

Q2 2019

ALIMENTATION COUCHE-TARD INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12 and 24-week periods ended October 14, 2018



These unaudited interim condensed consolidated financial statements have not been subject to a review engagement by the Corporation's external auditors.

CONSOLIDATED STATEMENTS OF EARNINGS

(in millions of US dollars, except per share amounts, unaudited)

For the periods ended	12 weeks		24 weeks	
	October 14, 2018	October 15, 2017 (adjusted, Note 1)	October 14, 2018	October 15, 2017 (adjusted, Note 1)
	\$	\$	\$	\$
Revenues	14,702.8	12,140.6	29,489.3	21,987.8
Cost of sales	12,537.2	10,096.9	25,106.6	18,205.3
Gross profit	2,165.6	2,043.7	4,382.7	3,782.5
Operating, selling, administrative and general expenses	1,295.5	1,198.2	2,608.0	2,229.5
Restructuring costs	4.8	-	6.3	43.2
Loss (gain) on disposal of property and equipment and other assets (Note 5)	0.5	(0.8)	0.7	(17.6)
Depreciation, amortization and impairment of property and equipment, goodwill, intangible assets and other assets (Note 6)	222.5	209.3	524.0	379.6
Total operating expenses	1,523.3	1,406.7	3,139.0	2,634.7
Operating income	642.3	637.0	1,243.7	1,147.8
Share of earnings of joint ventures and associated companies accounted for using the equity method	5.4	8.3	12.5	16.9
Financial expenses	80.6	75.1	160.0	115.9
Financial revenues	(3.2)	(2.8)	(5.9)	(4.7)
Foreign exchange (gain) loss	(3.7)	17.3	(2.7)	37.6
Net financial expenses	73.7	89.6	151.4	148.8
Earnings before income taxes	574.0	555.7	1,104.8	1,015.9
Income taxes	97.0	122.2	185.2	222.9
Net earnings including non-controlling interests	477.0	433.5	919.6	793.0
Net (earnings) loss attributable to non-controlling interests	(3.9)	(1.0)	9.1	4.2
Net earnings attributable to shareholders of the Corporation	473.1	432.5	928.7	797.2
Net earnings per share (Note 8)				
Basic	0.84	0.76	1.65	1.40
Diluted	0.84	0.76	1.64	1.40
Weighted average number of shares – basic (in thousands)	564,258	568,296	564,240	568,374
Weighted average number of shares – diluted (in thousands)	565,015	569,183	564,975	569,273
Number of shares outstanding at the end of period (in thousands)	564,308	564,079	564,308	564,079

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions of US dollars, unaudited)

For the periods ended	12 weeks		24 weeks	
	October 14, 2018	October 15, 2017 (adjusted, Note 1)	October 14, 2018	October 15, 2017 (adjusted, Note 1)
	\$	\$	\$	\$
Net earnings including non-controlling interests	477.0	433.5	919.6	793.0
Other comprehensive income (loss)				
Items that may be reclassified subsequently to earnings				
Translation adjustments				
Change in cumulative translation adjustments ⁽¹⁾	(10.9)	87.2	(93.8)	184.2
Change in fair value and net interest on cross-currency interest rate swaps designated as a hedge of the Corporation's net investment in certain of its foreign operations ⁽²⁾	21.6	(2.6)	(21.3)	104.5
Cash flow hedges				
Change in fair value of financial instruments ⁽²⁾	(0.3)	0.1	0.4	(7.0)
Loss (gain) realized on financial instruments transferred to earnings ⁽²⁾	0.3	-	1.1	(0.1)
Available-for-sale investment				
Change in fair value of an available-for-sale investment ⁽²⁾	-	4.5	-	1.1
Gain realized on available-for-sale investment transferred to earnings ⁽²⁾	-	-	-	(8.8)
Items that will never be reclassified to earnings				
Net actuarial loss ⁽³⁾	0.3	-	(7.0)	-
Other comprehensive income (loss)	11.0	89.2	(120.6)	273.9
Comprehensive income including non-controlling interests	488.0	522.7	799.0	1,066.9
Comprehensive (income) loss attributable to non-controlling interests	(3.9)	(1.0)	9.1	4.2
Comprehensive income attributable to shareholders of the Corporation	484.1	521.7	808.1	1,071.1

(1) For the 12 and 24-week periods ended October 14, 2018, these amounts include a gain of \$90.8 (net of income taxes of \$13.9) and a loss of \$21.7 (net of income taxes of \$3.3), respectively. For the 12 and 24-week periods ended October 15, 2017, these amounts include a gain of \$132.2 (net of income taxes of \$20.9) and of \$204.9 (net of income taxes of \$32.4), respectively. These losses and gains arise from the translation of long-term debts denominated in foreign currencies.

(2) For the 12 and 24-week periods ended October 14, 2018, these amounts are net of income taxes of \$4.9. For the 12 and 24-week periods ended October 15, 2017, these amounts are net of income taxes of \$0.2 and \$0.1, respectively.

(3) For the 12 and 24-week periods ended October 14, 2018, these amounts are net of income taxes of \$0.2 and \$2.3, respectively (nil for the 12 and 24-week periods ended October 15, 2017).

