

Q1 2020

ALIMENTATION COUCHE-TARD INC.

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12-week period ended July 21, 2019



CONSOLIDATED STATEMENTS OF EARNINGS

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

For the 12-week periods ended	July 21, 2019	July 22, 2018
	\$	\$
Revenues	14,163.0	14,786.5
Cost of sales	11,854.0	12,569.4
Gross profit	2,309.0	2,217.1
Operating, selling, administrative and general expenses	1,240.1	1,312.5
Restructuring costs	-	1.5
Loss on disposal of property and equipment and other assets	10.1	0.2
Depreciation, amortization and impairment	307.1	301.5
Total operating expenses	1,557.3	1,615.7
Operating income	751.7	601.4
Share of earnings of joint ventures and associated companies	6.6	7.1
Financial expenses (Note 6)	84.0	79.4
Financial revenues	(3.5)	(2.7)
Foreign exchange loss	6.5	1.0
Net financial expenses	87.0	77.7
Earnings before income taxes	671.3	530.8
Income taxes	135.3	88.2
Net earnings including non-controlling interests	536.0	442.6
Net loss attributable to non-controlling interests	2.8	13.0
Net earnings attributable to shareholders of the Corporation	538.8	455.6
Net earnings per share (Note 8)		
Basic	0.96	0.81
Diluted	0.95	0.81
Weighted average number of shares – basic (in thousands)	564,184	564,223
Weighted average number of shares – diluted (in thousands)	565,030	564,945
Number of shares outstanding at the end of period (in thousands)	563,674	564,225

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 12-week periods ended	July 21, 2019	July 22, 2018
	\$	\$
Net earnings including non-controlling interests	536.0	442.6
Other comprehensive income (loss)		
Items that may be reclassified subsequently to earnings		
Translation adjustments		
Change in cumulative translation adjustments ⁽¹⁾	42.9	(82.9)
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⁾	21.5	(42.9)
Cash flow hedges		
Change in fair value of financial instruments ⁽²⁾	(0.2)	0.7
Loss realized on financial instruments transferred to earnings ⁽²⁾	-	0.8
Items that will never be reclassified to earnings		
Net actuarial loss ⁽³⁾	(1.8)	(7.3)
Loss on other assets measured at fair value through Other comprehensive income	(0.2)	-
Other comprehensive income (loss)	62.2	(131.6)
Comprehensive income including non-controlling interests	598.2	311.0
Comprehensive loss attributable to non-controlling interests	2.8	13.0
Comprehensive income attributable to shareholders of the Corporation	601.0	324.0

(1) For the 12-week periods ended July 21, 2019 and July 22, 2018, these amounts include a gain of \$111.9 (net of income taxes of \$17.1) and a loss of \$112.5 (net of income taxes of \$17.2), respectively. These losses and gains arise from the translation of long-term debts denominated in foreign currencies.

(2) For the 12-week periods ended July 21, 2019 and July 22, 2018, these amounts are net of income taxes of \$0.2 and nil, respectively.

(3) For the 12-week periods ended July 21, 2019 and July 22, 2018, these amounts are net of income taxes of \$0.5 and \$2.1, respectively.

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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in millions of US dollars, unaudited)

	Attributable to the shareholders of the Corporation						Non-controlling interests	Equity
	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss (Note 9)	Total			
	\$	\$	\$	\$	\$	\$	\$	
Balance, beginning of period	706.8	19.5	9,053.5	(856.6)	8,923.2	257.9	9,181.1	
Adoption of IFRS 16 (Note 2)			(9.5)		(9.5)	-	(9.5)	
Adjusted balance, beginning of period	706.8	19.5	9,044.0	(856.6)	8,913.7	257.9	9,171.6	
Comprehensive income:								
Net earnings (loss)			538.8		538.8	(2.8)	536.0	
Other comprehensive income				62.2	62.2	-	62.2	
Comprehensive income (loss)					601.0	(2.8)	598.2	
Dividends declared			(53.6)		(53.6)		(53.6)	
Distributions to non-controlling interests						(14.3)	(14.3)	
Assets exchange agreement (Note 5)			(6.4)		(6.4)	6.4	-	
Stock option-based compensation expense		1.3			1.3		1.3	
Repurchase and cancellation of shares (Note 10)	(1.3)		(44.9)		(46.2)		(46.2)	
Exercise of stock options	0.5	(0.5)			-		-	
Balance, end of period	706.0	20.3	9,477.9	(794.4)	9,409.8	247.2	9,657.0	

