

## Management's Discussion and Analysis

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## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's first quarter 2019 unaudited interim period condensed consolidated financial statements and the accompanying notes included in this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended December 29, 2018 and the related annual MD&A included in the Company's 2018 Annual Report – Financial Review ("2018 Annual Report").

The Company's first quarter 2019 unaudited interim period condensed consolidated financial statements and the accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). These unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars.

Management uses non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing consolidated and segment underlying operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring. See Section 12 "Non-GAAP Financial Measures" for more information on the Company's non-GAAP financial measures.

A glossary of terms used throughout this Quarterly Report can be found on page 140 of the Company's 2018 Annual Report.

The information in this MD&A is current to April 30, 2019, unless otherwise noted.

On December 30, 2018, the Company implemented IFRS 16, "Leases" ("IFRS 16"), replacing International Accounting Standard 17, "Leases" ("IAS 17") and related interpretations. The standard introduced a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard using the modified retrospective approach. As a result, the Company's first quarter of 2019 results reflect lease accounting under IFRS 16. Under IFRS 16, the depreciation expense on right-of-use assets and interest expense on lease liabilities replaces rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease. Prior year results have not been restated.

On November 1, 2018, the Company and its parent George Weston Limited ("Weston") completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties") to Weston on a tax-free basis to the Company and its Canadian shareholders ("the reorganization" or "the spin-out"). The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. As a result of the spin-out, buildings owned by Choice Properties and leased by the Company are accounted for as leases and no longer accounted for as owned property. The building components associated with these leases post spin-out are classified as leasehold improvements resulting in incremental depreciation expense.

See Section 3 Consolidated Results of Operations "Other Business Matters" of this MD&A for more information on the implementation of IFRS 16 and the spin-out related incremental depreciation.

### 1. Forward-Looking Statements

This Quarterly Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 3 "Consolidated Results of Operations", "Section 4.1 "Retail Segment" Other Retail Business Matters, Section 4.2 "Financial Services Segment", Section 5 "Liquidity and Capital Resources", Section 11 "Outlook" and Section 12 "Non-GAAP Financial Measures" of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2019 is based on certain assumptions including assumptions about healthcare reform impacts, anticipated cost savings and operating efficiencies from Process and Efficiency initiatives and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 "Enterprise Risks and Risk Management" of the Company's 2018 Annual Report, and the Company's 2018 Annual Information Form ("AIF") (for the year ended December 29, 2018). Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies or organizational changes that may impact the relationships with franchisees and associates;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- adverse outcomes of legal and regulatory proceedings and related matters;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements; and
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2018 AIF (for the year ended December 29, 2018). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## 2. Key Financial Performance Indicators

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations and includes the impacts of spin-out related incremental depreciation, the implementation of IFRS 16 and the consolidation of franchises.

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

| As at or for the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | 2019<br>(12 weeks) | 2018 <sup>(4)</sup><br>(12 weeks) |
|---|--------------------|-----------------------------------|
| <b>Consolidated:</b>  |                    |                                   |
| Revenue growth  | 3.1%               | (0.4)%                            |
| Operating Income  | \$ 451             | \$ 376                            |
| Adjusted EBITDA <sup>(2)</sup>  | 1,040              | 733                               |
| Adjusted EBITDA margin <sup>(2)</sup>   | 9.8%               | 7.1 %                             |
| Net earnings  | \$ 206             | \$ 375                            |
| Continuing Operations   | 206                | 210                               |
| Discontinued Operations   | —                  | 165                               |
| Net earnings attributable to shareholders of the Company from Continuing Operations   | 201                | 215                               |
| Net earnings available to common shareholders of the Company <sup>(i)</sup>   | 198                | 377                               |
| Continuing Operations   | 198                | 212                               |
| Discontinued Operations   | —                  | 165                               |
| Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup>  | 290                | 361                               |
| Continuing Operations   | 290                | 312                               |
| Discontinued Operations   | —                  | 49                                |
| Diluted net earnings per common share (\$)  | \$ 0.53            | \$ 0.98                           |
| Continuing Operations   | \$ 0.53            | \$ 0.55                           |
| Discontinued Operations   | \$ —               | \$ 0.43                           |
| Adjusted diluted net earnings per common share <sup>(2)</sup> (\$)  | \$ 0.78            | \$ 0.94                           |
| Continuing Operations   | \$ 0.78            | \$ 0.81                           |
| Discontinued Operations   | \$ —               | \$ 0.13                           |
| Cash and cash equivalents and short term investments  | 1,002              | 1,719                             |
| Cash flows from operating activities <sup>(iii)</sup>   | 960                | 434                               |
| Free cash flow <sup>(2)(iii)</sup>  | 419                | 57                                |
| <b>Financial Measures:</b>  |                    |                                   |
| Retail debt to rolling year retail adjusted EBITDA <sup>(2)</sup>   | 3.1x               | 1.9x                              |
| Rolling year adjusted return on equity <sup>(2)</sup>   | 13.5%              | 12.9 %                            |
| Rolling year adjusted return on capital <sup>(2)</sup>  | 7.7%               | 9.7 %                             |
| <b>Retail Segment:</b>  |                    |                                   |
| Food retail same-store sales growth   | 2.0%               | 1.9 %                             |
| Drug retail same-store sales growth   | 2.2%               | 3.7 %                             |
| Operating Income  | \$ 401             | \$ 300                            |
| Adjusted gross profit <sup>(2)</sup>  | 3,097              | 2,988                             |
| Adjusted gross profit % <sup>(2)</sup>  | 29.6%              | 29.4 %                            |
| Adjusted EBITDA <sup>(2)</sup>  | \$ 985             | \$ 672                            |
| Adjusted EBITDA margin <sup>(2)</sup>   | 9.4%               | 6.6 %                             |
| <b>Financial Services Segment:</b>  |                    |                                   |
| Earnings before income taxes  | \$ 31              | \$ 61                             |
| Annualized yield on average quarterly gross credit card receivables   | 13.8%              | 13.4 %                            |
| Annualized credit loss rate on average quarterly gross credit card receivables  | 3.3%               | 3.5 %                             |

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

(ii) Includes amounts from Continuing and Discontinued Operations.

### 3. Consolidated Results of Operations

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations and includes the impacts of spin-out related incremental depreciation, the implementation of IFRS 16 and the consolidation of franchises.

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | <b>2019</b><br><b>(12 weeks)</b> | 2018 <sup>(4)</sup><br>(12 weeks) | \$ Change | % Change |
|--|----------------------------------|-----------------------------------|-----------|----------|
| <b>Revenue</b>   | <b>\$ 10,659</b>                 | \$ 10,335                         | \$ 324    | 3.1 %    |
| <b>Operating income</b>  | <b>451</b>                       | 376                               | 75        | 19.9 %   |
| Adjusted EBITDA <sup>(2)</sup>   | <b>1,040</b>                     | 733                               | 307       | 41.9 %   |
| Adjusted EBITDA margin <sup>(2)</sup>  | <b>9.8%</b>                      | 7.1%                              |           |          |
| <b>Depreciation and amortization</b>   | <b>\$ 580</b>                    | \$ 341                            | \$ 239    | 70.1 %   |
| <b>Net interest expense and other financing charges</b>  | <b>173</b>                       | 89                                | 84        | 94.4 %   |
| Adjusted net interest expense and other financing charges <sup>(2)</sup>   | <b>173</b>                       | 89                                | 84        | 94.4 %   |
| <b>Income taxes</b>  | <b>72</b>                        | 77                                | (5)       | (6.5)%   |
| Adjusted income taxes <sup>(2)</sup>   | <b>108</b>                       | 114                               | (6)       | (5.3)%   |
| Adjusted income tax rate <sup>(2)</sup>  | <b>26.6%</b>                     | 26.9%                             |           |          |
| <b>Net earnings attributable to shareholders of the Company from Continuing Operations</b>                                 | <b>\$ 201</b>                    | \$ 215                            | \$ (14)   | (6.5)%   |
| <b>Net earnings available to common shareholders of the Company<sup>(i)</sup></b>  | <b>198</b>                       | 377                               | (179)     | (47.5)%  |
| Continuing Operations  | <b>198</b>                       | 212                               | (14)      | (6.6)%   |
| Discontinued Operations  | <b>—</b>                         | 165                               | (165)     | (100.0)% |
| <b>Adjusted net earnings available to common shareholders of the Company<sup>(2)</sup></b>                                 | <b>\$ 290</b>                    | \$ 361                            | \$ (71)   | (19.7)%  |
| Continuing Operations  | <b>290</b>                       | 312                               | (22)      | (7.1)%   |
| Discontinued Operations  | <b>—</b>                         | 49                                | (49)      | (100.0)% |
| <b>Diluted net earnings per common share (\$)</b>  | <b>\$ 0.53</b>                   | \$ 0.98                           | \$ (0.45) | (45.9)%  |
| Continuing Operations  | <b>\$ 0.53</b>                   | \$ 0.55                           | \$ (0.02) | (3.6)%   |
| Discontinued Operations  | <b>\$ —</b>                      | \$ 0.43                           | \$ (0.43) | (100.0)% |
| <b>Adjusted diluted net earnings per common share<sup>(2)</sup> (\$)</b>   | <b>\$ 0.78</b>                   | \$ 0.94                           | \$ (0.16) | (17.0)%  |
| Continuing Operations  | <b>\$ 0.78</b>                   | \$ 0.81                           | \$ (0.03) | (3.7)%   |
| Discontinued Operations  | <b>\$ —</b>                      | \$ 0.13                           | \$ (0.13) | (100.0)% |
| <b>Diluted weighted average common shares outstanding (in millions)</b>  | <b>371.4</b>                     | 384.5                             |           |          |