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of US dollars, unaudited)

For the 24-week period ended	October 14, 2018 (adjusted, Note 1)						
	Attributable to the shareholders of the Corporation						
	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss (Note 9)	Total	Non-controlling interests	Equity
	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of period	704.0	17.7	7,405.0	(566.3)	7,560.4	327.0	7,887.4
Adoption of IFRS 15 (Note 2)			(4.1)		(4.1)	-	(4.1)
Adjusted balance, beginning of period	704.0	17.7	7,400.9	(566.3)	7,556.3	327.0	7,883.3
Comprehensive income:							
Net earnings (loss)			928.7		928.7	(9.1)	919.6
Other comprehensive loss				(120.6)	(120.6)	-	(120.6)
Comprehensive income					808.1	(9.1)	799.0
Dividends declared			(86.5)		(86.5)		(86.5)
Distributions to non-controlling interests						(28.1)	(28.1)
Stock option-based compensation expense		1.8			1.8		1.8
Exercise of stock options	0.6	(0.5)			0.1		0.1
Balance, end of period	704.6	19.0	8,243.1	(686.9)	8,279.8	289.8	8,569.6

For the 24-week period ended	October 15, 2017 (adjusted, Note 1)						
	Attributable to the shareholders of the Corporation						
	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss (Note 9)	Total	Non-controlling interests	Equity
	\$	\$	\$	\$	\$	\$	\$
Balance, beginning of period	708.7	15.7	6,083.5	(798.3)	6,009.6	-	6,009.6
Acquisition of control of CAPL						370.6	370.6
Comprehensive income:							
Net earnings (loss)			797.2		797.2	(4.2)	793.0
Other comprehensive income				273.9	273.9	-	273.9
Comprehensive income					1,071.1	(4.2)	1,066.9
Dividends declared			(82.5)		(82.5)		(82.5)
Distributions to non-controlling interests						(16.8)	(16.8)
Stock option-based compensation expense		1.1			1.1		1.1
Repurchase and cancellation of shares	(6.4)		(187.9)		(194.3)		(194.3)
Balance, end of period	702.3	16.8	6,610.3	(524.4)	6,805.0	349.6	7,154.6

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of US dollars, unaudited)

For the periods ended	12 weeks		24 weeks	
	October 14, 2018	October 15, 2017 (adjusted, Note 1)	October 14, 2018	October 15, 2017 (adjusted, Note 1)
	\$	\$	\$	\$
Operating activities				
Net earnings including non-controlling interests	477.0	433.5	919.6	793.0
Adjustments to reconcile net earnings including non-controlling interests to net cash provided by operating activities				
Depreciation, amortization and impairment of property and equipment, goodwill, intangible assets and other assets, and amortization of financing costs, net of amortization of deferred credits (Note 6)	215.8	202.7	514.8	368.6
Deferred credits	12.3	19.5	18.1	26.9
Deferred income taxes	56.5	37.0	42.1	21.7
Share of earnings of joint ventures and associated companies accounted for using the equity method, net of dividends received	2.6	(1.8)	(0.1)	(6.3)
Loss (gain) on disposal of property and equipment and other assets (Note 5)	0.5	(0.8)	0.7	(8.8)
Gain realized on an available-for-sale investment transferred to earnings	-	-	-	(8.8)
Other	5.2	(52.4)	8.2	(7.7)
Changes in non-cash working capital	(102.2)	(166.4)	(121.2)	(185.8)
Net cash provided by operating activities	667.7	471.3	1,382.2	992.8
Investing activities				
Purchase of property and equipment, intangible assets and other assets	(206.4)	(229.9)	(408.4)	(412.4)
Proceeds from disposal of property and equipment and other assets (Note 5)	26.7	40.2	80.9	68.3
Restricted cash	16.0	(18.3)	10.5	(14.2)
Business acquisitions (Note 3)	(4.7)	(4.3)	(4.7)	(3,578.9)
Proceeds from disposal of CST's assets held for sale	-	143.0	-	895.5
Deposit for business acquisition	-	(2.8)	-	(2.8)
Proceeds from disposal of an available-for-sale investment	-	-	-	91.6
Net cash used in investing activities	(168.4)	(72.1)	(321.7)	(2,952.9)
Financing activities				
Net decrease in term revolving unsecured operating credit D (Note 7)	(504.0)	(1,059.2)	(962.8)	(694.5)
Cash dividends paid	(86.5)	(82.5)	(86.5)	(82.5)
Net (decrease) increase in other debts (Note 7)	(15.4)	51.7	(23.7)	41.2
CAPL distributions paid to non-controlling interests (Note 4)	(14.1)	(16.8)	(28.1)	(16.8)
Net (decrease) increase in CAPL senior secured revolving credit facility (Note 7)	(0.5)	(15.0)	4.6	(15.0)
Exercise of stock options	0.1	-	0.1	-
Settlements of derivative financial instruments	-	0.5	3.0	(20.7)
Issuance of senior unsecured notes, net of financing costs	-	3,041.6	-	3,041.6
Net (decrease) increase in acquisition facility, net of financing costs (Note 7)	-	(1,780.8)	-	1,168.7
Repayments of debts assumed on the CST acquisition	-	(577.1)	-	(1,075.9)
Net cash (used in) provided by financing activities	(620.4)	(437.6)	(1,093.4)	2,346.1
Effect of exchange rate fluctuations on cash and cash equivalents	2.4	(0.8)	(12.6)	(28.8)
Net (decrease) increase in cash and cash equivalents	(118.7)	(39.2)	(45.5)	357.2
Cash and cash equivalents, beginning of period	739.4	1,034.0	666.2	637.6
Cash and cash equivalents, end of period	620.7	994.8	620.7	994.8
Supplemental information:				
Interest paid	74.4	41.6	159.1	99.2
Interest and dividends received	18.3	9.3	23.7	16.8
Income taxes paid	57.4	60.3	106.8	102.8
Cash and cash equivalents components:				
Cash and demand deposits			484.1	536.0
Liquid investments			136.6	458.8
			620.7	994.8