	Attributable to the shareholders of the Corporation						Non-controlling interests	Equity
	Capital stock	Contributed surplus	Retained earnings	Accumulated other comprehensive loss (Note 9)	Total			
	\$	\$	\$	\$	\$	\$	\$	
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			(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)			455.6		455.6	(13.0)	442.6	
Other comprehensive loss				(131.6)	(131.6)	-	(131.6)	
Comprehensive income (loss)					324.0	(13.0)	311.0	
Dividends declared			(43.3)		(43.3)		(43.3)	
Distributions to non-controlling interests						(14.0)	(14.0)	
Stock option-based compensation expense		1.4			1.4		1.4	
Exercise of stock options	0.5	(0.5)			-		-	
Balance, end of period	704.5	18.6	7,813.2	(697.9)	7,838.4	300.0	8,138.4	

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 12-week periods ended	July 21, 2019	July 22, 2018
	\$	\$
Operating activities		
Net earnings including non-controlling interests	536.0	442.6
Adjustments to reconcile net earnings including non-controlling interests to net cash provided by operating activities		
Depreciation, amortization and impairment and amortization of financing costs	309.8	306.4
Deferred income taxes	19.0	(14.4)
Loss on disposal of property and equipment and other assets	10.1	0.2
Share of earnings of joint ventures and associated companies, net of dividends received	(2.8)	(2.7)
Other	(6.8)	1.4
Changes in non-cash working capital	0.5	(19.0)
Net cash provided by operating activities	865.8	714.5
Investing activities		
Purchase of property and equipment, intangible assets and other assets	(246.8)	(202.0)
Proceeds from disposal of property and equipment and other assets	8.9	54.2
Business acquisitions (Note 3)	(7.0)	-
Change in restricted cash	5.6	(5.5)
Net cash used in investing activities	(239.3)	(153.3)
Financing activities		
Repayment of senior unsecured notes (Note 7)	(150.0)	-
Principal elements of lease payments and net decrease in other debts (Notes 2, 4 and 7)	(79.0)	(8.3)
Net decrease in term revolving unsecured operating credit D (Note 7)	(40.0)	(458.8)
Share repurchases (Note 10)	(14.4)	-
CAPL distributions paid to non-controlling interests (Note 5)	(14.3)	(14.0)
Net (decrease) increase in CAPL senior secured revolving credit facility (Note 7)	(9.2)	5.1
Settlement of derivative financial instruments	-	3.0
Net cash used by financing activities	(306.9)	(473.0)
Effect of exchange rate fluctuations on cash and cash equivalents	11.4	(15.0)
Net increase in cash and cash equivalents	331.0	73.2
Cash and cash equivalents, beginning of period	706.4	666.2
Cash and cash equivalents, end of period	1,037.4	739.4
Supplemental information:		
Interest paid	83.6	84.7
Interest and dividends received	9.4	5.4
Income taxes paid	27.3	49.4

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 July 21, 2019	As at April 28, 2019
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,037.4	706.4
Restricted cash	30.9	36.5
Accounts receivable	2,083.1	1,863.9
Inventories	1,502.1	1,467.7
Prepaid expenses	54.9	83.7
Other short-term financial assets (Note 12)	1.8	-
Income taxes receivable	34.2	163.1
	4,744.4	4,321.3
Property and equipment	10,833.6	11,129.9
Right-of-use assets (Notes 2 and 4)	2,780.7	-
Intangible assets	834.0	944.4
Goodwill	5,718.0	5,683.1
Other assets	333.8	306.6
Investment in joint ventures and associated companies	138.7	136.0
Deferred income taxes	48.4	86.4
	25,431.6	22,607.7
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	4,078.9	3,917.1
Short-term provisions	157.8	160.0
Other short-term financial liabilities (Note 12)	106.9	123.6
Income taxes payable	25.4	70.6
Current portion of long-term debt (Note 7)	1,094.7	1,310.7
Current portion of lease liabilities (Notes 2 and 4)	398.5	-
	5,862.2	5,582.0
Long-term debt (Note 7)	5,403.9	5,640.7
Lease liabilities (Notes 2 and 4)	2,513.3	-
Long-term provisions	589.0	590.1
Pension benefit liability	94.7	92.6
Other long-term financial liabilities (Note 12)	120.6	135.1
Deferred credits and other liabilities	176.6	349.0
Deferred income taxes	1,014.3	1,037.1
	15,774.6	13,426.6
Equity		
Capital stock (Note 10)	706.0	706.8
Contributed surplus	20.3	19.5
Retained earnings	9,477.9	9,053.5
Accumulated other comprehensive loss (Note 9)	(794.4)	(856.6)
Equity attributable to shareholders of the Corporation	9,409.8	8,923.2
Non-controlling interests (Note 5)	247.2	257.9
	9,657.0	9,181.1
	25,431.6	22,607.7