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

**Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations**

Net earnings available to common shareholders of the Company from Continuing Operations in the first quarter of 2019 were \$198 million (\$0.53 per common share), a decrease of \$14 million (\$0.02 per common share) compared to the first quarter of 2018. The decrease included the unfavourable impact of spin-out related incremental depreciation of approximately \$16 million (\$0.04 per common share) and the unfavourable impact of the implementation of IFRS 16 of approximately \$6 million (\$0.02 per common share). Normalized for these impacts, net earnings available to common shareholders of the Company from Continuing Operations increased by \$8 million (\$0.04 per common share) which included flat underlying operating performance and the favourable year-over-year net impact of adjusting items totaling \$8 million, as described below:

- the underlying operating performance was flat (flat per common share) primarily due to the following:
  - the improvement in underlying operating performance in the Retail segment (excluding the impact of the consolidation of franchises), driven by an increase in adjusted gross profit<sup>(2)</sup>, partially offset by an increase in selling, general and administrative expenses ("SG&A") and an increase in depreciation and amortization;
 offset by,
  - the decline in underlying operating performance of the Financial Services segment, driven by lower core banking income attributable to the discontinuation of the personal banking services under the President's Choice Financial<sup>®</sup> ("PC Financial") brand, partially offset by higher interest income attributable to the growth in the credit card portfolio.
- the favourable year-over-year net impact of adjusting items totaling \$8 million (\$0.01 per common share) was primarily due to the following:
  - the year-over-year favourable impact of a prior year inventory charge related to healthcare reform of \$14 million (\$0.04 per common share); and
  - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$14 million (\$0.04 per common share);
 partially offset by,
  - the year-over-year unfavourable impact of prior year income earned, net of certain costs incurred, from the wind-down of PC Financial personal banking services of \$13 million (\$0.03 per common share); and
  - the year-over-year unfavourable impact of restructuring and other related costs of \$9 million (\$0.02 per common share).
- diluted net earnings from Continuing Operations per common share also included the favourable impact of the repurchase of common shares over the last 12 months (\$0.03 per common share).

Adjusted net earnings available to common shareholders of the Company<sup>(2)</sup> from Continuing Operations in the first quarter of 2019 were \$290 million, a decrease of \$22 million compared to the first quarter of 2018. Normalized for the year-over-year impact of spin-out related incremental depreciation and the implementation of IFRS 16, adjusted net earnings available to common shareholders of the Company<sup>(2)</sup> were flat at \$312 million. Adjusted net earnings per common share<sup>(2)</sup> were \$0.78, a decrease of \$0.03, or 3.7%, compared to the first quarter of 2018. Normalized for the year-over-year impact of spin-out related incremental depreciation and the implementation of IFRS 16, adjusted diluted net earnings per common share<sup>(2)</sup> increased by approximately 3.7% or \$0.03 per common share and was \$0.84 per common share. The increase included the favourable impact of the repurchase of common shares.

**Discontinued Operations** Net earnings available to common shareholders of the Company from Discontinued Operations was nil in the first quarter of 2019, a decrease of \$165 million (\$0.43 per share) compared to the first quarter of 2018.

**Revenue**

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | <b>2019<br/>(12 weeks)</b> | 2018 <sup>(4)</sup><br>(12 weeks) | \$ Change | % Change |
|--|----------------------------|-----------------------------------|-----------|----------|
| Retail   | \$ 10,452                  | \$ 10,155                         | \$ 297    | 2.9 %    |
| Financial Services   | 266                        | 230                               | 36        | 15.7 %   |
| Consolidation and Eliminations   | (59)                       | (50)                              | (9)       | (18.0)%  |
| Revenue from Continuing Operations   | <b>\$ 10,659</b>           | \$ 10,335                         | \$ 324    | 3.1 %    |

Revenue was \$10,659 million in the first quarter of 2019, an increase of \$324 million, or 3.1%, compared to the first quarter of 2018, primarily due to an increase in the Retail segment sales of \$297 million. Excluding the consolidation of franchises, Retail segment sales increased by \$197 million, or 2.0%, due to positive same-store sales growth. The increase was also due to an increase in Financial Services segment sales of \$36 million, driven by higher interest income and higher year-over-year sales attributable to *The Mobile Shop*.

**Operating Income** Operating income was \$451 million in the first quarter of 2019, an increase of \$75 million compared to the first quarter of 2018. The increase in operating income included the favourable impact of IFRS 16 of approximately \$75 million and the unfavourable impact of spin-out related incremental depreciation of approximately \$22 million. Normalized for these impacts, operating income increased by \$22 million due to improvements in underlying operating performance of \$13 million and the favourable year-over-year net impact of adjusting items totaling \$9 million, as described below:

- the improvement in underlying operating performance of \$13 million was primarily due to the Retail segment, including the favourable contribution from the consolidation of franchises of \$15 million, partially offset by the decline in underlying operating performance of the Financial Services segment; and
- the favourable year-over-year net impact of adjusting items totaling \$9 million primarily due to the following:
  - the year-over-year favourable impact of a prior year inventory charge related to healthcare reform of \$19 million; and
  - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$19 million; partially offset by,
    - the year-over-year unfavourable impact of prior year income earned, net of certain costs incurred, from the wind-down of *PC Financial* personal banking services of \$17 million; and
    - the year-over-year unfavourable impact of restructuring and other related costs of \$12 million.

#### Adjusted EBITDA<sup>(2)</sup>

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | 2019<br>(12 weeks) | 2018 <sup>(4)</sup><br>(12 weeks) | \$ Change | % Change |
|--|--------------------|-----------------------------------|-----------|----------|
| Retail   | \$ 985             | \$ 672                            | \$ 313    | 46.6 %   |
| Financial Services   | 55                 | 61                                | (6)       | (9.8)%   |
| Adjusted EBITDA <sup>(2)</sup>   | \$ 1,040           | \$ 733                            | \$ 307    | 41.9 %   |

Adjusted EBITDA<sup>(2)</sup> was \$1,040 million in the first quarter of 2019, an increase of \$307 million compared to the first quarter of 2018, and included the year-over-year favourable impact of IFRS 16 of approximately \$282 million. Normalized for the impact of IFRS 16, adjusted EBITDA<sup>(2)</sup> in the first quarter of 2019 increased by \$25 million, or 3.4%. The increase in adjusted EBITDA<sup>(2)</sup> of \$25 million was primarily due to improvements in the Retail segment, partially offset by the Financial Services segment.

**Depreciation and Amortization** Depreciation and amortization was \$580 million in the first quarter of 2019, an increase of \$239 million compared to the first quarter of 2018. The increase included the unfavourable impact of IFRS 16 of approximately \$207 million and the unfavourable impact of spin-out related incremental depreciation of approximately \$22 million. Normalized for these impacts, the increase in depreciation and amortization was \$10 million, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization in the first quarter of 2019 was the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) of \$119 million (2018 – \$121 million).

**Net Interest Expense and Other Financing Charges** Net interest expense and other financing charges were \$173 million in the first quarter of 2019, an increase of \$84 million compared to the first quarter of 2018. The increase included the unfavourable impact of IFRS 16 of approximately \$82 million. Normalized for this impact, the increase in net interest expense and other financing charges was \$2 million, primarily driven by higher interest expense in the Financial Services segment, partially offset by the repayment of term loans.

**Income Taxes**

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | <b>2019<br/>(12 weeks)</b> | 2018 <sup>(4)</sup><br>(12 weeks) | \$ Change | % Change |
|--|----------------------------|-----------------------------------|-----------|----------|
| Income taxes   | \$ 72                      | \$ 77                             | \$ (5)    | (6.5)%   |
| Add (deduct) impact of the following:  |                            |                                   |           |          |
| Tax impact of items included in adjusted earnings before taxes   | 36                         | 37                                | (1)       | (2.7)%   |
| Adjusted income taxes <sup>(2)</sup>   | \$ 108                     | \$ 114                            | \$ (6)    | (5.3)%   |
| Effective tax rate   | 25.9%                      | 26.8%                             |           |          |
| Adjusted income tax rate <sup>(2)</sup>  | 26.6%                      | 26.9%                             |           |          |

The effective tax rate in the first quarter of 2019 was 25.9% compared to 26.8% in the first quarter of 2018. The adjusted income tax rate<sup>(2)</sup> in the first quarter of 2019 was 26.6% compared to 26.9% in the first quarter of 2018. The decrease in the tax rates was primarily attributable to a decrease in certain non-deductible items.