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(in millions of US dollars, unaudited)

	As at October 14, 2018	As at April 29, 2018 (adjusted, Note 1)
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	620.7	666.2
Restricted cash	9.1	19.6
Accounts receivable	2,212.6	2,006.4
Inventories	1,432.6	1,369.0
Prepaid expenses	76.8	106.5
Assets held for sale (Note 5)	77.6	73.8
Other short-term financial assets	0.4	1.8
Income taxes receivable	50.0	233.8
	4,479.8	4,477.1
Property and equipment	11,116.0	11,279.4
Goodwill (Note 6)	5,744.5	5,845.8
Intangible assets	993.5	1,054.4
Other assets	303.7	303.1
Investment in joint ventures and associated companies	139.0	139.4
Deferred income taxes	58.6	57.5
	22,835.1	23,156.7
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,846.2	3,809.2
Short-term provisions	163.8	179.4
Liabilities associated with assets held for sale (Note 5)	50.0	5.8
Income taxes payable	68.3	147.1
Current portion of long-term debt (Note 7)	44.0	44.5
	4,172.3	4,186.0
Long-term debt (Note 7)	7,856.1	8,862.2
Long-term provisions	616.3	610.7
Pension benefit liability	99.6	100.0
Other long-term financial liabilities	198.7	173.5
Income taxes payable	-	58.9
Deferred credits and other liabilities	356.7	351.3
Deferred income taxes	965.8	926.7
	14,265.5	15,269.3
Equity		
Capital stock (Note 10)	704.6	704.0
Contributed surplus	19.0	17.7
Retained earnings	8,243.1	7,405.0
Accumulated other comprehensive loss (Note 9)	(686.9)	(566.3)
Equity attributable to shareholders of the Corporation	8,279.8	7,560.4
Non-controlling interests (Note 4)	289.8	327.0
	8,569.6	7,887.4
	22,835.1	23,156.7

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions of US dollars unless otherwise noted, except per share amounts)

1. CONSOLIDATED FINANCIAL STATEMENTS PRESENTATION

The unaudited interim condensed consolidated financial statements (the “interim financial statements”) have been prepared by the Corporation in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”.

These interim financial statements have been prepared in accordance with the same accounting policies and methods as the audited annual consolidated financial statements for the year ended April 29, 2018, except for the new accounting policies disclosed in Note 2. The interim financial statements do not include all the information required for complete financial statements and should be read in conjunction with the audited annual consolidated financial statements and notes thereto in the Corporation’s 2018 Annual Report. The results of operations for the interim periods presented do not necessarily reflect results expected for the full fiscal year. The Corporation’s business follows a seasonal pattern. The busiest period is the first half-year of each fiscal year, which includes summer’s sales.

On November 27, 2018, the Corporation’s interim financial statements were approved by the Board of Directors.

Comparative figures

During the 12 and 24-week periods ended October 14, 2018, the Corporation has made adjustments and finalized its estimates of the fair value of assets acquired and liabilities assumed for the acquisition of Holiday Stationstores, LLC (Note 3). As a result, changes were made to the following consolidated balance sheet accounts as at April 29, 2018: Property and equipment increased by \$190.8 (net of a \$2.1 depreciation expense), Intangible assets increased by \$13.7 (net of a \$2.1 depreciation expense), Investment in joint ventures and associated companies increased by \$16.1, Accounts payable and accrued liabilities decreased by \$3.6, Current portion of long-term debt increased by \$1.6, Long-term debt increased by \$18.2, Long-term provisions increased by \$0.3, Deferred credits and other liabilities increased by \$3.8 and Deferred income taxes decreased by \$1.2. Consequently, Goodwill decreased by \$204.5. These changes resulted in a \$4.2 increase in Depreciation, amortization and impairment of property and equipment, goodwill, intangible assets and other assets and a \$1.2 decrease in income taxes in the consolidated statement of earnings for the fiscal year ended April 29, 2018 which are reflected in Retained earnings on the consolidated balance sheets.

During the 12 and 24-week periods ended October 14, 2018, the Corporation has made adjustments and finalized its estimates of the fair value of assets acquired and liabilities assumed for the acquisition of Jet Pep, Inc. As a result, changes were made to the following consolidated balance sheet accounts as at April 29, 2018: Intangible assets increased by \$6.4 and Goodwill decreased by \$6.4.

As described in the Corporation’s 2018 Annual Report, adjustments were made for the 12 and 24-week periods ended October 15, 2017 in relation with the finalization of the estimates of the fair value of assets acquired and liabilities assumed for the acquisitions of CST Brands Inc. (“CST”) and CrossAmerica Partners LP (“CAPL”).

