on October 1, 2022, and as a result recorded a right-of-use asset and lease liability of \$120 million. The land lease includes a 15-month construction period with lease payments commencing in 2024.

**VENTURE FUNDS** During the second quarter of 2020, GWL, Loblaw and a wholly-owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("Venture Fund I"). A wholly owned subsidiary of Wittington is the general partner of Venture Fund I, which hired an external fund manager to oversee it. The purpose of Venture Fund I is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have a 33% interest in Venture Fund I. The Company has a consolidated capital commitment of \$66 million over a 10-year period. To date, the Company has invested \$45 million in the Venture Fund I, of which \$14 million was invested in 2022 (2021 - \$18 million) and recorded in Other Assets.

During the third quarter of 2022, Loblaw became a limited partner in another limited partnership formed by Wittington ("Venture Fund II"). A wholly owned subsidiary of Wittington is also the general partner of Venture Fund II, and the general purpose of Venture Fund II is consistent with Venture Fund I. Loblaw has a 50% interest in Venture Fund II and has a total capital commitment of \$60 million over a 10-year period. To date, Loblaw has invested nil in Venture Fund II.

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

**INCOME TAX MATTERS** From time to time, the Company and Wittington may enter into agreements to make elections that are permitted or required under applicable income tax legislation with respect to affiliated corporations.

**COMPENSATION OF KEY MANAGEMENT PERSONNEL** The Company's key management personnel is comprised of certain members of the executive team of GWL, Loblaw and Wittington, as well as members of the Boards of GWL, Loblaw and Wittington to the extent that they have the authority and responsibility for planning, directing and controlling the day-to-day activities of the Company.

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

(\$ millions)	2022	2021
Salaries, director fees and other short-term employee benefits	\$ 12	\$ 14
Equity-based compensation	6	12
Total compensation	\$ 18	\$ 26

## 10. Critical Accounting Estimates and Judgments

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

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

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

### **BASIS OF CONSOLIDATION**

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

### **BUSINESS COMBINATIONS - VALUATION OF INTANGIBLE ASSETS**

**Key Estimations** The Company applies significant judgment in estimating the fair value of intangible assets. In determining the fair value of customer relationships and brands, various valuation techniques are used. Specifically, the Company used the multi-period excess earnings method to fair value customer relationships and the royalty relief method to fair value brands using a discounted cash flow model. Under these valuation approaches, the Company developed assumptions related to revenue and gross margin forecasts, attrition rate, royalty rate and discount rates.

### **INVENTORIES**

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

### **IMPAIRMENT OF NON-FINANCIAL ASSETS (GOODWILL, INTANGIBLE ASSETS, FIXED ASSETS AND RIGHT-OF-USE ASSETS)**

**Judgments Made in Relation to Accounting Policies Applied** The Company uses judgment in determining cash generating units ("CGUs") for the purpose of testing fixed assets, right-of-use assets and intangible assets for impairment. Judgment is also used to determine the goodwill CGUs for the purpose of testing goodwill for impairment. The Company has determined that each retail location is a separate CGU. Intangible assets are allocated to the CGUs (or groups of CGUs) to which they relate. Goodwill is allocated to CGUs (or groups of CGUs) based on the level at which management monitors goodwill, which cannot be higher than an operating segment. The allocation of goodwill is made to CGUs (or groups of CGUs) that are expected to benefit from the synergies and future growth of the business combination from which they arose. In addition, judgment is used to determine whether a triggering event has occurred requiring an impairment test to be completed. In applying this judgment management considers profitability of the CGU and other qualitative factors. If the company cannot estimate the recoverable amount of an individual tangible or intangible asset because it does not generate independent cash inflows, the Company is required to test the entire CGU to which it belongs for impairment.

**Key Estimations** 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, discount rates and capitalization rates. The Company determines value in use by using estimates including projected future sales and earnings, and discount rates consistent with external industry information reflecting the risk associated with the specific cash flows.

# Management's Discussion and Analysis

## IMPAIRMENT OF CREDIT CARD RECEIVABLES

**Judgments Made in Relation to Accounting Policies Applied and Key Estimations** In each stage of the expected credit loss ("ECL") model, impairment is determined based on the probability of default, loss given default, and expected exposures at default on drawn and undrawn exposures on credit card receivables. The application of the ECL model requires management to apply the following significant judgments, assumptions and estimations:

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

## FAIR VALUE OF INCOME PRODUCING PROPERTIES

**Key Estimations** The fair value of income producing properties is dependent on future cash flows over the holding period, terminal capitalization rates, and discount rates applicable to those assets. The review of future cash flows involves assumptions relating to occupancy, rental rates, and residual value. In addition to reviewing future cash flows, management assesses changes in the business climate and other factors, which may affect the ultimate value of the property. These assumptions may not ultimately be achieved.

## INCOME AND OTHER TAXES

**Judgments Made in Relation to Accounting Policies Applied** The calculation of current and deferred income taxes requires management to make certain judgments including expectations about future operating results, the timing and reversal of temporary differences, and the interpretation of tax rules in jurisdictions where the Company performs activities. Where the amount of tax payable or recoverable is uncertain, the Company establishes provisions based on the most likely amount of the liability or recovery.

## PROVISIONS

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

## LEASES

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

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

## 11. Future Accounting Standard

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

## 12. Outlook<sup>(3)</sup>

For 2023, the Company expects adjusted net earnings<sup>(1)</sup> from continuing operations to increase due to the results from its operating segments, and to use excess cash to repurchase shares.

**Loblaw** Loblaw will continue to execute on retail excellence while advancing its growth initiatives in 2023. Loblaw's businesses remain well placed to service the everyday needs of Canadians. However, Loblaw cannot predict the precise impacts of global economic uncertainties, including the inflationary environment, on its 2023 financial results.