**Other Business Matters**

**IFRS 16 Implementation** In 2016, the International Accounting Standards Board ("IASB") issued IFRS 16, replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard on December 30, 2018 using the modified retrospective approach. As a result, the Company's first quarter of 2019 results reflected lease accounting under IFRS 16. Prior year results have not been restated. See Section 10, "Accounting Standards", of this MD&A for more information on the implementation of IFRS 16.

The implementation of IFRS 16 significantly increased the assets and liabilities on the Company's Condensed Consolidated Balance Sheet and changed the timing and presentation of lease-related expenses in the Company's Retail segment results. The Company recorded a right-of-use asset of \$7.6 billion and a lease liability of \$9.2 billion under the new standard. Under IFRS 16, the depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease.

The following table provides the year-over-year impacts of the implementation of IFRS 16 on the consolidated results of the Company in the first quarter of 2019:

| (millions of Canadian dollars unless where otherwise indicated) | \$ Change<br>(12 weeks) |
|---|-------------------------|
| Operating Income  | \$ 75                   |
| Adjusted EBITDA <sup>(2)</sup>                                  | 282                     |
| Net interest expense and other financing charges                | (82)                    |
| Depreciation and Amortization                                   | (207)                   |
| Net earnings available to common shareholders of the Company    | (6)                     |
| Diluted net earnings per common share (\$)                      | \$ (0.02)               |

**Spin-out of Choice Properties** On November 1, 2018, the Company and its parent Weston completed a reorganization under which the Company distributed its approximate 61.6% effective interest in Choice Properties to Weston on a tax-free basis to the Company and its Canadian shareholders. The Company no longer retains its interest in Choice Properties and ceased to consolidate its equity interest in Choice Properties in its consolidated financial statements as at October 31, 2018. The reorganization has been reflected separately as Discontinued Operations in the current and comparative results. Unless otherwise noted, all comparisons of operating results exclude the results of Choice Properties.

**Impact on Retail Segment Results** As a result of the spin-out, buildings owned by Choice Properties and leased by the Company are accounted for as leases and no longer accounted for as owned property. The building components associated with these leases post spin-out are classified as leasehold improvements and depreciated over the lesser of the lease term and useful life up to 25 years. The remaining average lease term on the leases related to these leasehold improvements is approximately 10 years. The impact of this change is expected to be an increase in annual depreciation and amortization of approximately \$85 million compared to 2018. The Company's 2019 first quarter financial results included incremental depreciation and amortization of \$22 million (\$0.04 per common share).

**Process and Efficiency** The Company continues to execute on a multi-year plan, initiated in 2018, that focuses on improving processes and generating efficiencies across its administrative, store, and distribution network infrastructure. Many initiatives are underway to reduce the complexity and cost of business operations, ensuring a low cost operating structure that allows for continued investments in the Company's strategic growth areas. Management anticipates investing capital as well as recording restructuring and other charges related to these initiatives in 2019 and beyond. The Company recorded approximately \$12 million of restructuring and other related charges primarily related to Process and Efficiency initiatives in the first quarter of 2019.

#### 4. Reportable Operating Segments Results of Operations

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores, and includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base. The Retail segment is Choice Properties' largest tenant and all transactions, including but not limited to rental payments, with Choice Properties are included in segment results; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, deposit taking services and telecommunication services. As a result of the wind-down of *PC Financial* personal banking services, the Financial Services segment no longer offers personal banking services.

##### 4.1 Retail Segment

Unless otherwise indicated, the following financial information represents the Retail segment's results from Continuing Operations and includes the impacts of spin-out related incremental depreciation, the implementation of IFRS 16 and the consolidation of franchises.

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | 2019<br>(12 weeks) | 2018 <sup>(4)</sup><br>(12 weeks) | \$ Change | % Change |
|--|--------------------|-----------------------------------|-----------|----------|
| Sales  | \$ 10,452          | \$ 10,155                         | \$ 297    | 2.9%     |
| Operating income   | 401                | 300                               | 101       | 33.7%    |
| Adjusted gross profit <sup>(2)</sup>   | 3,097              | 2,988                             | 109       | 3.6%     |
| Adjusted gross profit % <sup>(2)</sup>   | 29.6%              | 29.4%                             |           |          |
| Adjusted EBITDA <sup>(2)</sup>   | \$ 985             | \$ 672                            | \$ 313    | 46.6%    |
| Adjusted EBITDA margin <sup>(2)</sup>  | 9.4%               | 6.6%                              |           |          |
| Depreciation and amortization  | \$ 575             | \$ 339                            | \$ 236    | 69.6%    |

## Management's Discussion and Analysis

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | 2019<br>(12 weeks) |                  | 2018 <sup>(4)</sup><br>(12 weeks) |                  |
|--|--------------------|------------------|-----------------------------------|------------------|
|  | Sales              | Same-store sales | Sales                             | Same-store sales |
| Food retail  | \$ 7,515           | 2.0%             | \$ 7,271                          | 1.9%             |
| Drug retail  | 2,937              | 2.2%             | 2,884                             | 3.7%             |
| Pharmacy   | 1,412              | 1.2%             | 1,393                             | 3.5%             |
| Front Store  | 1,525              | 3.1%             | 1,491                             | 3.8%             |

**Sales** Retail segment sales in the first quarter of 2019 were \$10,452 million, an increase of \$297 million, or 2.9%, compared to the first quarter of 2018. Excluding the consolidation of franchises, Retail segment sales increased by \$197 million, or 2.0%, primarily driven by the following factors:

- Food retail same-store sales growth was 2.0% (2018 – 1.9%) for the quarter. The timing of Easter had a nominal impact on Food retail same-store sales growth in the first quarters of 2019 and 2018.
  - Sales growth in food was moderate;
  - Sales in pharmacy declined significantly and included the negative impact of incremental healthcare reform;
  - The Company's Food retail average quarterly internal food price index was slightly lower than (2018 – was marginally lower than) the average quarterly national food price inflation of 3.3% (2018 – inflation of 1.2%), as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores; and
  - Food retail traffic was relatively flat and basket size increased in the quarter.
- Drug retail same-store sales growth was 2.2% (2018 – 3.7%). The timing of Easter had a nominal impact on Drug retail same-store sales growth in the first quarters of 2019 and 2018.
  - Pharmacy same-store sales growth was 1.2% (2018 – 3.5%) and included the negative impact of incremental healthcare reform. The number of prescriptions dispensed increased by 2.8% (2018 – 4.3%). On a same-store basis, the number of prescriptions dispensed increased by 2.6% (2018 – 4.0%) and the average prescription value decreased by 2.1% (2018 – decreased by 0.3%).
  - Front store same-store sales growth was 3.1% (2018 – 3.8%).

In the last 12 months, 18 food and drug stores were opened and 13 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.2 million square feet, or 0.3%.

The redemption of Loblaw Cards resulted in the delivery of approximately \$2 million of free products to customers in the first quarter of 2019, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or the Company's financial performance and Management does not believe it had a significant impact on Food retail same-store sales.

**Operating Income** Operating income in the first quarter of 2019 was \$401 million, an increase of \$101 million compared to the first quarter of 2018. The increase in operating income included the favourable impact of IFRS 16 of approximately \$75 million and the unfavourable impact of spin-out related incremental depreciation of approximately \$22 million. Normalized for these impacts, operating income increased by \$48 million. The increase in operating income was driven by the improvements in underlying operating performance of \$22 million and the favourable year-over-year net impact of adjusting items totaling \$26 million:

- the improvements in underlying operating performance of \$22 million were driven by an increase in adjusted gross profit<sup>(2)</sup>, partially offset by an increase in SG&A and an increase in depreciation and amortization. The improvements in underlying operating performance included the favourable year-over-year contribution from consolidation of franchises in the quarter; and
- the favourable year-over-year net impact of adjusting items totaling \$26 million, primarily due to the following:
  - the year-over-year favourable impact of a prior year inventory charge related to healthcare reform of \$19 million; and
  - the year-over-year favourable impact of prior year charges related to the Loblaw Card Program of \$19 million; partially offset by,
  - the year-over-year unfavourable impact of restructuring and other related costs of \$12 million.

**Adjusted Gross Profit<sup>(2)</sup>** Adjusted gross profit<sup>(2)</sup> in the first quarter of 2019 was \$3,097 million, an increase of \$109 million compared to the first quarter of 2018. Adjusted gross profit percentage<sup>(2)</sup> of 29.6% increased by 20 basis points compared to the first quarter of 2018. Adjusted gross profit percentage<sup>(2)</sup>, excluding the consolidation of franchises, was 27.7%, a decrease of 30 basis points compared to the first quarter of 2018. Margins were negatively impacted by healthcare reform while Food retail margins remained relatively flat.