2. ACCOUNTING POLICIES

New accounting policies adopted during the current year

Financial Instruments

As of April 30, 2018, the Corporation adopted IFRS 9, “Financial Instruments”, which includes three requirements for recognition and measurement, impairment and general hedge accounting. These requirements were applied as follows:

The first requirement, recognition and measurement, which was applied retrospectively without restatement of comparative amounts, requires a new classification of financial assets and liabilities under IFRS 9. The Corporation’s financial instruments are accounted for as follows under IFRS 9 as compared to the Corporation’s previous policy in accordance with IAS 39:

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions of US dollars unless otherwise noted, except per share amounts)

Financial instrument	Classification – IAS 39	Classification – IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Investments	Financial assets available for sale	Fair value through earnings or loss (unless fair value through Other comprehensive income (OCI) is elected)
Derivative financial instruments	Financial assets/liabilities at fair value through earnings or loss	Fair value through earnings or loss
Derivative financial instruments designated as hedge	Effective hedging instruments	Fair value through earnings or loss subject to hedge accounting requirements
Bank indebtedness and long term debt	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

Since IFRS 9 largely retains requirements under IAS 39, this section had no significant impact on the Corporation's Interim financial statements.

The second requirement, impairment, which was applied retrospectively, replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" model. The new impairment model applies to financial assets measured at amortized cost and debt instruments measured at fair value through other comprehensive income. This requirement had no significant impact on the Corporation's Interim financial statements.

The third requirement, general hedge accounting, entails that the Corporation must ensure that hedge accounting relationships are aligned with its risk management objectives and strategy and apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Corporation has elected not to adopt this requirement and instead, as permitted by IFRS 9, to continue to apply the general hedge accounting requirements of IAS 39 for the 12 and 24-week periods ended October 14, 2018.

Revenue from Contracts with Customers

As of April 30, 2018, the Corporation adopted IFRS 15, "Revenue from Contracts with Customers" retrospectively without restatement of comparative amounts. The Corporation analyzed the impact of the new standard by comparing its current accounting policies with the new guidance, and identified the differences from applying the new requirements to its different revenue streams. Under the previous accounting policies, the Corporation recognized initial franchise fees when all of the initial services required by the franchise agreement were performed, when there were no material unfulfilled conditions affecting completion of the sale and when there was no remaining obligation or intent to refund amounts received, which generally occurred when the franchise store opened. Under the new accounting policy, the Corporation recognizes a portion of the initial fees when the franchise store opens and defers remaining revenue over the estimated term of the related franchise agreement. As a result, the Corporation adjusted initial franchise fees revenue of \$4.1 (net of income taxes of \$1.3) to Retained earnings, with an offset to Deferred credits and other liabilities, Accounts payable and accrued liabilities and Income taxes payable.

Classification and Measurement of Share-based Payment Transactions

As of April 30, 2018, the Corporation applied amendments to IFRS 2, "Share-based Payment", clarifying how to account for certain types of share-based payment transactions, such as the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments. The amendments were applied prospectively and had no significant impact on the Corporation's Interim financial statements.

Recently issued accounting policies but not yet implemented

Leases

In January 2016, the IASB issued IFRS 16, "Leases", which will replace IAS 17, "Leases". The new standard will be effective for the Corporation's fiscal year beginning on April 29, 2019, with early adoption permitted. The new standard requires lessees to recognize a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts, and record it on the balance sheet, except with respect to lease contracts that meet limited exception criteria.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions of US dollars unless otherwise noted, except per share amounts)

Given that it has significant contractual obligations accounted for as operating leases under IAS 17, the Corporation's preliminary conclusion is that there will be a material increase to both assets and liabilities upon adoption of IFRS 16, and material changes to the presentation of expenses associated with the lease arrangements, and, to a lower extent, the timing of recognition.

The following table outlines the key areas that will be impacted by the adoption of IFRS 16:

Impacted areas of the business	Analysis	Impact
Financial reporting	The analysis includes which contracts will be in scope as well as the options available under the new standard, such as whether to early adopt the two recognition and measurement exemptions and whether to apply the new standard on a full retrospective application in accordance with IAS 8 or retrospectively without restatement of comparative amounts.	The Corporation is in the process of analyzing the full impact of the adoption of IFRS 16 on its consolidated balance sheets and consolidated statement of earnings and comprehensive income. As at October 14, 2018, the Corporation intends to adopt IFRS 16 for its fiscal year beginning April 29, 2019 retrospectively without restatement of comparative amounts and with the right-of-use asset measured for the major portion of its leases at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to each lease. The Corporation also intends to use the exemptions for short-term leases and leases for which the underlying asset is of low-value.
Information systems	The Corporation is analyzing the need to make changes within its information systems environment to optimize the management of more than 9,000 leases that will fall within the scope of the new standard.	The Corporation has evaluated different IT solutions for the eventual recognition and measurement of leases in scope. An IT solution has been selected and is currently being implemented.
Internal controls	The Corporation will be performing an analysis of the changes to the control environment as a result of the adoption of IFRS 16.	The Corporation is currently evaluating the impact of IFRS 16 on its control environment.
Stakeholders	The Corporation will be performing an analysis of the impact on the disclosure to its stakeholders as a result of the adoption of IFRS 16.	The Corporation has begun discussing the impact of IFRS 16 to internal and external stakeholders.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions of US dollars unless otherwise noted, except per share amounts)

3. BUSINESS ACQUISITIONS

Acquisition of Holiday Stationstores, LLC.