For the full year 2023, Loblaw expects:

- its retail business to grow earnings faster than sales;
- adjusted net earnings per common share<sup>(1)</sup> growth in the low double digits;
- to increase investments in its store network and distribution centres by investing a net amount of \$1.6 billion in capital expenditures, which reflects gross capital investments of approximately \$2.1 billion offset by approximately \$500 million of proceeds from real estate dispositions; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

**Choice Properties** Choice Properties is focused on capital preservation, delivering stable and growing cash flows and net asset value appreciation, all with a long-term focus. Choice Properties' high-quality portfolio is primarily leased to necessity-based tenants and logistics providers, who are less sensitive to economic volatility and therefore provide stability to its overall portfolio. Choice Properties continues to experience positive leasing momentum across its portfolio and is well positioned to handle its 2023 lease renewal exposure. Choice Properties also continues to advance its development program, with a focus on industrial opportunities, which provides it with the best opportunity to add high-quality real estate to its portfolio at a reasonable cost and drive net asset value appreciation over time.

Choice Properties is confident that its business model, stable tenant base, strong balance sheet and disciplined approach to financial management will continue to position it well for future success. However, Choice Properties cannot predict the precise impacts of the broader economic environment on its 2023 financial results. In 2023, Choice Properties will continue to focus on its core business of essential retail and industrial, its growing residential platform and its robust development pipeline, and is targeting:

- stable occupancy across the portfolio, resulting in 2-3% year-over-year growth in Same-Asset NOI, Cash Basis<sup>(i)</sup>;
- annual FFO<sup>(1)</sup> per Unit Diluted<sup>(i)</sup> in a range of \$0.98 to \$0.99, reflecting 2-3% year-over-year growth; and
- stable leverage metrics, targeting Adjusted Debt to EBITDAFV<sup>(i)</sup> of approximately 7.5x.

(i) For more information on these measures, see the 2022 Annual Report filed by Choice Properties, which is available on [sedar.com](https://www.sedar.com) or at [choicereit.ca](https://www.choicereit.ca).

# Management's Discussion and Analysis

## 13. Non-GAAP Financial Measures

The Company uses non-GAAP financial measures and ratios in this document, such as: adjusted EBITDA and adjusted EBITDA margin, adjusted net earnings attributable to shareholders of the Company, adjusted net earnings available to common shareholders of the Company, adjusted diluted net earnings per common share, adjusted return on average equity attributable to common shareholders of the Company, adjusted return on capital, GWL Corporate free cash flow, free cash flow and Choice Properties funds from operations, among others. In addition to these items, the following measures are used by management in calculating adjusted diluted net earnings per common share: adjusted operating income, adjusted net interest expense and other financing charges, adjusted earnings before income taxes, adjusted income taxes and adjusted effective tax rate. The Company believes these non-GAAP financial measures and ratios provide useful information to both management and investors with regard to accurately assessing the Company's financial performance and financial condition for the reasons outlined below.

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

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

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies, and should not be construed as an alternative to other financial measures determined in accordance with GAAP. Unless otherwise indicated, all financial information represents the Company's results from continuing operations.



**ADJUSTED EBITDA** The Company believes adjusted EBITDA is useful in assessing and making decisions regarding the underlying operating performance of the Company's ongoing operations and in assessing the Company's ability to generate cash flows to fund its cash requirements, including its capital investment program.

The following table reconciles adjusted EBITDA to operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company from continuing operations reported for the periods ended as indicated.

(\$ millions)	Quarters Ended							
	Dec. 31, 2022				Dec. 31, 2021			
	Loblaw	Choice Properties	Other & Intersegment	Consolidated	Loblaw	Choice Properties	Other & Intersegment	Consolidated
Net (loss) earnings attributable to shareholders of the Company from continuing operations				\$ (104)				\$ 428
Add (deduct) impact of the following:								
Non-controlling interests				239				327
Income taxes				213				64
Net interest expense and other financing charges				916				190
Operating income	\$ 869	\$ 404	\$ (9)	\$ 1,264	\$ 703	\$ 336	\$ (30)	\$ 1,009
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 111	\$ -	\$ -	\$ 111	\$ 117	\$ -	\$ -	\$ 117
Amortization of intangible assets acquired with Lifemark	4	-	-	4	-	-	-	-
Fair value adjustment of investment in real estate securities	-	20	-	20	-	-	-	-
Restructuring and other related recoveries	-	-	-	-	(8)	-	-	(8)
Fair value adjustment on investment properties	-	(202)	(24)	(226)	-	(107)	20	(87)
Gain on sale of non-operating properties	(50)	-	-	(50)	-	-	(2)	(2)
Fair value adjustment on non-operating properties	(6)	-	-	(6)	(2)	-	-	(2)
Fair value adjustment of derivatives	11	-	-	11	6	-	-	6
Adjusting items	\$ 70	\$ (182)	\$ (24)	\$ (136)	\$ 113	\$ (107)	\$ 18	\$ 24
Adjusted operating income	\$ 939	\$ 222	\$ (33)	\$ 1,128	\$ 816	\$ 229	\$ (12)	\$ 1,033
Depreciation and amortization excluding the impact of the above adjustments <sup>(i)</sup>	552	1	(91)	462	506	-	(86)	420
Adjusted EBITDA	\$ 1,491	\$ 223	\$ (124)	\$ 1,590	\$ 1,322	\$ 229	\$ (98)	\$ 1,453

(i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$115 million (2021 - \$117 million) of amortization of intangible assets, acquired with Shoppers Drug Mart and Lifemark, recorded by Loblaw.