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 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 28, 2019, except for that pertaining to leases as a result of the adoption of IFRS 16 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 2019 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 September 4, 2019, the Corporation’s interim financial statements were approved by the Board of Directors.

2. ACCOUNTING POLICIES

New accounting policy adopted during the current year

Leases

In January 2016, the IASB issued IFRS 16, *Leases*, which replaces IAS 17, *Leases*. As of April 29, 2019, the Corporation has adopted the new standard which requires lessees to recognize and record on the balance sheet a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts except with respect to lease contracts that meet limited exception criteria.

The Corporation has adopted IFRS 16 retrospectively from April 29, 2019, but has not restated comparative figures for fiscal year 2019, as permitted under the specific transition provisions in the standard. Therefore, the cumulative effect of initially applying the new standard was recognized in the opening balance sheet on April 29, 2019 and comparative figures for fiscal year 2019 continue to be reported under IAS 17 and related interpretations, including IFRIC 4, *Determining whether an agreement contains a lease*.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirement for lessor accounting have remained largely unchanged.

Impact of the new definition of a lease

The Corporation has made use of the practical expedient available upon transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the Corporation will continue to apply the definition of a lease in accordance with IAS 17 and IFRIC 4 to those leases entered in or modified before April 29, 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration.

The Corporation assesses whether a contract is or contains a lease in accordance with the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after April 29, 2019.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Impact on accounting policies when the Corporation is the lessee

Leases previously classified as operating leases and lease contracts entered into or modified on or after April 29, 2019

IFRS 16 changes how the Corporation accounts for leases previously classified as operating leases under IAS 17, which were not recognized in the Corporation's consolidated balance sheet.

Applying IFRS 16, for all leases (except those meeting limited exception criteria, see below), the Corporation:

- Recognizes right-of-use assets and lease liabilities in the consolidated balance sheet;
- Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of earnings; and
- Separates the total amount paid in cash into a principal portion (presented within financing activities) and an interest portion (presented within operating activities) in the consolidated statement of cash flows.

The lease liability is initially measured at the net present value of future lease payments, discounted using the implicit interest rate of the lease, if that rate can be determined, or the Corporation's incremental borrowing rate. Future lease payments included in the measurement of the lease liability comprise of:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate;
- Amounts expected to be payable by the lessee under residual value guarantees;
- The exercise price of a purchase option if the Corporation is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The interest expense is charged to Financial expenses on the consolidated statement of earnings over the lease period so as to produce a constant periodic interest rate on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Any restoration costs of the underlying asset.

Right-of-use assets are subsequently measured at cost less accumulated depreciation, amortization and impairment and are depreciated over the shorter period of the lease term and useful life of the underlying asset.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets*. This replaces the previous requirement to recognize a provision for onerous lease contracts.

Lease incentives are recognized as part of the measurement of the right-of-use asset and lease liability whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortized as a reduction of rental expenses on a straight-line basis.

Variable lease payments that are not based on an index or a rate are not included in the measurement of both the lease liabilities and the right-of-use assets. The related payments are recognized as an expense in the period in which the conditions that trigger those payments occur and are recorded as Operating, selling, administrative and general expenses in the consolidated statement of earnings.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Corporation has opted to recognize a lease expense on a straight-line basis over the lease term as permitted by IFRS 16. This expense is presented within Operating, selling, administrative and general expenses in the consolidated statement of earnings.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation remeasures the lease liability (and makes a corresponding adjustment to the related right-of use asset) whenever:

- The lease term, assessment of a purchase option or termination penalties have changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate; and
- Change in the future lease payments resulting from changes in an index or rate or change in amounts expected to be payable under residual value guarantees, in which cases the lease liability is remeasured by discounting the revised lease payments using the same discount rate used when initially setting up the liability.