On December 22, 2017, the Corporation acquired all the membership interest of Holiday Stationstores, LLC and certain affiliated companies (“Holiday”). During the 12 and 24-week periods ended October 14, 2018, the Corporation finalized its estimate of the fair value of assets acquired, liabilities assumed and goodwill. The table below shows preliminary estimate of the fair value of assets acquired and liabilities assumed for the Holiday acquisition as reported in the Corporation’s 2018 annual consolidated financial statements and the changes made to adjust it to the final estimate:

	Preliminary estimate as at April 29, 2018	Changes	Final estimate
	\$		
Assets			
Current assets			
Cash and cash equivalents	13.6	-	13.6
Accounts receivable ^(a)	64.3	-	64.3
Inventories	69.5	-	69.5
Prepaid expenses	4.2	-	4.2
	151.6	-	151.6
Property and equipment	459.2	192.9	652.1
Identifiable intangible assets	60.8	15.8	76.6
Other assets	15.4	-	15.4
Investment in joint ventures and associated companies	2.9	16.1	19.0
	689.9	224.8	914.7
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	194.9	(3.6)	191.3
Short-term provisions	5.0	-	5.0
Current portion of long-term debt	0.5	1.6	2.1
	200.4	(2.0)	198.4
Long-term debt	2.7	18.2	20.9
Long-term provisions	23.5	0.3	23.8
Deferred credits and other liabilities	1.0	3.8	4.8
	227.6	20.3	247.9
Net identifiable assets	462.3	204.5	666.8
Goodwill	1,195.9	(204.5)	991.4
Total consideration	1,658.2	-	1,658.2

(a) The fair value of acquired accounts receivable represents the gross contractual amount for accounts receivable of \$65.3, net of the uncollectible amount estimated to \$1.0.

All of the goodwill related to this transaction was deductible for tax purposes.

This acquisition generated goodwill mainly due to the significant footprint of Holiday in the Midwest United States and the high profitability of its store network.

Other acquisitions

During the 24-week period ended October 14, 2018, the Corporation acquired 2 company-operated stores through distinct transactions. The Corporation owns the land and building for 1 site and leases the land and the building for the remaining site. These transactions were settled for a total consideration of \$4.7 using available cash and existing credit facilities and generated goodwill for an amount of \$0.6.

Acquisition costs of \$1.2 in connection with these acquisitions and other unrealized and ongoing acquisitions are included in Operating, selling, administrative and general expenses for the 24-week period ended October 14, 2018.

4. CROSSAMERICA PARTNERS LP

As at October 14, 2018, the Corporation owns 100% of the equity interests of the sole member of the General Partner, 100% of the incentive distribution rights (“IDRs”) and 21.73% of the outstanding common units of CAPL.

CAPL’s accounting periods do not coincide with the Corporation’s accounting periods. The consolidated statement of earnings, comprehensive income, changes in equity and cash flows for the 24-week period ended October 14, 2018 include those of CAPL for the period beginning April 1, 2018 and ending September 30, 2018, adjusted for significant transactions, if any. The consolidated balance sheet as at October 14, 2018 includes the balance sheet of CAPL as at September 30, 2018, adjusted for significant transactions, if any.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions of US dollars unless otherwise noted, except per share amounts)

The table below highlights the results of CAPL's operations and certain of its financial metrics since April 1, 2018 which are included in these interim financial statements:

	April 1, 2018 to September 30, 2018	June 28, 2017 to September 30, 2017
Statements of Earnings for the periods from⁽¹⁾		
Revenues	1,348.1	562.6
Gross profit	96.5	47.5
Total operating expenses (excluding depreciation, amortization and impairment of property and equipment, goodwill, intangible assets and other assets)	45.6	28.5
Depreciation, amortization and impairment of property and equipment, goodwill, intangible assets and other assets (Note 6)	106.5	18.1
Net financial expenses	14.1	6.2
Loss before income taxes	(69.7)	(5.3)
Income tax (recovery) expense	(3.0)	1.0
Net loss	(66.7)	(6.3)
Statements of Cash Flows for the periods from⁽¹⁾		
Net cash provided by operating activities	42.2	6.4
Net cash (used in) provided by investing activities	(4.4)	18.6
Net cash used in financing activities, including \$28.1 of distributions paid to the non-controlling interests	(35.7)	(31.9)
Balance Sheets as at⁽¹⁾		
Cash and cash equivalents	3.7	1.7
Current assets (other than cash and cash equivalents)	57.3	68.0
Long-term assets	1,126.6	1,224.9
Current liabilities	66.8	64.9
Long-term liabilities	661.5	665.2

(1) Adjusted for significant transactions, if any

5. DISPOSAL OF BUSINESS AND OTHER ASSETS

Statoil Fuel & Retail Marine AS

On November 27, 2017, the Corporation reached an agreement to sell 100% of its shares in Statoil Fuel & Retail Marine AS to St1 Norge AS. The transaction is subject to the customary regulatory approvals and closing conditions and is expected to close during fiscal year 2019.

Therefore, as at October 14, 2018, criteria for its classification as an asset held for sale had been met. The Corporation's marine fuel business' contribution to each line of its consolidated balance sheets has been grouped under the lines "Assets held for sale" and "Liabilities associated with assets held for sale".

Disposal of retail sites

On July 3, 2018, the Corporation sold to Irving Oil Ltd. 13 retail sites in the Canadian Atlantic provinces for a cash consideration of approximately \$30.0. This transaction resulted in a gain of \$4.5. These stores, which will continue to be operated by the Corporation, were previously acquired through the CST acquisition.