# Management's Discussion and Analysis

(\$ millions)	Years Ended							
	Dec. 31, 2022				Dec. 31, 2021			
	Loblaw	Choice Properties	Other & Intersegment	Consolidated	Loblaw	Choice Properties	Other & Intersegment	Consolidated
Net earnings attributable to shareholders of the Company from continuing operations				\$ 1,822				\$ 753
Add (deduct) impact of the following:								
Non-controlling interests				987				994
Income taxes				831				630
Net interest expense and other financing charges				913				1,650
Operating income	\$ 3,334	\$ 1,083	\$ 136	\$ 4,553	\$ 2,929	\$ 1,400	\$ (302)	\$ 4,027
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 486	\$ –	\$ –	\$ 486	\$ 506	\$ –	\$ –	\$ 506
Amortization of intangible assets acquired with Lifemark	11	–	–	11	–	–	–	–
Fair value adjustment of investment in real estate securities	–	248	–	248	–	–	–	–
Charge related to PC Bank commodity tax matter	111	–	–	111	–	–	–	–
Transaction costs and other related expenses	16	5	–	21	–	–	–	–
Restructuring and other related (recoveries) costs	(15)	–	19	4	13	–	–	13
Fair value adjustment on investment properties	–	(442)	(286)	(728)	–	(500)	177	(323)
Gain on sale of non-operating properties	(57)	–	–	(57)	(12)	–	(2)	(14)
Fair value adjustment on non-operating properties	(6)	–	–	(6)	(2)	–	–	(2)
Fair value adjustment of derivatives	(5)	–	–	(5)	(13)	–	–	(13)
Foreign currency translation and other company level activities	–	–	3	3	–	–	–	–
Adjusting items	\$ 541	\$ (189)	\$ (264)	\$ 88	\$ 492	\$ (500)	\$ 175	\$ 167
Adjusted operating income	\$ 3,875	\$ 894	\$ (128)	\$ 4,641	\$ 3,421	\$ 900	\$ (127)	\$ 4,194
Depreciation and amortization excluding the impact of the above adjustments <sup>(i)</sup>	2,298	3	(391)	1,910	2,158	3	(360)	1,801
Adjusted EBITDA	\$ 6,173	\$ 897	\$ (519)	\$ 6,551	\$ 5,579	\$ 903	\$ (487)	\$ 5,995

(i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$497 million (2021 - \$506 million) of amortization of intangible assets, acquired with Shoppers Drug Mart and Lifemark, recorded by Loblaw.

The following items impacted adjusted EBITDA in 2022 and 2021:

**Amortization of intangible assets acquired with Shoppers Drug Mart** The acquisition of Shoppers Drug Mart in 2014 included approximately \$6 billion of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangible assets will be approximately \$500 million until 2024 and will decrease thereafter.

**Amortization of intangible assets acquired with Lifemark** The acquisition of Lifemark in the second quarter of 2022 included approximately \$299 million of definite life intangible assets, which are being amortized over their estimated useful lives.

**Fair value adjustment of investment in real estate securities** Choice Properties received Allied Class B Units as part of the consideration for the Office Asset Sale on March 31, 2022. Choice Properties recognized these units as investments in real estate securities. The investment in real estate securities is exposed to market price fluctuations of Allied trust units. An increase (decrease) in the market price of Allied trust units results in income (a charge) to operating income.

**Charge related to PC Bank commodity tax matter** In the second quarter of 2022, Loblaw recorded a charge of \$111 million, inclusive of interest. On July 19, 2022, the Tax Court released its decision and ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. On September 29, 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal.

**Transaction costs and other related expenses** In connection with the acquisition of Lifemark, Loblaw recorded acquisition costs of \$16 million in operating income during 2022.

During the first quarter of 2022, Choice Properties recorded advisory, legal, personnel, and other costs related to the Office Asset Sale totaling \$5 million.

**Restructuring and other related (recoveries) costs** The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Only restructuring activities that are publicly announced related to these initiatives are considered adjusting items.

In the fourth quarter of 2022, Loblaw did not record any restructuring and other related recoveries or charges (2021 – recovery of \$8 million). Year-to-date, Loblaw recorded approximately \$15 million (2021 – charges of \$13 million) of restructuring and other related recoveries mainly in connection to the previously announced closure of two distribution centres in Laval and Ottawa. In the first quarter of 2022, Loblaw disposed of one of the distribution centres for proceeds of \$26 million and recognized a gain of \$19 million, which was partially offset by \$4 million of restructuring and other related charges. Loblaw invested to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec and volumes have been transferred.

Included in Loblaw's restructuring and other related recoveries was a gain of \$19 million related to the disposition of a property to Choice Properties. On consolidation, the \$19 million recovery recorded by Loblaw was reversed as it was an intercompany transaction.

**Fair value adjustment on investment properties** The Company measures investment properties at fair value. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

**Gain on sale of non-operating properties** In the fourth quarter of 2022, Loblaw recorded a gain related to the sale of non-operating properties of \$50 million (2021 – nil). Year-to-date, Loblaw disposed of non-operating properties and recorded a gain of \$57 million (2021 – \$12 million).

During 2021, Choice Properties disposed of properties and incurred a gain or loss for each property which was recognized in fair value adjustment of investment properties. On consolidation, the Company recorded these properties as fixed assets and were recognized at cost less accumulated depreciation. As a result, during 2021, on consolidation, a net gain of \$2 million was recognized in Other and Intersegment.