In determining the lease term, the Corporation considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods subject to termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the Corporation's control.

Leases previously classified as finance leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Corporation recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This difference did not have a material effect on the Corporation's interim financial statements.

Impact on accounting policies when the Corporation is the lessor

The Corporation enters into lease agreements as a lessor with respect to properties. IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types differently. Whenever the terms of the lease transfer substantially all the risks and reward of the ownership of the underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. Whenever it is determined that a lease where the Corporation is the lessor is a finance lease, the present value of the amounts due from the lessee are recognized as the Corporation's net investment in the lease which is recorded under Other assets on the consolidated balance sheet. The net investment in the lease is subsequently measured by increasing the carrying amount to reflect interest revenue (using the effective interest method) and by reducing the carrying amount of the net investment to reflect the lease payments received. Payments received in relation with operating leases are recognized as Other revenues on a straight-line basis over the term of the relevant lease in the consolidated statement of earnings.

Under IFRS 16, when the Corporation is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as it was the case under IAS 17).

Impact of the adoption of the new standard on the Corporation's interim financial statements

Upon adoption of IFRS 16, the Corporation recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17. These liabilities were measured at the net present value of the remaining lease payments that are not paid at adoption date, discounted using the Corporation's incremental borrowing rate as of April 29, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on April 29, 2019 was 3.31%.

	<u>As at April 29, 2019</u>
	\$
Operating lease commitments disclosed as at April 28, 2019	3,260.7
Discounted using the Corporation's incremental borrowing rate as at April 29, 2019	2,769.3
Add: finance lease liabilities recognized as at April 28, 2019	328.3
(Less): short-term leases recognized on a straight-line basis as expense	(132.5)
(Less): low-value assets leases recognized on a straight-line basis as expense	(2.0)
Add/(less): adjustments relating to changes in the index or rate affecting variable payments	(7.9)
Other	(3.0)
Lease liabilities recognized as at April 29, 2019	2,952.2
Of which are:	
Current lease liabilities	382.9
Non-current lease liabilities	2,569.3

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The associated rights-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet as at April 28, 2019.

As at April 29, 2019, the recognized right-of-use assets relate to the following underlying asset classes:

	<u>As at April 29, 2019</u>
	\$
Properties	2,789.8
Motor vehicles	37.6
Equipment	7.6
	<u>2,835.0</u>

The adoption of IFRS 16 affected the following items in the opening balance sheet on April 29, 2019:

	<u>Balance, beginning of period</u>	<u>Adoption of IFRS 16</u>	<u>Adjusted balance, beginning of period</u>
	\$	\$	\$
Assets			
Current assets			
Prepaid expenses	83.7	(26.4)	57.3
Property and equipment ^(a)	11,129.9	(306.5)	10,823.4
Right-of-use assets	-	2,835.0	2,835.0
Intangible assets	944.4	(104.5)	839.9
Other assets	306.6	27.7	334.3
Total assets	22,607.7	2,425.3	25,033.0
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	3,917.1	(24.6)	3,892.5
Current portion of long-term debt	1,310.7	(40.5)	1,270.2
Current portion of lease liabilities	-	382.9	382.9
Long-term debt	5,640.7	(287.8)	5,352.9
Lease liabilities	-	2,569.3	2,569.3
Long-term provisions	590.1	(3.0)	587.1
Deferred credits and other liabilities	349.0	(158.3)	190.7
Deferred income taxes	1,037.1	(3.2)	1,033.9
Total liabilities	13,426.6	2,434.8	15,861.4
Equity			
Retained earnings	9,053.5	(9.5)	9,044.0
Total equity	9,181.1	(9.5)	9,171.6

(a) Adoption of IFRS 16 had an impact of \$143.2 on Land, \$105.2 on Buildings and building components and \$58.1 on Equipment.