6. GOODWILL

	As at October 14, 2018	As at April 29, 2018 (adjusted, Note 1)
	\$	\$
Net book amount, beginning of year	5,845.8	2,370.2
CAPL's goodwill impairment	(55.0)	-
Disposal of sites (Note 5)	(18.6)	-
Business acquisitions (Note 3)	0.6	3,394.7
Reclassified to assets held for sale	-	(4.4)
Effect of exchange rate variations	(28.3)	85.3
Net book amount, end of period	5,744.5	5,845.8

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During the 12-week period ended July 22, 2018, the Corporation performed its annual goodwill impairment test. As a result of the decrease in the market capitalization of the cash generating unit ("CGU") CAPL, which is fully included in the United States geographic area, and the decrease in the fair value of the IDRs (Note 4), an impairment loss on Goodwill was recorded to Depreciation, amortization and impairment of property and equipment, goodwill, intangible assets, and other assets in the consolidated statement of earnings for the 12 and 24-week periods ended October 14, 2018 totaling nil and \$55.0, respectively.

At the time the goodwill impairment test was performed, the recoverable amount of the entire CAPL CGU was \$157.3 and the impairment loss recorded reduced the carrying amount of the goodwill for the CAPL CGU to \$73.2. The recoverable amount of the CAPL CGU was determined on the basis of its fair value less costs of disposal, which includes the Corporation's shares in CAPL's market capitalization (Level 1) and the discounted cash flows of its IDRs (Level 3), consistent with the methods used during fiscal 2018.

The fair value less costs of disposal of the Corporation's shares in CAPL's market capitalization was determined using the following observable inputs:

CAPL's common unit closing value as at July 23, 2018	\$17.41
Number of CAPL's outstanding common units as at July 22, 2018	34,433,574
% of CAPL's common units owned by the Corporation as at July 22, 2018	21.74%

With all other variables held constant, every \$1.00 decrease in CAPL's common unit value would have increased the impairment loss recorded by \$7.5.

The fair value less costs of disposal of the IDRs was determined using discounted cash flows based on CAPL's strategic plan which was established by its management based on past experience. The following key assumptions were used in establishing the recoverable amount of the IDRs and there were no changes in the valuation technique used:

Annual Distributable cash flows/Total distributions ratio ^(a)	1.1X to 1.2X
Debt/Equity financing ratio on business acquisitions ^(b)	57/43
Discount rate ^(c)	12.50%
Projection period of the cash flows	4 years

(a) Distributable cash flows/Total distributions ratio

Based on past experience and management's expectations for the future. With all other variables held constant, a 0.01X increase for each year would have increased by \$1.8 the impairment loss recorded.

(b) Debt/Equity financing ratio on business acquisitions

Based on past experience and management's expectations for the future. With all other variables held constant, a 5.00% decrease in Debt financing (5.00% increase in Equity financing) would have increased by \$2.0 the impairment loss recorded.

(c) Discount rate

The discount rate used reflects specific risks relating to the CAPL CGU and its geographic area. With all other variables held constant, a 1.00% increase in the discount rate would have increased by \$2.4 the impairment loss recorded.

Annual growth rate of CAPL's Earnings before interest, taxes, depreciation and amortization ("EBITDA"), which is a non-IFRS measure

In addition to the above key assumptions, in establishing the discounted cash flows of the IDRs, the Corporation considered an annual growth rate of CAPL's EBITDA which was determined by taking into consideration organic growth, growth generated by business acquisitions as well as synergies.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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7. LONG-TERM DEBT

	As at October 14, 2018	As at April 29, 2018 (adjusted, Note 1)
	\$	\$
US-dollar-denominated senior unsecured notes	3,374.9	3,373.6
Canadian-dollar-denominated senior unsecured notes	1,839.9	1,857.3
Euro-denominated senior unsecured notes, maturing in May 2026	863.8	900.7
CAPL US-dollar-denominated senior secured revolving credit facility, without recourse to the Corporation, maturing in April 2020 ^(a)	514.9	509.5
US-dollar-denominated term revolving unsecured operating credit D, maturing in December 2023 ^(b)	434.6	1,397.4
Acquisition facility, maturing in June 2020 ^(c)	412.4	412.1
NOK-denominated senior unsecured notes, maturing in February 2026	82.1	83.9
Obligations related to buildings and equipment under finance leases, payable on various dates, and other debts	377.5	372.2
	<u>7,900.1</u>	<u>8,906.7</u>
Current portion of long-term debt	44.0	44.5
	<u>7,856.1</u>	<u>8,862.2</u>

(a) CAPL US-dollar-denominated senior secured revolving credit facility, without recourse to the Corporation

As at October 14, 2018, the effective interest rate was 4.660% and CAPL was in compliance with the restrictive provisions and ratios imposed by the credit agreement.

(b) Term revolving unsecured operating credit D

As at October 14, 2018, the weighted average effective interest rate was 3.531% and the Corporation was in compliance with the restrictive provisions and ratios imposed by the credit agreement. In November 2018, subsequent to the second quarter of fiscal 2019, the Corporation amended its operating Credit D to extend its maturity to December 2023. All other conditions related to this credit agreement remain unchanged.

(c) Acquisition facility

As at October 14, 2018, the effective interest rate was 3.546% and the Corporation was in compliance with the restrictive provisions and ratios imposed by the credit agreement.