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

**Fair value adjustment of derivatives** Loblaw is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with Loblaw's commodity risk management policy, Loblaw enters into exchange traded futures contracts and forward contracts to minimize cost volatility related to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to Loblaw's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. Despite the impact of accounting for these commodity and foreign currency derivatives on Loblaw's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

**Foreign currency translation and other company level activities** The Company's consolidated financial statements are expressed in Canadian dollars. A portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars and as a result, the Company is exposed to foreign currency translation gains and losses. The impact of foreign currency translation on a portion of the U.S. dollar denominated net assets, primarily cash and cash equivalents and short-term investments held by foreign operations, is recorded in SG&A and the associated tax, if any, is recorded in income taxes. Other company level activities include fair value adjustments related to certain investments and certain financial assets and liabilities held by the Company.

# Management's Discussion and Analysis

**ADJUSTED NET INTEREST EXPENSE AND OTHER FINANCING CHARGES** The Company believes adjusted net interest expense and other financing charges is useful in assessing the ongoing net financing costs of the Company.

The following table reconciles adjusted net interest expense and other financing charges to GAAP net interest expense and other financing charges reported for the periods ended as indicated.

(\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Net interest expense and other financing charges	\$ 916	\$ 190	\$ 913	\$ 1,650
(Deduct) add impact of the following:				
Fair value adjustment of the Trust Unit liability	(662)	(122)	98	(601)
Recovery related to Glenhuron	–	189	11	189
Fair value adjustment of the forward sale agreement for Loblaw common shares	–	(4)	–	(188)
Adjusted net interest expense and other financing charges	\$ 254	\$ 253	\$ 1,022	\$ 1,050

In addition to certain items described in the “Adjusted EBITDA” section above, the following items impacted adjusted net interest expense and other financing charges in 2022 and 2021:

**Fair value adjustment of the Trust Unit liability** The Company is exposed to market price fluctuations as a result of the Choice Properties Trust Units held by unitholders other than the Company. These Trust Units are presented as a liability on the Company's consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting date based on the market price of Trust Units at the end of each period. An increase (decrease) in the market price of Trust Units results in a charge (income) to net interest expense and other financing charges.

**Recovery related to Glenhuron** Between 2015 and 2019, Loblaw was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. In the fourth quarter of 2021, the Supreme Court ruled in favour of Loblaw on the Glenhuron matter and Loblaw reversed \$301 million of previously recorded charges, of which \$173 million was recorded as interest income and \$128 million was recorded as income tax recovery, and an additional \$16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, Loblaw reversed another \$35 million of previously recorded charges, of which \$2 million was recorded as interest income and \$33 million was recorded as an income tax recovery, and an additional \$9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

**Fair value adjustment of the forward sale agreement for Loblaw common shares** The fair value adjustment of the forward sale agreement for Loblaw common shares is included in net interest expense and other financing charges. The adjustment is determined by changes in the value of the underlying Loblaw common shares. An increase (decrease) in the market price of Loblaw common shares results in a charge (income) to net interest expense and other financing charges. The Company settled the net debt associated with the forward sale agreement in the fourth quarter of 2021.

**ADJUSTED INCOME TAXES AND ADJUSTED EFFECTIVE TAX RATE** The Company believes the adjusted effective tax rate applicable to adjusted earnings before taxes is useful in assessing the underlying operating performance of its business.

The following table reconciles the effective tax rate applicable to adjusted earnings before taxes to the GAAP effective tax rate applicable to earnings before taxes as reported for the periods ended as indicated.

(\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Adjusted operating income <sup>(i)</sup>	\$ 1,128	\$ 1,033	\$ 4,641	\$ 4,194
Adjusted net interest expense and other financing charges <sup>(i)</sup>	254	253	1,022	1,050
Adjusted earnings before taxes	\$ 874	\$ 780	\$ 3,619	\$ 3,144
Income taxes	\$ 213	\$ 64	\$ 831	\$ 630
Add (deduct) impact of the following:				
Tax impact of items excluded from adjusted earnings before taxes <sup>(ii)</sup>	25	11	83	99
Remeasurement of deferred tax balances	–	–	46	–
Recovery related to Glenhuron	–	128	33	128
Outside basis difference in certain Loblaw shares	(3)	1	(4)	(6)
Adjusted income taxes	\$ 235	\$ 204	\$ 989	\$ 851
Effective tax rate applicable to earnings before taxes	61.2%	7.8%	22.8%	26.5%
Adjusted effective tax rate applicable to adjusted earnings before taxes	26.9%	26.2%	27.3%	27.1%

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

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

In addition to certain items described in the “Adjusted EBITDA” and “Adjusted Net Interest Expense and Other Financing Charges” sections above, the following items impacted adjusted income taxes and the adjusted effective tax rate in 2022 and 2021:

**Remeasurement of deferred tax balances** In the second quarter of 2022, the Company revalued certain deferred tax balances as a result of the Office Asset Sale which resulted in an income tax recovery of \$46 million.

**Recovery related to Glenhuron** In the fourth quarter of 2021, as a result of the Supreme Court ruling in favour of Loblaw on the Glenhuron matter, Loblaw reversed \$301 million of previously recorded charges, of which \$173 million was recorded as interest income and \$128 million was recorded as income tax recovery, and an additional \$16 million, before taxes, was also recorded in respect of interest income earned on expected cash tax refunds. As a result of related reassessments received during the first quarter of 2022, Loblaw reversed another \$35 million of previously recorded charges, of which \$2 million was recorded as interest income and \$33 million was recorded as an income tax recovery, and an additional \$9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

**Outside basis difference in certain Loblaw shares** The Company recorded deferred tax expense of \$3 million in the fourth quarter of 2022 (2021 – \$1 million recovery) and deferred tax expense of \$4 million in 2022 (2021 – \$6 million) on temporary differences in respect of GWL’s investment in certain Loblaw shares that are expected to reverse in the foreseeable future as a result of GWL’s participation in Loblaw’s NCIB.