In applying IFRS 16 for the first time, the Corporation has used the following practical expedients permitted by the standard for certain of its leases:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of the provision for onerous leases as an alternative to performing an impairment review;
- The accounting for operating leases with a remaining lease term of less than 12 months as at April 29, 2019 as short-term leases;
- The right to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Corporation has also selected to use the practical expedient permitting not to separate non-lease components, and to instead account for any lease and associated non-lease components as a single lease component. Non-lease components include, but are not limited to, utility charges and common area maintenance charges when those charges are fixed over the term of the lease.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

3. BUSINESS ACQUISITIONS

During the 12-week period ended July 21, 2019, the Corporation acquired eight company-operated stores through distinct transactions. The Corporation owns the land and building for three sites and leases the land and the building for the remaining five sites. These transactions were settled for a total consideration of \$7.0 using available cash and existing credit facilities and generated goodwill for an amount of \$2.8.

Acquisition costs of \$0.2 in connection with these acquisitions and other unrealized and ongoing acquisitions are included in Operating, selling, administrative and general expenses for the 12-week period ended July 21, 2019.

4. LEASES

Information about leases for which the Corporation is a lessee is presented below:

Right-of-use assets

As at July 21, 2019, the right-of-use assets were attributable to the following underlying asset classes:

	<u>As at July 21, 2019</u>
	\$
Properties	2,736.4
Motor vehicles	36.8
Equipment	7.5
	<u>2,780.7</u>

Additions to the right-of-use assets during the 12-week period ended July 21, 2019 amounted to \$14.8.

Amounts recognized in the consolidated statement of earnings

<u>For the 12-week period ended</u>	<u>July 21, 2019</u>
	\$
Depreciation and amortization of right-of-use assets by class of underlying asset:	
Properties	90.1
Motor vehicles	1.4
Equipment	0.1
Interest expense on lease liabilities	21.9
Expenses relating to short-term leases	2.2
Expenses relating to leases of low-value assets	0.2
Expenses relating to variable lease payments not included in the measurement of lease liabilities	4.0
Income from subleasing right-of-use assets	12.2

Amounts recognized in the consolidated statement of cash flows

<u>For the 12-week period ended</u>	<u>July 21, 2019</u>
	\$
Total cash outflow for leases	106.4

As at July 21, 2019, the Corporation leases mainly lands, buildings, building components, equipment and motor vehicles. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions. The lease terms, for the majority of leases in North America, vary between 5 and 20 years, which include the initial base term and renewal option(s) when applicable. In Europe, the lease terms range from less than 12 months contracts to contracts with maturities up to more than 50 years and also include options to renew at market prices when applicable. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Some of property leases contain variable payment term that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on the basis of variable payment terms and there is a wide range of sales percentages applied. Variable payment terms are used for a variety of reasons, including minimizing the fixed costs base for newly established stores. Variable lease payments that depends on sales are recognized in earnings in the period in which the conditions that triggers those payments occurs.

Extension and termination options are included in a number of leases across the Corporation. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Corporation and not by the respective lessor.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

5. CROSSAMERICA PARTNERS LP (“CAPL”)

As at July 21, 2019, 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 12-week period ended July 21, 2019 include those of CAPL for the period beginning April 1, 2019 and ending June 30, 2019, adjusted for significant transactions, if any. The consolidated balance sheet as at July 21, 2019 includes the balance sheet of CAPL as at June 30, 2019, adjusted for significant transactions, if any.

The table below highlights the results of CAPL’s operations and certain of its financial metrics which are in accordance with IFRS:

	April 1, 2019 to June 30, 2019	April 1, 2018 to June 30, 2018
Statements of Earnings for the periods from⁽¹⁾		
	\$	\$
Revenues	613.0	675.3
Gross profit	53.5	48.2
Total operating expenses (excluding depreciation, amortization and impairment)	21.7	29.8
Depreciation, amortization and impairment	22.9	88.3
Net financial expenses	11.3	7.0
Loss before income taxes	(2.4)	(76.9)
Income tax expense (recovery)	1.2	(5.3)
Net loss	(3.6)	(71.6)
Statements of Cash Flows for the periods from⁽¹⁾		
	\$	\$
Net cash provided by operating activities	23.6	15.0
Net cash provided by (used in) investing activities	0.9	(4.5)
Net cash used in financing activities, including \$3.9 and \$3.9 of distributions paid to the Corporation, respectively	(28.5)	(9.6)
Balance Sheets as at⁽¹⁾	June 30, 2019	March 31, 2019
	\$	\$
Cash and cash equivalents	2.3	6.3
Current assets (other than cash and cash equivalents)	44.8	49.5
Long-term assets	1,204.6	1,089.6
Current liabilities	81.3	64.7
Long-term liabilities	789.3	676.0

(1) Adjusted for significant transactions, if any.