Term revolving unsecured operating credit F

During the 12-week period ended October 14, 2018, the Corporation canceled its unused term revolving unsecured operating credit F.

8. NET EARNINGS PER SHARE

The following table presents the information for the computation of basic and diluted net earnings per share:

	12-week period ended October 14, 2018			12-week period ended October 15, 2017 (adjusted, Note 1)		
	Net earnings \$	Weighted average number of shares (in thousands)	Net earnings per share \$	Net earnings \$	Weighted average number of shares (in thousands)	Net earnings per share \$
Basic net earnings attributable to Class A and B shareholders	473.1	564,258	0.84	432.5	568,296	0.76
Dilutive effect of stock options	-	757	-	-	887	-
Diluted net earnings available for Class A and B shareholders	<u>473.1</u>	<u>565,015</u>	<u>0.84</u>	<u>432.5</u>	<u>569,183</u>	<u>0.76</u>

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(in millions of US dollars unless otherwise noted, except per share amounts)

	24-week period ended October 14, 2018			24-week period ended October 15, 2017 (adjusted, Note 1)		
	Net earnings \$	Weighted average number of shares (in thousands)	Net earnings per share \$	Net earnings \$	Weighted average number of shares (in thousands)	Net earnings per share \$
Basic net earnings attributable to Class A and B shareholders	928.7	564,240	1.65	797.2	568,374	1.40
Dilutive effect of stock options	-	735	(0.01)	-	899	-
Diluted net earnings available for Class A and B shareholders	928.7	564,975	1.64	797.2	569,273	1.40

When they have an antidilutive effect, stock options must be excluded from the calculation of the diluted net earnings per share. For the 12 and 24-week periods ended October 14, 2018, 325,275 and 542,658 stock options were excluded, respectively, and 518,594 and 378,008 stock options were excluded for the 12 and 24-week periods ended October 15, 2017, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

As at October 14, 2018

	Attributable to shareholders of the Corporation				
	Items that may be reclassified to earnings			Will never be reclassified to earnings	Accumulated other comprehensive loss
	Cumulative translation adjustments	Net investment hedge	Cash flow hedge	Cumulative net actuarial loss	
	\$	\$	\$	\$	\$
Balance, before income taxes	(381.2)	(293.0)	(12.1)	(12.4)	(698.7)
Less: Income taxes	-	(8.0)	(0.1)	(3.7)	(11.8)
Balance, net of income taxes	(381.2)	(285.0)	(12.0)	(8.7)	(686.9)

As at October 15, 2017

	Attributable to shareholders of the Corporation				
	Items that may be reclassified to earnings			Will never be reclassified to earnings	Accumulated other comprehensive loss
	Cumulative translation adjustments	Net investment hedge	Cash flow hedge	Cumulative net actuarial loss	
	\$	\$	\$	\$	\$
Balance, before income taxes	(240.5)	(243.6)	(13.0)	(35.8)	(532.9)
Less: Income taxes	-	0.2	(0.7)	9.0	8.5
Balance, net of income taxes	(240.5)	(243.4)	(13.7)	(26.8)	(524.4)

10. CAPITAL STOCK

Issued and outstanding shares

As at October 14, 2018, the Corporation had 126,908,950 issued and outstanding Class A multiple-voting shares (132,023,873 as at April 29, 2018), with each share comprising 10 votes, and 437,398,992 issued and outstanding Class B subordinate voting shares (432,194,025 as at April 29, 2018), with each share comprising 1 vote.

Stock options

For the 12-week period ended October 14, 2018, a total of 87,830 stock options were exercised (nil for the 12-week period ended October 15, 2017). For the 24-week period ended October 14, 2018, a total of 95,930 stock options were exercised (2,260 for the 24-week period ended October 15, 2017).

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in millions of US dollars unless otherwise noted, except per share amounts)

For the 12 and 24-week periods ended October 14, 2018, a total of nil and 163,593 stock options were granted, respectively (nil and 160,625 for the 12 and 24-week periods ended October 15, 2017, respectively). The description of the Corporation's stock-based compensation plan is included in Note 26 of the audited annual consolidated financial statements presented in the Corporation's 2018 Annual Report.

The fair value of stock options granted for the 24-week period ended October 14, 2018 was CA \$17.67 per option, which was estimated at the grant date using the Black-Scholes option pricing model on the basis of the following assumptions for the stock options granted during the period:

- Expected quarterly dividend of CA \$0.10 per share;
- Expected volatility of 24.00%;
- Risk-free interest rate of 2.12%;
- Expected life of 8 years.

11. SEGMENTED INFORMATION

The Corporation operates convenience stores in the United States, in Europe and in Canada. It operates in one reportable segment, the sale of goods for immediate consumption, road transportation fuel and other products mainly through company-operated and franchised stores. The Corporation operates its convenience store chain under several banners, including Circle K, Corner Store, Couche-Tard, Holiday, Ingo, Mac's, Re.Store and Topaz. Revenues from external customers mainly fall into three categories: merchandise and services, road transportation fuel and other.