# Management's Discussion and Analysis

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

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

(\$ millions except where otherwise indicated)	Quarters Ended		Years Ended	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Net (loss) earnings attributable to shareholders of the Company	\$ (104)	\$ 227	\$ 1,816	\$ 431
Less: Net loss from discontinued operations	–	(201)	(6)	(322)
Net (loss) earnings attributable to shareholders of the Company from continuing operations	\$ (104)	\$ 428	\$ 1,822	\$ 753
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Net (loss) earnings available to common shareholders of the Company from continuing operations	\$ (114)	\$ 418	\$ 1,778	\$ 709
Less: Reduction in net earnings due to dilution at Loblaw	(3)	(5)	(11)	(9)
Net (loss) earnings available to common shareholders from continuing operations for diluted earnings per share	\$ (117)	\$ 413	\$ 1,767	\$ 700
Net (loss) earnings attributable to shareholders of the Company from continuing operations	\$ (104)	\$ 428	\$ 1,822	\$ 753
Adjusting items (refer to the following table)	483	(71)	(346)	523
Adjusted net earnings attributable to shareholders of the from continuing operations	\$ 379	\$ 357	\$ 1,476	\$ 1,276
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(44)	(44)
Adjusted net earnings available to common shareholders of the Company from continuing operations	\$ 369	\$ 347	\$ 1,432	\$ 1,232
Less: Reduction in net earnings due to dilution at Loblaw	(3)	(5)	(11)	(9)
Adjusted net earnings available to common shareholders for diluted earnings per share from continuing operations	\$ 366	\$ 342	\$ 1,421	\$ 1,223
Diluted weighted average common shares outstanding (in millions)	141.3	147.6	144.8	150.2

The following table reconciles adjusted net earnings available to common shareholders of the Company from continuing operations and adjusted diluted net earnings per common share from continuing operations to GAAP net (loss) earnings available to common shareholders of the Company from continuing operations and diluted net (loss) earnings per common share from continuing operations as reported for the periods ended as indicated.

	Quarters Ended			
	Dec. 31, 2022		Dec. 31, 2021	
	Net (Loss) Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net (Loss) Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share
Continuing Operations	\$ (114)	\$ (0.83)	\$ 418	\$ 2.80
Add (deduct) impact of the following <sup>(i)</sup> :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 40	\$ 0.28	\$ 47	\$ 0.31
Amortization of intangible assets acquired with Lifemark	1	0.01	–	–
Fair value adjustment of investment in real estate securities	18	0.13	–	–
Restructuring and other related recoveries	–	–	(4)	(0.03)
Fair value adjustment on investment properties	(225)	(1.60)	(72)	(0.48)
Gain on sale of non-operating properties	(19)	(0.13)	(2)	(0.01)
Fair value adjustment of non-operating properties	(2)	(0.01)	–	–
Fair value adjustment of derivatives	5	0.03	1	0.01
Fair value adjustment of the Trust Unit liability	662	4.69	122	0.83
Recovery related to Glenhuron	–	–	(165)	(1.12)
Fair value adjustment of the forward sale agreement for Loblaw common shares	–	–	3	0.02
Outside basis difference in certain Loblaw shares	3	0.02	(1)	(0.01)
Adjusting items Continuing Operations	\$ 483	\$ 3.42	\$ (71)	\$ (0.48)
Adjusted Continuing Operations	\$ 369	\$ 2.59	\$ 347	\$ 2.32

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

# Management's Discussion and Analysis

	Years Ended			
	Dec. 31, 2022		Dec. 31, 2021	
	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share
(\$ except where otherwise indicated)				
Continuing Operations	\$ 1,778	\$ 12.20	\$ 709	\$ 4.66
Add (deduct) impact of the following <sup>(i)</sup> :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 187	\$ 1.29	\$ 196	\$ 1.30
Amortization of intangible assets acquired with Lifemark	4	0.03	—	—
Fair value adjustment of investment in real estate securities	228	1.57	—	—
Charge related to PC Bank commodity tax matter	45	0.31	—	—
Transaction costs and other related expenses	12	0.08	—	—
Restructuring and other related costs	10	0.07	5	0.03
Fair value adjustment on investment properties	(645)	(4.45)	(270)	(1.80)
Gain on sale of non-operating properties	(22)	(0.15)	(7)	(0.04)
Fair value adjustment on non-operating properties	(2)	(0.01)	—	—
Fair value adjustment of derivatives	(2)	(0.01)	(6)	(0.04)
Fair value adjustment of the Trust Unit liability	(98)	(0.68)	601	4.00
Recovery related to Glenhuron	(23)	(0.16)	(165)	(1.10)
Fair value adjustment of the forward sale agreement for Loblaw common shares	—	—	163	1.09
Remeasurement of deferred tax balances	(46)	(0.32)	—	—
Outside basis difference in certain Loblaw shares	4	0.03	6	0.04
Foreign currency translation and other company level activities	2	0.01	—	—
Adjusting items Continuing Operations	\$ (346)	\$ (2.39)	\$ 523	\$ 3.48
Adjusted Continuing Operations	\$ 1,432	\$ 9.81	\$ 1,232	\$ 8.14

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

**FREE CASH FLOW FROM CONTINUING OPERATIONS** The Company believes free cash flow is useful in assessing the Company's cash available for additional financing and investing activities.

The following table reconciles free cash flow to GAAP measures reported for the periods ended as indicated.