Asset exchange agreement

On December 17, 2018, the Corporation entered into an asset exchange agreement with CAPL under which 192 of the Circle K U.S. company-operated stores will be exchanged against the real estate property held by CAPL for 56 U.S. company operated stores leased and operated by the Corporation pursuant to a master lease that CAPL had previously purchased jointly with or from CST Brands Inc., and 17 company-operated stores owned and operated by CAPL in the U.S. Upper Midwest. The aggregate value of this agreement is approximately \$185.0.

In May 2019, the Corporation closed the first transaction of the asset exchange agreement between CAPL and the Corporation’s wholly owned operations. In this first transaction, 60 Circle K U.S. stores have been exchanged against 17 company-operated stores owned and operated by CAPL and the real estate for 8 properties held by CAPL, for a total value of approximately \$58.0. The transaction had no impact on the Corporation’s interim financial statements with the exception of a reclassification of \$6.4 between equity attributable to the shareholders of the Corporation and equity attributable to the non-controlling interests. Following the exchange transaction, the Corporation performed a re-evaluation of its deferred tax assets and liabilities which generated an income tax expense of \$4.5, of which, \$3.5 is attributable to shareholders of the Corporation. The remaining tranches are expected to be completed by the end of the first quarter of calendar year 2020.

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

6. FINANCIAL EXPENSES

For the 12-week periods ended	July 21, 2019	July 22, 2018
	\$	\$
Interest on long-term debt	53.6	65.5
Interest on lease liabilities (Interest on finance lease obligations) (Note 4)	21.9	5.9
Accretion of provisions	3.8	3.8
Interest on bank overdrafts and bank loans	0.7	0.6
Net interest on defined benefit plans	0.4	0.4
Other finance costs	3.6	3.2
	<u>84.0</u>	<u>79.4</u>

7. LONG-TERM DEBT

	As at July 21, 2019	As at April 28, 2019
	\$	\$
US-dollar-denominated senior unsecured notes, maturing from December 2019 to July 2047 ^(a)	3,233.8	3,379.9
Canadian-dollar-denominated senior unsecured notes, maturing from November 2019 to June 2025	1,834.2	1,774.5
Euro-denominated senior unsecured notes, maturing in May 2026	838.2	831.2
CAPL US-dollar-denominated senior secured revolving credit facility, without recourse to the Corporation, maturing in April 2024 ^(b)	507.1	514.8
NOK-denominated senior unsecured notes, maturing in February 2026	78.5	77.4
US-dollar-denominated term revolving unsecured operating credit D, maturing in December 2023 ^(c)	-	40.0
Other debts (Obligations related to buildings and equipment under finance leases, payable on various dates, and other debts)	6.8	333.6
	<u>6,498.6</u>	<u>6,951.4</u>
Current portion of long-term debt	1,094.7	1,310.7
Long-term portion of long-term debt	<u>5,403.9</u>	<u>5,640.7</u>

(a) US-dollar-denominated senior unsecured notes

On May 28, 2019, the Corporation repaid, without penalty, \$150.0 on its \$300.0 US-dollar-denominated senior unsecured notes issued on December 14, 2017 and maturing on December 13, 2019.

On August 13, 2019, subsequent to the end of the first quarter of fiscal 2020, the Corporation repaid, without penalty, the remaining \$150.0 of these \$300.0 US-dollar-denominated senior unsecured notes.

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

As at July 21, 2019, the effective interest rate was 4.66% and CAPL was in compliance with the restrictive provisions and ratios imposed by the credit agreement.

(c) Term revolving unsecured operating credit D

As at July 21, 2019, the Corporation was in compliance with the restrictive provisions and ratios imposed by the credit agreement.