Information on the principal revenue categories as well as geographic information is as follows:

	12-week period ended October 14, 2018				12-week period ended October 15, 2017 (adjusted, Note 1)			
	United States	Europe	Canada	Total	United States	Europe	Canada	Total
	\$	\$	\$	\$	\$	\$	\$	\$
External customer revenues^(a)								
Merchandise and services	2,596.0	340.5	524.2	3,460.7	2,269.0	320.1	526.3	3,115.4
Road transportation fuel	7,568.3	2,071.5	1,255.5	10,895.3	5,833.6	1,771.7	1,147.7	8,753.0
Other	15.9	324.7	6.2	346.8	16.6	249.0	6.6	272.2
	10,180.2	2,736.7	1,785.9	14,702.8	8,119.2	2,340.8	1,680.6	12,140.6
Gross Profit								
Merchandise and services	886.0	139.8	176.8	1,202.6	749.8	134.5	181.9	1,066.2
Road transportation fuel	573.6	235.9	93.8	903.3	561.1	254.0	100.6	915.7
Other	16.0	37.5	6.2	59.7	16.6	38.8	6.4	61.8
	1,475.6	413.2	276.8	2,165.6	1,327.5	427.3	288.9	2,043.7
Total long-term assets^(b)	12,484.9	3,564.1	2,173.8	18,222.8	10,517.1	3,801.8	2,193.4	16,512.3

	24-week period ended October 14, 2018				24-week period ended October 15, 2017 (adjusted, Note 1)			
	United States	Europe	Canada	Total	United States	Europe	Canada	Total
	\$	\$	\$	\$	\$	\$	\$	\$
External customer revenues^(a)								
Merchandise and services	5,230.7	709.2	1,068.6	7,008.5	4,251.1	640.7	1,003.4	5,895.2
Road transportation fuel	15,221.2	4,024.0	2,547.3	21,792.5	10,088.5	3,369.4	2,115.1	15,573.0
Other	32.2	643.7	12.4	688.3	20.1	486.5	13.0	519.6
	20,484.1	5,376.9	3,628.3	29,489.3	14,359.7	4,496.6	3,131.5	21,987.8
Gross Profit								
Merchandise and services	1,766.6	296.1	364.7	2,427.4	1,409.5	269.4	348.9	2,027.8
Road transportation fuel	1,160.2	482.4	193.8	1,836.4	964.3	493.1	183.2	1,640.6
Other	32.2	74.3	12.4	118.9	20.1	81.0	13.0	114.1
	2,959.0	852.8	570.9	4,382.7	2,393.9	843.5	545.1	3,782.5

(a) Geographic areas are determined according to where the Corporation generates operating income (where the sale takes place) and according to the location of the long-term assets.

(b) Excluding financial instruments, deferred tax assets and post-employment benefit assets.

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12. FAIR VALUE

The fair value of Trade accounts receivable and vendor rebates receivable, Credit and debit cards receivable and Accounts payable and accrued liabilities is comparable to their carrying amounts given their short maturity. The fair value of Obligations related to buildings and equipment under finance leases is comparable to its carrying amount, given that implicit interest rates are generally consistent with equivalent market interest rates for similar obligations. The carrying values of the acquisition facility, the term revolving unsecured operating credit D and the CAPL senior secured revolving credit facility approximate their fair values given that their credit spreads are similar to the credit spread the Corporation would obtain under similar conditions at the reporting date.

Fair value hierarchy

Fair value measurements are categorized in accordance with the following levels:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included in Level 1 but which are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability which are not based on observable market data.

The estimated fair value of each class of financial instrument, the methods and assumptions that were used to determine them and their fair value hierarchy are as follows:

Financial instruments at fair value on the consolidated balance sheets:

- The fair value of the investment contract, which is mainly based on the fair market value of the Corporation's Class B shares, was \$37.0 as at October 14, 2018 (\$36.3 as at April 29, 2018) (Level 2);
- The fair value of the cross-currency interest rate swaps, which is determined based on market rates, was \$191.9 as at October 14, 2018 (\$164.9 as at April 29, 2018) (Level 2). As at October 14, 2018, they are presented as Other long-term financial liabilities, and as at April 29, 2018, they are presented as Other short term financial assets for an amount of \$1.8 and Other long-term financial liabilities for an amount of \$166.7 on the consolidated balance sheets; and
- The fair value of the fixed-to-floating interest rate swaps, which is determined based on market rates, was \$6.8 as at October 14, 2018 (\$6.8 as at April 29, 2018) (Level 2). They are presented as Other long-term financial liabilities on the consolidated balance sheets.

Financial instruments not at fair value on the consolidated balance sheets:

- The table below presents the fair value, which is based on observable market data (Level 2), and the carrying value of the financial instruments which are not measured at fair value on the consolidated balance sheets:

	As at October 14, 2018		As at April 29, 2018	
	Carrying value	Fair value	Carrying value	Fair value
US-dollar-denominated senior unsecured notes	3,374.9	3,244.5	3,373.6	3,279.4
Canadian-dollar-denominated senior unsecured notes	1,839.9	1,829.6	1,857.3	1,873.5
Euro-denominated senior unsecured notes	863.8	878.9	900.7	925.9
NOK-denominated senior unsecured notes	82.1	87.4	83.9	90.5

13. SUBSEQUENT EVENT

Dividends

During its November 27, 2018 meeting, the Corporation's Board of Directors declared a quarterly dividend of CA 10.0¢ per share for the second quarter of fiscal 2019 to shareholders on record as at December 6, 2018, and approved its payment for December 20, 2018. This is an eligible dividend within the meaning of the *Income Tax Act* (Canada).