**Adjusted EBITDA<sup>(2)</sup>** Adjusted EBITDA<sup>(2)</sup> in the first quarter of 2019 was \$985 million, an increase of \$313 million compared to the first quarter of 2018 and included the year-over-year favourable impact of IFRS 16 of approximately \$282 million. Normalized for the impact of IFRS 16, adjusted EBITDA<sup>(2)</sup> in the first quarter of 2019 increased by \$31 million and included the favourable impact of the consolidation of franchises of \$20 million. The increase in adjusted EBITDA<sup>(2)</sup> of \$31 million was driven by an increase in adjusted gross profit<sup>(2)</sup> as described above, partially offset by an increase in SG&A of \$13 million. Normalized for the impact of IFRS 16 and the consolidation of franchises, SG&A increased \$13 million, and SG&A as a percentage of sales was 21.0%, an improvement of 30 basis points compared to the first quarter of 2018 driven by:

- Process and Efficiency initiatives;
- lower marketing costs as a result of the launch of the *PC Optimum* Program in the prior year; and
- the favourable year-over-year impact of foreign exchange.

Adjusted EBITDA<sup>(2)</sup> included gains of \$5 million (2018 – nil) related to the sale and leaseback of properties to Choice Properties in the first quarter of 2019.

**Depreciation and Amortization** Depreciation and amortization in the first quarter of 2019 was \$575 million, an increase of \$236 million compared to the first quarter of 2018. The increase included the unfavourable impact of IFRS 16 of approximately \$207 million and the unfavourable impact of spin-out related incremental depreciation of approximately \$22 million. Normalized for these impacts, the increase in depreciation and amortization was \$7 million, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization in the first quarter of 2019 was the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart of \$119 million (2018 – \$121 million).

#### Other Retail Business Matters

**Consolidation of Franchises** The Company has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2019, 414 of these stores were consolidated for accounting purposes under a new, simplified franchise agreement (“Franchise Agreement”) implemented in 2015.

The Company will convert franchises to the Franchise Agreement as existing agreements expire, at the end of which all franchises will be consolidated. The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars unless where otherwise indicated) | 2019<br>(12 weeks) | 2018<br>(12 weeks) |
|--|--------------------|--------------------|
| Number of Consolidated Franchise stores, beginning of period   | 400                | 310                |
| Add: Net number of Consolidated Franchise stores in the period   | 14                 | 21                 |
| Number of Consolidated Franchise stores, end of period   | 414                | 331                |
| Sales  | \$ 299             | \$ 199             |
| Adjusted gross profit <sup>(2)</sup>   | 287                | 202                |
| Adjusted EBITDA <sup>(2)</sup>   | 27                 | 7                  |
| Depreciation and amortization  | 17                 | 12                 |
| Operating income   | 10                 | (5)                |
| Net income attributable to non-controlling interests   | 5                  | (5)                |

Operating income included in the table above does not significantly impact net earnings available to common shareholders of the Company as the related income is largely attributable to non-controlling interests.

The Company expects that the estimated annual impact in 2019 of new and current consolidated franchises will be revenue of approximately \$1,300 million, adjusted EBITDA<sup>(2)</sup> of approximately \$130 million, depreciation and amortization of approximately \$80 million and net earnings attributable to non-controlling interests of approximately \$40 million.

**4.2 Financial Services Segment**

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | <b>2019<br/>(12 weeks)</b> | 2018<br>(12 weeks) | \$ Change | % Change |
|--|----------------------------|--------------------|-----------|----------|
| Revenue  | <b>\$ 266</b>              | \$ 230             | \$ 36     | 15.7 %   |
| Earnings before income taxes   | <b>31</b>                  | 61                 | (30)      | (49.2)%  |

| (millions of Canadian dollars except where otherwise indicated)                | <b>As at<br/>March 23, 2019</b> | As at<br>March 24, 2018 <sup>(4)</sup> | \$ Change | % Change |
|--|---------------------------------|--|-----------|----------|
| Average quarterly net credit card receivables                                  | <b>\$ 3,188</b>                 | \$ 2,952                               | \$ 236    | 8.0%     |
| Credit card receivables  | <b>3,047</b>                    | 2,803                                  | 244       | 8.7%     |
| Allowance for credit card receivables  | <b>175</b>                      | 150                                    | 25        | 16.7%    |
| Annualized yield on average quarterly gross credit card receivables            | <b>13.8%</b>                    | 13.4%                                  |           |          |
| Annualized credit loss rate on average quarterly gross credit card receivables | <b>3.3%</b>                     | 3.5%                                   |           |          |

**Revenue** Revenue was \$266 million in the first quarter of 2019, an increase of \$36 million compared to the first quarter of 2018, primarily driven by:

- higher interest income attributable to the growth in the credit card portfolio; and
- higher sales attributable to *The Mobile Shop*;

partially offset by,

- lower core banking income attributable to President's Choice Bank's ("PC Bank's") agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand. Normal operating income from the same personal banking services ended in April 2018.

**Earnings before income taxes** Earnings before income taxes was \$31 million in the first quarter of 2019, a decrease of \$30 million compared to the first quarter of 2018, primarily driven by:

- recognition of income in the first quarter of 2018 of \$17 million, net of certain costs incurred, relating to PC Bank's agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand;
- lower core banking income, as described above;
- higher interest expense and credit losses driven by the growth in the credit card portfolio;
- higher operating costs including investments in digital strategy; and
- certain one-time gains in the first quarter of 2018 including the sale of charged-off credit card receivables;

partially offset by,

- revenue growth, as described above; and
- lower customer acquisition costs.

**Credit Card Receivables** As at March 23, 2019, credit card receivables were \$3,047 million, an increase of \$244 million compared to March 24, 2018. This increase was primarily driven by growth in the average customer balance and active customer base as a result of continued investments in customer acquisition, marketing and product initiatives in turn increasing the allowance for credit card receivables to \$175 million, an increase of \$25 million compared to March 24, 2018.

## Other Financial Services Business Matters

**Wind-down of PC Financial personal banking services** In the third quarter of 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

PC Bank continues to operate the *PC Mastercard*® Program and customers will earn *PC Optimum* points. PC Bank remains committed to providing payment products to its customers and continues to strengthen its credit card services and loyalty programs.

## 5. Liquidity and Capital Resources

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

### 5.1 Cash Flows

The following Major Cash Flow Components are presented on a Total Company basis, inclusive of Continuing and Discontinued Operations.

#### Major Cash Flow Components

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | <b>2019</b><br><b>(12 weeks)</b> | 2018 <sup>(4)</sup><br>(12 weeks) | \$ Change | % Change |
|--|----------------------------------|-----------------------------------|-----------|----------|
| Cash and cash equivalents, beginning of period   | \$ 1,065                         | \$ 1,798                          | \$ (733)  | (40.8)%  |
| Cash flows from (used in):   |                                  |                                   |           |          |
| Operating activities   | \$ 960                           | \$ 434                            | \$ 526    | 121.2 %  |
| Investing activities   | 678                              | (1,450)                           | 2,128     | 146.8 %  |
| Financing activities   | (1,775)                          | 480                               | (2,255)   | (469.8)% |
| Effect of foreign currency exchange rate changes on cash and cash equivalents  | 1                                | (2)                               | 3         | 150.0 %  |
| Change in cash and cash equivalents  | \$ (136)                         | \$ (538)                          | \$ 402    | 74.7 %   |
| Cash and cash equivalents, end of period   | \$ 929                           | \$ 1,260                          | \$ (331)  | (26.3)%  |

**Cash Flows from Operating Activities** Cash flows from operating activities were \$960 million in the first quarter of 2019, an increase of \$526 million compared to the first quarter of 2018. Normalized for the impact of IFRS 16, the increase in cash flows from operating activities was primarily due to favourable changes in non-cash working capital and credit card receivables.

**Cash Flows from Investing Activities** Cash flows from investing activities were \$678 million in the first quarter of 2019, an increase of \$2,128 million compared to the first quarter of 2018. The increase in cash flows from investing activities was primarily due to the change in security deposits driven by Choice Properties' acquisition of Canadian Real Estate Investment Trust ("CREIT") in the prior year and the repayment of the Company's \$800 million debenture in the first quarter of 2019.

**Capital Investments and Store Activity**

| As at or for the periods ended March 23, 2019 and March 24, 2018 | 2019<br>(12 weeks) | 2018<br>(12 weeks) | % Change |
|--|--------------------|--------------------|----------|
| Capital investments (millions of Canadian dollars)               | \$ 174             | \$ 222             | (21.6)%  |
| Corporate square footage (in millions)                           | 35.6               | 35.6               | — %      |
| Franchise square footage (in millions)                           | 16.3               | 16.2               | 0.6 %    |
| Associate-owned drug store square footage (in millions)          | 18.5               | 18.4               | 0.5 %    |
| Total retail square footage (in millions)                        | 70.4               | 70.2               | 0.3 %    |
| Number of corporate stores                                       | 550                | 551                | (0.2)%   |
| Number of franchise stores                                       | 535                | 533                | 0.4 %    |
| Number of Associate-owned drug stores                            | 1,339              | 1,335              | 0.3 %    |
| Total number of stores   | 2,424              | 2,419              | 0.2 %    |
| Percentage of corporate real estate owned                        | 8%                 | 72%                |          |
| Percentage of franchise real estate owned                        | 5%                 | 49%                |          |
| Percentage of Associate-owned drug store real estate owned       | 1%                 | 1%                 |          |
| Average store size (square feet)                                 |                    |                    |          |
| Corporate  | 64,700             | 64,600             | 0.2 %    |
| Franchise  | 30,500             | 30,400             | 0.3 %    |
| Associate-owned drug store                                       | 13,800             | 13,800             | — %      |

**Cash Flows used in Financing Activities** Cash flows used in financing activities were \$1,775 million in the first quarter of 2019, an increase of \$2,255 million compared to the first quarter of 2018. The increase in cash flows used in financing activities was driven by higher net issuances of long term debt in the prior year, primarily related to Choice Properties' acquisition of CREIT and the reclassification of rent payments from operating activities to financing activities related to the implementation of IFRS 16, partially offset by lower repurchases of common shares.