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 July 21, 2019		12-week period ended July 22, 2018			
	Net earnings \$	Weighted average number of shares (in thousands)	Net earnings per share \$	Net earnings \$		Weighted average number of shares (in thousands)
Basic net earnings attributable to Class A and B shareholders	538.8	564,184	0.96	455.6	564,223	0.81
Dilutive effect of stock options	-	846	(0.01)	-	722	-
Diluted net earnings available for Class A and B shareholders	<u>538.8</u>	<u>565,030</u>	<u>0.95</u>	455.6	564,945	0.81

When they have an antidilutive effect, stock options must be excluded from the calculation of the diluted net earnings per share. For the 12-week periods ended July 21, 2019 and July 22, 2018, 123,334 and 683,244 stock options were excluded, respectively.

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9. ACCUMULATED OTHER COMPREHENSIVE LOSS

As at July 21, 2019

	Attributable to shareholders of the Corporation					
	Items that may be reclassified to earnings			Will never be reclassified to earnings		
	Cumulative translation adjustments	Net investment hedge	Cash flow hedge	Cumulative net actuarial loss	Other assets measured at fair value through Other comprehensive income	Accumulated other comprehensive loss
	\$	\$	\$	\$	\$	\$
Balance, before income taxes	(453.2)	(332.4)	(7.4)	(9.2)	(0.2)	(802.4)
Less: Income taxes	-	(5.7)	1.1	(3.4)	-	(8.0)
Balance, net of income taxes	(453.2)	(326.7)	(8.5)	(5.8)	(0.2)	(794.4)

As at July 22, 2018

	Attributable to shareholders of the Corporation					
	Items that may be reclassified to earnings			Will never be reclassified to earnings		
	Cumulative translation adjustments	Net investment hedge	Cash flow hedge	Cumulative net actuarial loss	Other assets measured at fair value through Other comprehensive income	Accumulated other comprehensive loss
	\$	\$	\$	\$	\$	\$
Balance, before income taxes	(370.3)	(309.3)	(12.5)	(12.5)	-	(704.6)
Less: Income taxes	-	(2.7)	(0.5)	(3.5)	-	(6.7)
Balance, net of income taxes	(370.3)	(306.6)	(12.0)	(9.0)	-	(697.9)

10. CAPITAL STOCK

Issued and outstanding shares

As at July 21, 2019, the Corporation had 126,903,950 issued and outstanding Class A multiple-voting shares (126,908,950 as at April 28, 2019), with each share comprising 10 votes, and 436,769,666 issued and outstanding Class B subordinate voting shares (437,501,910 as at April 28, 2019), with each share comprising 1 vote.

The changes in the number of outstanding shares are as follows:

	<u>July 21, 2019</u>
Class A multiple voting shares	
Balance, beginning of year	126,908,950
Conversion into Class B shares	<u>(5,000)</u>
Balance, end of year	<u>126,903,950</u>
Class B subordinate voting shares	
Balance, beginning of year	437,501,910
Issued on conversion of Class A shares	5,000
Repurchased and cancelled shares ^(a)	<u>(764,174)</u>
Issuance of shares on stock options exercised	26,930
Balance, end of year	<u>436,769,666</u>

(a) Share repurchase program

During the first quarter of fiscal 2020, the Corporation repurchased 764,174 Class B subordinate voting shares under its share repurchase program, for a net amount of \$46.2, out of which \$31.8 is recorded in Accounts payable and accrued liabilities as at July 21, 2019.

In addition, subsequent to the end of the quarter, the Corporation repurchased 740,892 Class B subordinate voting shares under its share repurchase program, for a net amount of \$45.1.

All shares repurchased were cancelled.

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Stock options

For the 12-week period ended July 21, 2019, a total of 28,264 stock options were exercised (8,100 for the 12-week period ended July 22, 2018).

For the 12-week period ended July 21, 2019, a total of 123,334 stock options were granted (163,593 for the 12-week period ended July 22, 2018). The description of the Corporation's stock-based compensation plan is included in Note 25 of the audited annual consolidated financial statements presented in the Corporation's 2019 Annual Report.