(\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2022	Dec. 31, 2021 <sup>(i)</sup>	Dec. 31, 2022	Dec. 31, 2021 <sup>(i)</sup>
Cash flows from operating activities	\$ 1,268	\$ 1,146	\$ 4,877	\$ 5,119
Less: Cash flows from operating activities from discontinued operations	—	12	—	—
Cash flows from operating activities from continuing operations	\$ 1,268	\$ 1,134	\$ 4,877	\$ 5,119
Less: Interest paid	195	173	818	853
Capital investments <sup>(ii)</sup>	800	487	1,893	1,381
Lease payments, net	139	202	749	795
Free cash flow from continuing operations	\$ 134	\$ 272	\$ 1,417	\$ 2,090

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

(ii) During 2022, there were no additions to Loblaw fixed assets related to prepayments that were made in 2021 and transferred from other assets. During 2021, additions to Loblaw fixed assets included prepayments that were made in 2020 and transferred from other assets of \$1 million.



**ADJUSTED RETURN ON AVERAGE EQUITY ATTRIBUTABLE TO COMMON SHAREHOLDERS OF THE COMPANY AND ADJUSTED RETURN ON CAPITAL** The Company uses the following metrics to measure its leverage and profitability. The definitions of these ratios are presented below.

**Adjusted Return on Average Equity Attributable to Common Shareholders of The Company** Adjusted net earnings available to common shareholders of the Company for the last four quarters divided by average total equity attributable to common shareholders of the Company. Refer to Section 3.4, "Financial Condition", of this MD&A.

**Adjusted Return on Capital** Tax-effected adjusted operating income for the last four quarters divided by average capital where capital is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments. Refer to Section, 3.4 "Financial Condition", of this MD&A.

**CHOICE PROPERTIES' FUNDS FROM OPERATIONS** Choice Properties considers Funds from Operations to be a useful measure of operating performance as it adjusts for items included in net income that do not arise from operating activities or do not necessarily provide an accurate depiction of its performance.

Funds from Operations is calculated in accordance with the Real Property Association of Canada's Funds from Operations & Adjusted Funds from Operations for IFRS issued in January 2022.

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

(\$ millions)	Quarters Ended		Years Ended	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Net (Loss) Income	\$ (579)	\$ (162)	\$ 744	\$ 24
Add (deduct) impact of the following:				
Amortization of intangible assets	–	–	1	1
Transaction costs and other related expenses	–	–	5	–
Other fair value losses (gains), net	2	(1)	1	1
Fair value adjustment on Exchangeable Units	859	372	(170)	863
Fair value adjustment on investment properties	(193)	(96)	(113)	(459)
Fair value adjustment on investment property held in equity accounted joint ventures	(14)	(13)	(329)	(43)
Fair value adjustment of investment in real estate securities	21	–	248	–
Capitalized interest on equity accounted joint ventures	3	–	9	3
Unit distributions on Exchangeable Units	73	73	293	293
Internal expenses for leasing	2	3	9	8
Income tax recovery	–	(1)	–	(1)
Funds from Operations	\$ 174	\$ 175	\$ 698	\$ 690

# Management's Discussion and Analysis

## 13.1 Non-GAAP Financial Measures - Selected Comparative Reconciliation

**ADJUSTED EBITDA** The following table provides a reconciliation of adjusted EBITDA to operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company from continuing operations reported for the periods ended as indicated.

(\$ millions)	2022					2021				2020	
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)	Total (53 weeks)
Net earnings (loss) attributable to shareholders of the Company from continuing operations	\$ 373	\$ 650	\$ 903	\$ (104)	\$ 1,822	\$ (52)	\$ 125	\$ 252	\$ 428	\$ 753	\$ 957
Add (deduct) impact of the following:											
Non-controlling interests	\$ 242	\$ 224	\$ 282	\$ 239	\$ 987	\$ 170	\$ 236	\$ 261	\$ 327	\$ 994	\$ 619
Income taxes	\$ 229	\$ 113	\$ 276	\$ 213	\$ 831	\$ 165	\$ 201	\$ 200	\$ 64	\$ 630	\$ 470
Net interest expense (income) and other financing charges	\$ 322	\$ (338)	\$ 13	\$ 916	\$ 913	\$ 545	\$ 503	\$ 412	\$ 190	\$ 1,650	\$ 829
Operating income	\$ 1,166	\$ 649	\$ 1,474	\$ 1,264	\$ 4,553	\$ 828	\$ 1,065	\$ 1,125	\$ 1,009	\$ 4,027	\$ 2,875
Add (deduct) impact of the following:											
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 117	\$ 111	\$ 147	\$ 111	\$ 486	\$ 117	\$ 117	\$ 155	\$ 117	\$ 506	\$ 509
Amortization of intangible assets acquired with Lifemark	–	3	4	4	11	–	–	–	–	–	–
Fair value adjustment of investment in real estate securities	–	159	69	20	248	–	–	–	–	–	–
Charge related to PC Bank commodity tax matter	–	111	–	–	111	–	–	–	–	–	–
Transaction costs and other related expenses	8	13	–	–	21	–	–	–	–	–	2
Restructuring and other related costs (recoveries)	4	–	–	–	4	4	8	9	(8)	13	38
Fair value adjustment on investment properties	(291)	102	(313)	(226)	(728)	(46)	(149)	(41)	(87)	(323)	185
Gain on sale of non-operating properties	–	(4)	(3)	(50)	(57)	(3)	–	(9)	(2)	(14)	(9)
Fair value adjustment on non-operating properties	–	–	–	(6)	(6)	–	–	–	(2)	(2)	9
Fair value adjustment of derivatives	(14)	4	(6)	11	(5)	(8)	(3)	(8)	6	(13)	5
Foreign currency translation and other company level activities	–	2	1	–	3	–	–	–	–	–	(3)
Adjusting items	\$ (176)	\$ 501	\$ (101)	\$ (136)	\$ 88	\$ 64	\$ (27)	\$ 106	\$ 24	\$ 167	\$ 736
Adjusted operating income	\$ 990	\$ 1,150	\$ 1,373	\$ 1,128	\$ 4,641	\$ 892	\$ 1,038	\$ 1,231	\$ 1,033	\$ 4,194	\$ 3,611
Depreciation and amortization excluding the impact of the above adjustments <sup>(i)</sup>	\$ 432	\$ 438	\$ 578	\$ 462	\$ 1,910	\$ 408	\$ 424	\$ 549	\$ 420	\$ 1,801	\$ 1,745
Adjusted EBITDA	\$ 1,422	\$ 1,588	\$ 1,951	\$ 1,590	\$ 6,551	\$ 1,300	\$ 1,462	\$ 1,780	\$ 1,453	\$ 5,995	\$ 5,356

(i) Depreciation and amortization for the calculation of adjusted EBITDA excludes the amortization of intangible assets, acquired with Shoppers Drug Mart and Lifemark, recorded by Loblaw.