The Company's significant long term debt transactions are set out in Section "5.3 Components of Total Debt".

**Free Cash Flow<sup>(2)</sup>** The definition of free cash flow<sup>(2)</sup> was changed in the first quarter of 2019 to normalize for the impact of the implementation of IFRS 16, which had no impact on cash flow. The following free cash flow<sup>(2)</sup> is presented on a Continuing Operations basis.

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | 2019<br>(12 weeks) | 2018 <sup>(4)</sup><br>(12 weeks) | \$ Change | % Change |
|--|--------------------|-----------------------------------|-----------|----------|
| Cash flows from operating activities   | \$ 960             | \$ 434                            | \$ 526    | 121.2 %  |
| Less: Cash flows from operating activities from Discontinued Operations <sup>(i)</sup>                                     | —                  | 49                                | (49)      | (100.0)% |
| Cash flows from operating activities from Continuing Operations <sup>(i)</sup>   | \$ 960             | \$ 385                            | \$ 575    | 149.4 %  |
| Less:  |                    |                                   |           |          |
| Capital investments  | 174                | 163                               | 11        | 6.7 %    |
| Interest paid  | 98                 | 92                                | 6         | 6.5 %    |
| Lease payments, net <sup>(ii)</sup>  | 269                | —                                 | 269       | 100.0 %  |
| Free cash flow <sup>(2)</sup> from Continuing Operations   | \$ 419             | \$ 130                            | \$ 289    | 222.3 %  |

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

(ii) Includes cash rent paid on lease liabilities, net of lease payments received from finance leases.

Free cash flow<sup>(2)</sup> from Continuing Operations was \$419 million in the first quarter of 2019, an increase of \$289 million compared to the first quarter of 2018. The increase in free cash flow<sup>(2)</sup> was primarily driven by higher cash flows from operating activities, as described above.

## 5.2 Liquidity and Capital Structure

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable the Company to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements and financial obligations.

PC Bank expects to obtain long term financing for the growth of its credit card portfolio through the issuance of *Eagle Credit Card Trust*<sup>®</sup> (“*Eagle*”) notes and Guaranteed Investment Certificates.

The Company manages its capital structure on a segmented basis to ensure that each of the reportable operating segments is employing a capital structure that is appropriate for the industry in which it operates. The following table presents total debt from Continuing Operations, as monitored by management, by reportable operating segment:

| (millions of Canadian dollars)               | As at<br>March 23, 2019 |                    |           | As at<br>March 24, 2018 |                    |          | As at<br>December 29, 2018 |                    |          |
|--|-------------------------|--------------------|-----------|-------------------------|--------------------|----------|----------------------------|--------------------|----------|
|  | Retail                  | Financial Services | Total     | Retail                  | Financial Services | Total    | Retail                     | Financial Services | Total    |
| Bank indebtedness                            | \$ 130                  | \$ —               | \$ 130    | \$ 270                  | \$ —               | \$ 270   | \$ 56                      | \$ —               | \$ 56    |
| Short term debt                              | —                       | 615                | 615       | —                       | 440                | 440      | —                          | 915                | 915      |
| Long term debt due within one year           | 530                     | 257                | 787       | 1,187                   | 605                | 1,792    | 1,373                      | 274                | 1,647    |
| Long term debt <sup>(i)</sup>                | 4,262                   | 1,614              | 5,876     | 4,808                   | 1,135              | 5,943    | 4,762                      | 1,617              | 6,379    |
| Certain other liabilities                    | 49                      | —                  | 49        | 42                      | —                  | 42       | 48                         | —                  | 48       |
| Total debt excluding lease liabilities       | \$ 4,971                | \$ 2,486           | \$ 7,457  | \$ 6,307                | \$ 2,180           | \$ 8,487 | \$ 6,239                   | \$ 2,806           | \$ 9,045 |
| Lease liabilities due within one year        | \$ 1,259                | \$ —               | \$ 1,259  | \$ —                    | \$ —               | \$ —     | \$ —                       | \$ —               | \$ —     |
| Lease liabilities                            | 7,825                   | —                  | 7,825     | —                       | —                  | —        | —                          | —                  | —        |
| Total debt including total lease liabilities | \$ 14,055               | \$ 2,486           | \$ 16,541 | \$ 6,307                | \$ 2,180           | \$ 8,487 | \$ 6,239                   | \$ 2,806           | \$ 9,045 |

(i) Finance lease obligations of \$556 million and \$535 million were included in long term debt as at March 24, 2018 and December 29, 2018, respectively, prior to the implementation of IFRS 16.

**Retail** The Company manages its capital structure with the objective of maintaining Retail segment credit metrics consistent with those of investment grade retailers. The Company monitors the Retail segment’s debt to rolling year retail adjusted EBITDA<sup>(2)</sup> ratio as a measure of the leverage being employed.

|   | As at<br>March 23, 2019 <sup>(i)</sup> | As at<br>March 24, 2018 | As at<br>December 29, 2018 |
|---|--|-------------------------|----------------------------|
| Retail debt to rolling year retail adjusted EBITDA <sup>(2)</sup> | 3.1x                                   | 1.9x                    | 1.9x                       |

(i) Includes the annualized impact of IFRS 16. Rolling year retail adjusted EBITDA<sup>(2)</sup> is expected to be approximately \$1.2 billion higher on an annualized basis due to the change in presentation of the Company’s rent expense.

The Retail debt to rolling year retail adjusted EBITDA<sup>(2)</sup> ratio as at March 23, 2019 increased compared to March 24, 2018 and December 29, 2018 primarily due to an increase in Retail debt driven by the increase in lease liabilities as a result of the implementation of IFRS 16. This increase was partially offset by the improvement in adjusted EBITDA<sup>(2)</sup> also as a result of the implementation of IFRS 16.

**President’s Choice Bank** PC Bank’s capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory requirements as defined by the Office of the Superintendent of Financial Institutions (“OSFI”).

**Covenants and Regulatory Requirements** The Company is required to comply with certain financial covenants for various debt instruments. As at March 23, 2019 and throughout the first quarter, the Company was in compliance with their respective covenants. As at March 23, 2019 and throughout the first quarter, PC Bank has met all applicable regulatory requirements.

### 5.3 Components of Total Debt

**Debentures** In the fourth quarter of 2018, the Company issued debentures totaling \$800 million. The proceeds from the issuance of these debentures were used to redeem, at par, the \$800 million debenture in the first quarter of 2019. This debenture bore interest at 3.75% and had an original maturity date of March 12, 2019.

There were no debentures issued or repaid in the first quarter of 2018.

**Committed Credit Facilities** The Company has a \$1.0 billion committed credit facility with a maturity date of June 10, 2021. These facilities contain certain financial covenants. As at March 23, 2019, there were no amounts drawn (March 24, 2018 and December 29, 2018 – nil) under the committed credit facility.

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

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

| (millions of Canadian dollars)                             | As at<br>March 23, 2019 | As at<br>March 24, 2018 | As at<br>December 29, 2018 |
|--|-------------------------|-------------------------|----------------------------|
| Securitized to independent securitization trusts:          |                         |                         |                            |
| Securitized to <i>Eagle Credit Card Trust</i> <sup>®</sup> | \$ 750                  | \$ 900                  | \$ 750                     |
| Securitized to Other Independent Securitization Trusts     | 615                     | 440                     | 915                        |
| Total securitized to independent securitization trusts     | \$ 1,365                | \$ 1,340                | \$ 1,665                   |

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at March 23, 2019 and throughout the first quarter of 2019.

**Independent Funding Trusts** As at March 23, 2019, the independent funding trust had drawn \$530 million (March 24, 2018 – \$545 million; December 29, 2018 – \$536 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at March 23, 2019, the Company has agreed to provide a credit enhancement of \$64 million (March 24, 2018 and December 29, 2018 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (2018 – not less than 10%) of the principal amount of loans outstanding.

The Company intends to renew the revolving committed credit facility upon its maturity date of June 10, 2019.