The weighted average fair value of stock options granted for the 12-week period ended July 21, 2019 was CA \$20.96 per option, which was estimated at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions for the stock options granted during the period:

- Expected quarterly dividend of CA \$0.125 per share;
- Expected volatility of 23%;
- Risk-free interest rate of 1.56%;
- 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 and Mac's. 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 July 21, 2019				12-week period ended July 22, 2018			
	United States	Europe	Canada	Total	United States	Europe	Canada	Total
	\$	\$	\$	\$	\$	\$	\$	\$
External customer revenues^(a)								
Merchandise and services	2,677.1	353.1	575.6	3,605.8	2,634.7	368.7	544.4	3,547.8
Road transportation fuel	7,247.5	1,919.8	1,201.4	10,368.7	7,652.9	1,952.5	1,291.8	10,897.2
Other	28.6	155.1	4.8	188.5	16.3	319.0	6.2	341.5
	9,953.2	2,428.0	1,781.8	14,163.0	10,303.9	2,640.2	1,842.4	14,786.5
Gross Profit								
Merchandise and services	909.0	146.5	189.5	1,245.0	880.6	156.3	187.9	1,224.8
Road transportation fuel	695.6	222.2	81.5	999.3	586.6	246.5	100.0	933.1
Other	28.6	31.3	4.8	64.7	16.2	36.8	6.2	59.2
	1,633.2	400.0	275.8	2,309.0	1,483.4	439.6	294.1	2,217.1
Total long-term assets^(b)	14,040.9	3,926.1	2,596.6	20,563.6	12,455.1	3,607.8	2,138.6	18,201.5

(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.

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 carrying values of 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.

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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 indexed deposit contract, which is mainly based on the fair market value of the Corporation's Class B shares, was \$59.8 as at July 21, 2019 (\$49.5 as at April 28, 2019) (Level 2). As at July 21, 2019, they are presented as Accounts receivable for an amount of \$20.8 (\$9.8 as at April 28, 2019) and Other assets for an amount of \$39.0 (\$39.7 as at April 28, 2019) on the consolidated balance sheets; and
- The fair value of the cross-currency interest rate swaps, which is determined based on market rates, was \$226.5 as at July 21, 2019 (\$250.1 as at April 28, 2019) (Level 2). As at July 21, 2019, they are presented as Other short term financial liabilities for an amount of \$105.9 (\$115.0 as at April 28, 2019) and Other long-term financial liabilities for an amount of \$120.6 (\$135.1 as at April 28, 2019) 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 \$1.0 as at July 21, 2019 (\$3.9 as at April 28, 2019) (Level 2). They are presented as Other short-term financial liabilities on the consolidated balance sheets; and
- The fair value of the fuel swaps, which is determined based on market rates, was \$1.8 as at July 21, 2019 (\$4.7 as at April 28, 2019) (Level 2). They are presented as Other short-term financial assets as at July 21, 2019 and as Other short-term financial liabilities as at April 28, 2019 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 July 21, 2019		As at April 28, 2019	
	Carrying value	Fair value	Carrying value	Fair value
	\$	\$	\$	\$
US-dollar-denominated senior unsecured notes	3,233.8	3,279.4	3,379.9	3,347.6
Canadian-dollar-denominated senior unsecured notes	1,834.2	1,894.0	1,774.5	1,815.0
Euro-denominated senior unsecured notes	838.2	900.9	831.2	869.2
NOK-denominated senior unsecured notes	78.5	86.0	77.4	86.0

13. SUBSEQUENT EVENTS

Dividends

During its September 4, 2019 meeting, the Board of Directors declared a quarterly dividend of CA 12.5¢ per share, before the share split described below, for the first quarter of fiscal 2020 to shareholders on record as at September 13, 2019, and approved its payment for September 27, 2019. This is an eligible dividend within the meaning of the *Income Tax Act* (Canada).

Class A multiple-voting shares and Class B subordinate voting shares split

During its September 4, 2019 meeting, the Board of Directors approved a two-for-one split of all the Corporation's issued and outstanding Class A multiple-voting shares and Class B subordinate voting shares on record as at September 20, 2019 and payable on September 27, 2019. This share split was approved by regulatory authorities.

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Investment in Fire & Flower Holdings Corp.

On August 7, 2019, subsequent to the end of the quarter, the Corporation closed an investment in Fire & Flower Holdings Corp. ("Fire & Flower"), a leading independent cannabis retailer based in Alberta, Canada. The Corporation invested approximately \$26.0 in the form of unsecured convertible debentures to obtain a 9.9% ownership interest in Fire & Flower upon conversion. The Corporation has also been issued Common Share purchase warrants, that, if exercised in full in accordance with the terms thereof, would subsequently increase its ownership interest to 50.1%.