**ADJUSTED NET INTEREST EXPENSE AND OTHER FINANCING CHARGES** The following table reconciles adjusted net interest expense and other financing charges to GAAP net interest expense and other financing charges reported for the periods ended as indicated.

(\$ millions)	Years Ended		
	Dec. 31, 2022 (52 weeks)	Dec. 31, 2021 (52 weeks)	Dec. 31, 2020 (53 weeks)
Net interest expense and other financing charges	\$ 913	\$ 1,650	\$ 829
Add (deduct) impact of the following:			
Fair value adjustment of the Trust Unit liability	98	(601)	239
Recovery related to Glenhuron	11	189	–
Fair value adjustment of the forward sale agreement for Loblaw common shares	–	(188)	47
Adjusted net interest expense and other financing charges	\$ 1,022	\$ 1,050	\$ 1,115

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

(\$ millions except where otherwise indicated)	Years Ended		
	Dec. 31, 2022 (52 weeks)	Dec. 31, 2021 (52 weeks)	Dec. 31, 2020 (53 weeks)
Adjusted operating income <sup>(i)</sup>	\$ 4,641	\$ 4,194	\$ 3,611
Adjusted net interest expense and other financing charges <sup>(i)</sup>	1,022	1,050	1,115
Adjusted earnings before taxes	\$ 3,619	\$ 3,144	\$ 2,496
Income taxes	\$ 831	\$ 630	\$ 470
Add (deduct) impact of the following:			
Tax impact of items excluded from adjusted earnings before taxes <sup>(ii)</sup>	83	99	173
Remeasurement of deferred tax balances	46	–	7
Recovery related to Glenhuron	33	128	–
Outside basis difference in certain Loblaw shares	(4)	(6)	(2)
Adjusted income taxes	\$ 989	\$ 851	\$ 648
Effective tax rate applicable to earnings before taxes	22.8%	26.5%	23.0%
Adjusted effective tax rate applicable to adjusted earnings before taxes	27.3%	27.1%	26.0%

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

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

# Management's Discussion and Analysis

**ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS FROM CONTINUING OPERATIONS AND ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE FROM CONTINUING OPERATIONS** The following tables reconcile adjusted net earnings available to common shareholders of the Company from continuing operations and adjusted diluted net earnings per common share from continuing operations to GAAP net earnings available to common shareholders of the Company from continuing operations and diluted net earnings per common share from continuing operations as reported for the periods ended as indicated.

(\$ millions)	2022					First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	2021 Total (52 weeks)	2020 Total (53 weeks)
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)						
Continuing Operations	\$ 363	\$ 640	\$ 889	\$ (114)	\$ 1,778	\$ (62)	\$ 115	\$ 238	\$ 418	\$ 709	\$ 913
Add (deduct) impact of the following <sup>(i)</sup> :											
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 46	\$ 43	\$ 58	\$ 40	\$ 187	\$ 45	\$ 46	\$ 58	\$ 47	\$ 196	\$ 195
Amortization of intangible assets acquired with Lifemark	–	1	2	1	4	–	–	–	–	–	–
Fair value adjustment of investment in real estate securities	–	146	64	18	228	–	–	–	–	–	–
Charge related to PC Bank commodity tax matter	–	45	–	–	45	–	–	–	–	–	–
Transaction costs and other related expenses	5	7	–	–	12	–	–	–	–	–	2
Restructuring and other related costs (recoveries)	10	–	–	–	10	2	2	5	(4)	5	14
Fair value adjustment on investment properties	(243)	85	(262)	(225)	(645)	(38)	(125)	(35)	(72)	(270)	155
Gain on sale of non-operating properties	–	(2)	(1)	(19)	(22)	–	–	(5)	(2)	(7)	(4)
Fair value adjustment on non-operating properties	–	–	–	(2)	(2)	–	–	–	–	–	4
Fair value adjustment of derivatives	(6)	2	(3)	5	(2)	(3)	(1)	(3)	1	(6)	2
Fair value adjustment of the Trust Unit liability	93	(576)	(277)	662	(98)	239	188	52	122	601	(239)
Recovery related to Glenhuron	(23)	–	–	–	(23)	–	–	–	(165)	(165)	–
Fair value adjustment of the forward sale agreement for Loblaw common shares	–	–	–	–	–	46	50	64	3	163	(41)
Remeasurement of deferred tax balances	–	(46)	–	–	(46)	–	–	–	–	–	(7)
Outside basis difference in certain Loblaw shares	37	(18)	(18)	3	4	16	–	(9)	(1)	6	2
Foreign currency translation and other company level activities	–	1	1	–	2	–	–	–	–	–	(3)
Adjusting items Continuing Operations	\$ (81)	\$ (312)	\$ (436)	\$ 483	\$ (346)	\$ 307	\$ 160	\$ 127	\$ (71)	\$ 523	\$ 80
Adjusted Continuing Operations	\$ 282	\$ 328	\$ 453	\$ 369	\$ 1,432	\$ 245	\$ 275	\$ 365	\$ 347	\$ 1,232	\$ 993