### 5.4 Financial Condition

#### Rolling Year Adjusted Return on Equity<sup>(2)</sup> and Rolling Year Adjusted Return on Capital<sup>(2)</sup>

|   | As at<br>March 23, 2019 <sup>(iii)</sup> | As at<br>March 24, 2018 | As at<br>December 29, 2018 |
|---|--|-------------------------|----------------------------|
| Rolling year adjusted return on equity <sup>(2)</sup>     | 13.5%                                    | 12.9%                   | 12.6%                      |
| Rolling year adjusted return on capital <sup>(2)(i)</sup> | 7.7%                                     | 9.7%                    | 9.8%                       |

(i) Includes the annualized impact of IFRS 16. Tax-effected adjusted operating income<sup>(2)</sup> is expected to be approximately \$0.2 billion higher on an annualized basis due to the change in presentation of the Company's rent expense.

(ii) Opening equity and opening capital include the implementation impacts of IFRS 16 when calculating the average of equity and average of capital, respectively.

Rolling year adjusted return on equity<sup>(2)</sup> as at March 23, 2019 increased compared to March 24, 2018 and December 29, 2018 primarily due to the decrease in retained earnings as a result of the implementation of IFRS 16 and common share repurchases.

Rolling year adjusted return on capital<sup>(2)</sup> as at March 23, 2019 decreased compared to March 24, 2018 and December 29, 2018 primarily due to an increase in total debt driven by the increase in lease liabilities as a result of the implementation of IFRS 16. This increase was partially offset by the improvement in tax-effected adjusted operating income<sup>(2)</sup> also as a result of IFRS 16.

## 5.5 Credit Ratings

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

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

## 5.6 Share Capital

**Common Shares (authorized – unlimited)** Common shares issued are fully paid and have no par value. The activity in the common shares issued and outstanding during the periods were as follows:

| (millions of Canadian dollars except where otherwise indicated)    | March 23, 2019<br>(12 weeks)  |                            | March 24, 2018<br>(12 weeks)  |                            |
|--|-------------------------------|----------------------------|-------------------------------|----------------------------|
|  | Number of<br>Common<br>Shares | Common<br>Share<br>Capital | Number of<br>Common<br>Shares | Common<br>Share<br>Capital |
| Issued and outstanding, beginning of period                        | 371,790,967                   | \$ 7,177                   | 386,293,941                   | \$ 7,460                   |
| Issued for settlement of stock options                             | 696,831                       | 33                         | 861,022                       | 41                         |
| Purchased and cancelled  | (3,395,757)                   | (7)                        | (8,107,027)                   | (157)                      |
| Issued and outstanding, end of period                              | 369,092,041                   | \$ 7,203                   | 379,047,936                   | \$ 7,344                   |
| Shares held in trust, beginning of period                          | (734,727)                     | \$ (15)                    | (780,938)                     | \$ (15)                    |
| Purchased for future settlement of RSUs and PSUs                   | (300,000)                     | (5)                        | —                             | —                          |
| Released for settlement of RSUs and PSUs                           | 458,139                       | 9                          | 465,253                       | 9                          |
| Shares held in trust, end of period                                | (576,588)                     | \$ (11)                    | (315,685)                     | \$ (6)                     |
| Issued and outstanding, net of shares held in trust, end of period | 368,515,453                   | \$ 7,192                   | 378,732,251                   | \$ 7,338                   |
| Weighted average outstanding, net of shares held in trust          | 369,026,714                   |                            | 382,023,940                   |                            |

**Dividends** The following table summarizes the Company's cash dividends declared for the periods as indicated:

|                                    | March 23, 2019 <sup>(i)</sup><br>(12 weeks) | March 24, 2018<br>(12 weeks) |
|------------------------------------|---|------------------------------|
| Dividends declared per share (\$): |   |                              |
| Common Share                       | \$ 0.295                                    | \$ 0.270                     |
| Second Preferred Share, Series B   | \$ 0.33125                                  | \$ 0.33125                   |

(i) The first quarter dividends for 2019 of \$0.295 per share declared on common shares have a payment date of April 1, 2019. The first quarter dividends for 2019 of \$0.33125 per share declared on Second Preferred Shares, Series B have a payment date of March 31, 2019.

| (millions of Canadian dollars)   | <b>March 23, 2019<br/>(12 weeks)</b> | March 24, 2018<br>(12 weeks) |
|----------------------------------|--------------------------------------|------------------------------|
| Dividends declared:              |                                      |                              |
| Common Share                     | \$ 110                               | \$ 103                       |
| Second Preferred Share, Series B | 3                                    | 3                            |
| Total dividends declared         | \$ 113                               | \$ 106                       |

Subsequent to the end of first quarter of 2019, the Company's Board of Directors declared a quarterly dividend of \$0.315 per common share, payable on July 1, 2019 to shareholders of record on June 15, 2019 and a dividend on the Second Preferred Shares, Series B of \$0.33125 per share payable on June 30, 2019 to shareholders of record on June 15, 2019. At the time such dividends are declared, the Company identifies on its website, loblaw.ca, the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency.

**Normal Course Issuer Bid** Activity under the Company's Normal Course Issuer Bid ("NCIB") during the periods was as follows:

| (millions of Canadian dollars except where otherwise indicated)               | <b>March 23, 2019<br/>(12 weeks)</b> | March 24, 2018<br>(12 weeks) |
|---|--------------------------------------|------------------------------|
| Common shares repurchased under the NCIB for cancellation (number of shares)  | <b>3,395,757</b>                     | 8,107,027                    |
| Cash consideration paid <sup>(i)</sup>  | \$ 215                               | \$ 544                       |
| Premium charged to Retained Earnings  | 23                                   | 387                          |
| Reduction in Common Share Capital   | 7                                    | 157                          |
| Common shares repurchased under the NCIB and held in trust (number of shares) | <b>300,000</b>                       | —                            |
| Cash consideration paid   | \$ 20                                | \$ —                         |
| Premium charged to Retained Earnings  | 15                                   | —                            |
| Reduction in Common Share Capital   | 5                                    | —                            |

(i) Includes \$185 million paid for common shares related to the automatic share purchase plan, as described below.

In the first quarter of 2019, the Company completed the automatic share purchase plan ("ASPP"), which was entered into in the fourth quarter of 2018, with a broker in order to facilitate the repurchase of the Company's common shares under its current NCIB. Under the Company's ASPP, the Company's broker purchased 2,927,733 common shares for approximately \$185 million at times when the Company was not active in the market due to insider trading rules and its own internal trading blackout periods.

Subsequent to the end of the first quarter of 2019, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 18,455,884 of the Company's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of March 23, 2019, the Company has purchased 11,872,939 common shares under its previous NCIB for cancellation.

## 5.7 Off-Balance Sheet Arrangements

The Company uses off-balance sheet arrangements including letters of credit, guarantees and cash collateralization in connection with certain obligations. There were no significant changes to the Company's off-balance sheet arrangements during the first quarter of 2019. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2018 Annual Report.

## 6. Financial Derivative Instruments

The Company uses derivative instruments to offset certain of its financial risks. The Company uses bond forwards and interest rate swaps, to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company did not enter into any significant bond forwards or interest rate swaps during the first quarter of 2019.

The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. For further details on the impact of these instruments during the first quarter of 2019 see Section 12 "Non-GAAP Financial Measures" of the MD&A.

## 7. Results by Quarter

Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal years 2018 and 2017 were 52 weeks. The next 53 week year will occur in 2020. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration.

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations and includes the impacts of spin-out related incremental depreciation, the implementation of IFRS 16 and the consolidation of franchises.

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

| (millions of Canadian dollars except where otherwise indicated)                      | First Quarter      |                                   | Fourth Quarter     |                                   | Third Quarter      |                                   | Second Quarter     |                                   |
|--|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|--------------------|-----------------------------------|
|  | 2019<br>(12 weeks) | 2018 <sup>(4)</sup><br>(12 weeks) | 2018<br>(12 weeks) | 2017 <sup>(4)</sup><br>(12 weeks) | 2018<br>(16 weeks) | 2017 <sup>(4)</sup><br>(16 weeks) | 2018<br>(12 weeks) | 2017 <sup>(4)</sup><br>(12 weeks) |
| <b>Revenue</b>   | <b>\$ 10,659</b>   | <b>\$ 10,335</b>                  | \$ 11,218          | \$ 10,992                         | \$ 14,319          | \$ 14,163                         | \$ 10,821          | \$ 11,053                         |
| <b>Adjusted EBITDA<sup>(2)</sup></b>   | <b>1,040</b>       | <b>733</b>                        | 895                | 882                               | 1,060              | 1,051                             | 840                | 853                               |
| <b>Net earnings available to common shareholders of the Company</b>                  | <b>198</b>         | <b>377</b>                        | 221                | 31                                | 106                | 883                               | 50                 | 360                               |
| Continuing Operations  | 198                | 212                               | 228                | (24)                              | (26)               | 767                               | 293                | 312                               |
| Discontinued Operations  | —                  | 165                               | (7)                | 55                                | 132                | 116                               | (243)              | 48                                |
| Adjusted net earnings available to common shareholders of the Company <sup>(2)</sup> | <b>\$ 290</b>      | <b>\$ 361</b>                     | \$ 402             | \$ 436                            | \$ 562             | \$ 549                            | \$ 421             | \$ 446                            |
| Continuing Operations  | 290                | 312                               | 388                | 398                               | 466                | 470                               | 373                | 399                               |
| Discontinued Operations  | —                  | 49                                | 14                 | 38                                | 96                 | 79                                | 48                 | 47                                |
| <b>Net earnings per common share:</b>  |                    |                                   |                    |                                   |                    |                                   |                    |                                   |
| <b>Basic (\$)</b>  | <b>\$ 0.54</b>     | <b>\$ 0.99</b>                    | \$ 0.59            | \$ 0.08                           | \$ 0.28            | \$ 2.25                           | \$ 0.13            | \$ 0.92                           |
| Continuing Operations  | \$ 0.54            | \$ 0.55                           | \$ 0.61            | \$ (0.06)                         | \$ (0.07)          | \$ 1.95                           | \$ 0.77            | \$ 0.80                           |
| Discontinued Operations  | \$ —               | \$ 0.44                           | \$ (0.02)          | \$ 0.14                           | \$ 0.35            | \$ 0.30                           | \$ (0.64)          | \$ 0.12                           |
| <b>Diluted (\$)</b>  | <b>\$ 0.53</b>     | <b>\$ 0.98</b>                    | \$ 0.59            | \$ 0.08                           | \$ 0.28            | \$ 2.24                           | \$ 0.13            | \$ 0.90                           |
| Continuing Operations  | \$ 0.53            | \$ 0.55                           | \$ 0.61            | \$ (0.06)                         | \$ (0.07)          | \$ 1.94                           | \$ 0.77            | \$ 0.78                           |
| Discontinued Operations  | \$ —               | \$ 0.43                           | \$ (0.02)          | \$ 0.14                           | \$ 0.35            | \$ 0.30                           | \$ (0.64)          | \$ 0.12                           |
| Adjusted diluted net earnings per common share <sup>(2)</sup> (\$)                   | <b>\$ 0.78</b>     | <b>\$ 0.94</b>                    | \$ 1.07            | \$ 1.12                           | \$ 1.49            | \$ 1.39                           | \$ 1.11            | \$ 1.11                           |
| Continuing Operations  | \$ 0.78            | \$ 0.81                           | \$ 1.03            | \$ 1.02                           | \$ 1.24            | \$ 1.19                           | \$ 0.98            | \$ 1.00                           |
| Discontinued Operations  | \$ —               | \$ 0.13                           | \$ 0.04            | \$ 0.10                           | \$ 0.25            | \$ 0.20                           | \$ 0.13            | \$ 0.11                           |
| Average national food price inflation (deflation) (as measured by CPI)               | <b>3.3%</b>        | <b>1.2%</b>                       | 1.7%               | 1.0%                              | 0.3%               | 0.3%                              | 0.1%               | (1.4)%                            |
| Food retail same-store sales growth  | <b>2.0%</b>        | <b>1.9%</b>                       | 0.8%               | 0.5%                              | 0.9%               | 1.4%                              | 0.8%               | 1.2%                              |
| Drug retail same-store sales growth  | <b>2.2%</b>        | <b>3.7%</b>                       | 1.9%               | 3.6%                              | 2.5%               | 3.3%                              | 1.7%               | 3.7%                              |

**Revenue** Revenue for the last eight quarters was impacted by various factors including the following:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices;
- the changes in the price of fuel sold at the Company's gas bars;
- the disposition of gas bar operations in the third quarter of 2017;
- consolidation of franchises; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.3 million square feet to 70.4 million square feet.

**Net Earnings Available to Common Shareholders of the Company from Continuing Operations and Diluted Net Earnings Per Common Share from Continuing Operations** Net earnings available to common shareholders of the Company from continuing operations and diluted net earnings per common share from continuing operations for the last eight quarters were impacted by the following items:

- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the timing of holidays;
- the disposition of gas bar operations in the third quarter of 2017;
- minimum wage increases and incremental healthcare reform;
- cost savings and operating efficiencies from Process and Efficiency initiatives and benefits from strategic initiatives;
- changes in the underlying operating performance of the Company;
- the favourable impact of the repurchase of common shares for cancellation; and
- the impact of certain adjusting items, as set out in Section 12 "Non-GAAP Financial Measures", including:
  - the gain on disposition of gas bar operations;
  - the charge related to Glenhuron Bank Limited;
  - the *PC Optimum* Program;
  - the Loblaw Card Program;
  - restructuring and other related charges;
  - the wind-down of *PC Financial* personal banking services;
  - the impact of healthcare reform on inventory balances;
  - the remeasurement of deferred tax balances;
  - asset impairments, net of recoveries; and
  - the gain on sale of properties.

The consolidation of franchises does not significantly impact net earnings available to common shareholders of the Company as the related earnings are largely attributable to non-controlling interests.

## 8. Internal Control over Financial Reporting

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

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

In designing such controls, it should be recognized that due to inherent limitations, any control, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and may not prevent or detect misstatements. Additionally, management is required to use judgment in evaluating controls and procedures.

**Changes in Internal Control over Financial Reporting** There were no changes in the Company's internal control over financial reporting in the first quarter of 2019 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## 9. Enterprise Risks and Risk Management

A detailed full set of risks inherent in the Company's business are included in the Company's AIF for the year ended December 29, 2018 and the Company's MD&A in the Company's 2018 Annual Report, which are hereby incorporated by reference. The Company's 2018 Annual Report and AIF are available online on [www.sedar.com](http://www.sedar.com). Those risks and risk management strategies remain unchanged.

## 10. Accounting Standards

### Accounting Standard Implemented in 2019

**IFRS 16** In 2016, the IASB issued IFRS 16, replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it had the option of adopting a fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company adopted the standard on December 30, 2018 using the modified retrospective approach. The Company applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively as if the standard had been applied since lease commencement dates.

Substantially all of the Company's operating leases are real estate leases for retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and IT equipment. The Company recognized right-of-use assets and lease liabilities for its operating leases except for certain classes of underlying assets in which the lease terms are 12 months or less. The depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease. There are no significant impacts to the Company's existing finance leases under IAS 17 as a lessee.

The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are mainly related to non-consolidated franchisees, ancillary tenants and gas bar land. As an intermediate lessor, the Company reassessed the classification of its subleases by reference to the right-of-use assets arising from the head lease and recognized a corresponding finance lease receivable when the reassessment concluded that the subleases were finance leases.

## Management's Discussion and Analysis

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

- grandfathered the definition of leases for existing contracts at the date of initial application;
- excluded certain short-term leases from IFRS 16 lease accounting;
- used portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- excluded initial direct costs from the measurement of right-of-use assets at the date of initial application; and
- used hindsight in determining lease term at the date of initial application.

The Company did not exercise the practical expedient wherein a lessee may rely on its assessment of whether leases are onerous applying IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review. On the date of initial application, the Company applied the requirements of IAS 36, "Impairment of Assets" and recorded an impairment of \$94 million on right-of-use assets in opening retained earnings, which represents an incremental \$46 million to the previous onerous lease provision.

The impact of adopting IFRS 16 on the Company's balance sheet as at December 30, 2018 was as follows:

| Condensed Consolidated Balance Sheet<br>(millions of Canadian Dollars) / Increase (Decrease) | As at<br>December 30, 2018 |
|--|----------------------------|
| <b>Current Assets</b>  |                            |
| Prepaid Expenses and Other Assets  | \$ (104)                   |
| <b>Total Current Assets</b>  | \$ (104)                   |
| Fixed Assets <sup>(i)</sup>  | (435)                      |
| Right-of-Use Assets <sup>(i)</sup>   | 7,602                      |
| Intangible Assets  | (82)                       |
| Deferred Income Tax Assets   | 34                         |
| Other Assets   | 128                        |
| <b>Total Assets</b>  | \$ 7,143                   |
| <b>Current Liabilities</b>   |                            |
| Trade Payables and Other Liabilities   | \$ (11)                    |
| Provisions   | (4)                        |
| Long Term Debt Due Within One Year <sup>(i)</sup>  | (37)                       |
| Lease Liabilities Due Within One Year <sup>(i)(ii)</sup>                                     | 1,192                      |
| <b>Total Current Liabilities</b>   | \$ 1,140                   |
| Provisions   | (51)                       |
| Long Term Debt <sup>(i)</sup>  | (498)                      |
| Lease Liabilities <sup>(i)(ii)</sup>   | 7,985                      |
| Deferred Income Tax Liabilities  | (256)                      |
| Other Liabilities  | (379)                      |
| Retained Earnings  | (798)                      |
| <b>Total Liabilities and Equity</b>  | \$ 7,143                   |

(i) Leases previously classified as finance lease arrangements under IAS 17 were presented within fixed assets, long term debt due within one year and long term debt. Effective December 30, 2018, these balances are included in right-of-use assets and lease liabilities.

(ii) Leases that are short-term or where the lease payments are variable and do not depend on an index or rate are not included in the calculation of lease liabilities. These lease expenses are recognized in SG&A on the most systematic basis.