(\$)	2022					2021					2020
	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)	First Quarter (12 weeks)	Second Quarter (12 weeks)	Third Quarter (16 weeks)	Fourth Quarter (12 weeks)	Total (52 weeks)	Total (53 weeks)
Continuing Operations	\$ 2.45	\$ 4.36	\$ 6.14	\$ (0.83)	\$ 12.20	\$ (0.41)	\$ 0.74	\$ 1.58	\$ 2.80	\$ 4.66	\$ 5.92
Add (deduct) impact of the following <sup>(i)</sup> :											
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 0.31	\$ 0.30	\$ 0.41	\$ 0.28	\$ 1.29	\$ 0.29	\$ 0.30	\$ 0.39	\$ 0.31	\$ 1.30	\$ 1.28
Amortization of intangible assets acquired with Lifemark	–	0.01	0.01	0.01	0.03	–	–	–	–	–	–
Fair value adjustment of investment in real estate securities	–	0.99	0.45	0.13	1.57	–	–	–	–	–	–
Charge related to PC Bank commodity tax matter	–	0.31	–	–	0.31	–	–	–	–	–	–
Transaction costs and other related expenses	0.03	0.05	–	–	0.08	–	–	–	–	–	0.01
Restructuring and other related costs	0.08	–	–	–	0.07	0.01	0.01	0.03	(0.03)	0.03	0.09
Fair value adjustment on investment properties	(1.65)	0.58	(1.82)	(1.60)	(4.45)	(0.25)	(0.81)	(0.24)	(0.48)	(1.80)	1.02
Gain on sale of non-operating properties	–	(0.02)	(0.01)	(0.13)	(0.15)	–	–	(0.03)	(0.01)	(0.04)	(0.03)
Fair value adjustment on non-operating properties	–	–	–	(0.01)	(0.01)	–	–	–	–	–	0.03
Fair value adjustment of derivatives	(0.04)	0.01	(0.02)	0.03	(0.01)	(0.02)	(0.01)	(0.02)	0.01	(0.04)	0.01
Fair value adjustment of the Trust Unit liability	0.63	(3.94)	(1.92)	4.69	(0.68)	1.57	1.24	0.35	0.83	4.00	(1.56)
Recovery related to Glenhuron	(0.16)	–	–	–	(0.16)	–	–	–	(1.12)	(1.10)	–
Fair value adjustment of the forward sale agreement for Loblaw common shares	–	–	–	–	–	0.30	0.33	0.43	0.02	1.09	(0.27)
Remeasurement of deferred tax balances	–	(0.31)	–	–	(0.32)	–	–	–	–	–	(0.05)
Outside basis difference in certain Loblaw shares	0.25	(0.12)	(0.13)	0.02	0.03	0.11	–	(0.06)	(0.01)	0.04	0.01
Foreign currency translation and other company level activities	–	0.01	0.01	–	0.01	–	–	–	–	–	(0.02)
Adjusting items Continuing Operations	\$ (0.55)	\$ (2.13)	\$ (3.02)	\$ 3.42	\$ (2.39)	\$ 2.01	\$ 1.06	\$ 0.85	\$ (0.48)	\$ 3.48	\$ 0.52
Adjusted Continuing Operations	\$ 1.90	\$ 2.23	\$ 3.12	\$ 2.59	\$ 9.81	\$ 1.60	\$ 1.80	\$ 2.43	\$ 2.32	\$ 8.14	\$ 6.44
Diluted weighted common shares (in millions)	147.3	146.3	144.1	141.3	144.8	152.1	151.8	149.7	147.6	150.2	153.5

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

# Management's Discussion and Analysis

## 14. Forward-Looking Statements

This Annual Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Annual Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes, including further healthcare reform, future liquidity, planned capital investments, and the status and impact of IT systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 3, "Liquidity and Capital Resources", Section 8, "Enterprise Risks and Risk Management", Section 12, "Outlook", and Section 13, "Non-GAAP Financial Measures" of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the "Enterprise Risks and Risk Management" of the Company's 2022 Annual Report and the Company's AIF for the year ended December 31, 2022. Such risks and uncertainties include:

- changes in economic conditions, including inflation, levels of employment, costs of borrowing, household debt, political uncertainty and government regulation, the impact of natural disasters, war or acts of terrorism, pandemics, changes in interest rates, tax rates, or exchange rates, and access to consumer credit;
- failure to attract and retain colleagues may impact the Company's ability to effectively operate and achieve financial performance goals;
- inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at the store and digital retail level;
- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- failure by Choice Properties to realize the anticipated benefits associated with its strategic priorities and major initiatives, including failure to develop quality assets and effectively manage development, redevelopment, and renovation initiatives and the timelines and costs related to such initiatives;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to adapt to environmental and social risks, including failure to execute against the Company's climate change and social equity initiatives;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- adverse outcomes of legal and regulatory proceedings and related matters;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to shifts in the retail landscape caused by digital advances;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and Associates;
- failure to realize benefits from investments in the Company's new IT systems and related processes;
- inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business and located in both advanced and developing markets; and
- the inability of the Company to effectively develop and execute its strategy.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including without limitation, the section entitled "Operating and Financial Risks and Risk Management" in the Company's AIF for the year ended December 31, 2022. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# Management's Discussion and Analysis

## 15. Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at [www.sedar.com](http://www.sedar.com).

This Annual Report includes selected information on Loblaw, a public company with shares trading on the TSX. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw on SEDAR from time to time. These filings are also maintained on Loblaw's website at [www.loblaw.ca](http://www.loblaw.ca).

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

Toronto, Canada  
February 28, 2023