The Company used its incremental borrowing rates as at December 30, 2018 to measure lease liabilities. The weighted average incremental borrowing rate is 4.36%. The weighted average lease term remaining as at December 30, 2018 is approximately 10 years.

The following reconciliation is between lease liabilities recognized on December 30, 2018 and operating lease commitments disclosed under IAS 17 as at December 29, 2018 discounted using the weighted average incremental borrowing rate as at the date of initial application:

| (millions of Canadian Dollars)  | As at<br>December 30, 2018 |
|---|----------------------------|
| Operating lease commitment as at December 29, 2018 as disclosed in the Company's notes to the consolidated financial statements | \$ 9,987                   |
| Discounted using the weighted average incremental borrowing rate as at December 30, 2018  | \$ 8,048                   |
| Finance lease obligations recognized as at December 29, 2018  | 535                        |
| Extension and termination options reasonably certain to be exercised  | 594                        |
| <b>Lease liabilities recognized as at December 30, 2018</b>   | <b>\$ 9,177</b>            |
| Lease liabilities due within one year   | \$ 1,192                   |
| Lease liabilities   | 7,985                      |
| <b>Total Lease Liabilities</b>  | <b>\$ 9,177</b>            |

### Critical Accounting Estimates and Judgments for Leases

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

**Key Sources of Estimation** In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates in. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

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

Loblaw is focused on its strategic framework, delivering best in food and health and beauty, using data driven insights underpinned by process and efficiency excellence. This framework is supported by the Company's financial plan of maintaining a stable trading environment that targets positive same-store sales and stable gross margin, creating efficiencies to deliver operating leverage, investing for the future and returning capital to shareholders.

The Company will remain focused on delivering Process and Efficiency improvements to offset increasing costs and to fund continued incremental investments in its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments & Rewards.

In 2019, on a full-year comparative basis, excluding the impact of the spin-out of Choice Properties, we expect to:

- deliver positive same-store sales and stable gross margin in the Retail segment in a highly competitive market;
- deliver positive adjusted net earnings growth;
- invest approximately \$1.1 billion in capital expenditures, net of proceeds from property disposals; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

## 12. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted income tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share, free cash flow; retail debt to retail adjusted EBITDA; adjusted return on equity; and adjusted return on capital. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

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

The Company's interest in Choice Properties has been presented separately as Discontinued Operations in the Company's current and comparative results. Unless otherwise indicated, all financial information represents the Company's results from Continuing Operations.

**Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage** The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to revenue and cost of merchandise inventories sold measures as reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as Retail segment adjusted gross profit divided by Retail segment revenue.

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars) | 2019<br>(12 weeks)  |          |              |           | 2018 <sup>(4)</sup><br>(12 weeks) |          |              |           |
|---|---------------------|----------|--------------|-----------|-----------------------------------|----------|--------------|-----------|
|   | Financial<br>Retail | Services | Eliminations | Total     | Financial<br>Retail               | Services | Eliminations | Total     |
| Revenue   | \$ 10,452           | \$ 266   | \$ (59)      | \$ 10,659 | \$ 10,155                         | \$ 230   | \$ (50)      | \$ 10,335 |
| Cost of Merchandise Inventories Sold  | 7,355               | 32       | —            | 7,387     | 7,186                             | 22       | —            | 7,208     |
| Gross Profit  | \$ 3,097            | \$ 234   | \$ (59)      | \$ 3,272  | \$ 2,969                          | \$ 208   | \$ (50)      | \$ 3,127  |
| Add (deduct) impact of the following:   |                     |          |              |           |                                   |          |              |           |
| Impact of health care reform on<br>inventory balances                                     | —                   | —        | —            | —         | 19                                | —        | —            | 19        |
| Adjusted Gross Profit   | \$ 3,097            | \$ 234   | \$ (59)      | \$ 3,272  | \$ 2,988                          | \$ 208   | \$ (50)      | \$ 3,146  |

**Impact of healthcare reform on inventory balances** In the first quarter of 2018, the Company recorded an inventory provision for the write-down of inventories below cost to net realizable value, related to its generic drug inventory, as a result of healthcare reform announced in the first quarter of 2018, effective April 1, 2018.

**Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin** The following tables reconcile adjusted operating income and adjusted EBITDA to operating income, which is reconciled to net earnings attributable to shareholders of the Company as reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

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

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars) | 2019<br>(12 weeks) |                       |              | 2018 <sup>(4)</sup><br>(12 weeks) |                       |              |
|---|--------------------|-----------------------|--------------|-----------------------------------|-----------------------|--------------|
|   | Retail             | Financial<br>Services | Consolidated | Retail                            | Financial<br>Services | Consolidated |
| Net earnings attributable to shareholders of the Company                                  |                    |                       | \$ 201       |                                   |                       | \$ 215       |
| Add (deduct) impact of the following:   |                    |                       |              |                                   |                       |              |
| Non-Controlling Interests   |                    |                       | 5            |                                   |                       | (5)          |
| Net interest expense and other financing charges  |                    |                       | 173          |                                   |                       | 89           |
| Income taxes  |                    |                       | 72           |                                   |                       | 77           |
| Operating income  | \$ 401             | \$ 50                 | \$ 451       | \$ 300                            | \$ 76                 | \$ 376       |
| Add (deduct) impact of the following:   |                    |                       |              |                                   |                       |              |
| Amortization of intangible assets acquired with Shoppers Drug Mart                        | \$ 119             | \$ —                  | \$ 119       | \$ 121                            | \$ —                  | \$ 121       |
| Restructuring and other related costs   | 12                 | —                     | 12           | —                                 | —                     | —            |
| Pension annuities and buy-outs  | 10                 | —                     | 10           | —                                 | —                     | —            |
| Impact of health care reform on inventory balances  | —                  | —                     | —            | 19                                | —                     | 19           |
| Loblaw Card Program   | —                  | —                     | —            | 19                                | —                     | 19           |
| Wind-down of PC Financial personal banking services                                       | —                  | —                     | —            | —                                 | (17)                  | (17)         |
| Fair value adjustment on fuel and foreign currency contracts                              | (2)                | —                     | (2)          | (5)                               | —                     | (5)          |
| Fair value adjustment on investment properties  | (3)                | —                     | (3)          | —                                 | —                     | —            |
| Gain on sale of non-operating properties  | (8)                | —                     | (8)          | —                                 | —                     | —            |
| Adjusting Items   | \$ 128             | \$ —                  | \$ 128       | \$ 154                            | \$ (17)               | \$ 137       |
| Adjusted operating income   | \$ 529             | \$ 50                 | \$ 579       | \$ 454                            | \$ 59                 | \$ 513       |
| Depreciation and amortization   | 575                | 5                     | 580          | 339                               | 2                     | 341          |
| Less: Amortization of intangible assets acquired with Shoppers Drug Mart                  | (119)              | —                     | (119)        | (121)                             | —                     | (121)        |
| Adjusted EBITDA   | \$ 985             | \$ 55                 | \$ 1,040     | \$ 672                            | \$ 61                 | \$ 733       |

In addition to the items described in the Retail segment adjusted gross profit section above, adjusted EBITDA was impacted by the following:

**Amortization of intangible assets acquired with Shoppers Drug Mart** The acquisition of Shoppers Drug Mart in 2014 included approximately \$6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately \$525 million until 2024 and will decrease thereafter.

**Restructuring and other related costs** The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing.

**Pension annuities and buy-outs** The Company is undertaking annuity purchases and pension buy-outs in respect of former employees designed to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks.

**Loblaw Card Program** In the fourth quarter of 2017, the Company and Weston acknowledged their involvement in an industry wide price-fixing arrangement involving certain packaged bread products. In connection with the arrangement, the Company offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017. In the first quarter of 2018, the Company recorded an additional charge of \$19 million.

**Wind-down of PC Financial personal banking services** In the third quarter of 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the PC Financial brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million which was recognized in 2017.

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

**Fair value adjustment to investment properties** The Company elected to change the measurement of investment properties from cost model to fair value model. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

**Gain on sale of non-operating properties** In the first quarter of 2019, the Company disposed of vacant land to a third party and recorded a gain of \$8 million related to the sale.

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

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars) | 2019<br>(12 weeks) | 2018 <sup>(4)</sup><br>(12 weeks) |
|---|--------------------|-----------------------------------|
| Net interest expense and other financing charges  | \$ 173             | \$ 89                             |
| Adjusted net interest expense and other financing charges                                 | \$ 173             | \$ 89                             |

**Adjusted Income Taxes and Adjusted Income Tax Rate** The following table reconciles adjusted income taxes to income taxes as reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

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

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | <b>2019</b><br><b>(12 weeks)</b> | 2018 <sup>(4)</sup><br>(12 weeks) |
|--|----------------------------------|-----------------------------------|
| Adjusted operating income <sup>(i)</sup>   | \$ 579                           | \$ 513                            |
| Adjusted net interest expense and other financing charges <sup>(i)</sup>   | 173                              | 89                                |
| Adjusted earnings before taxes   | \$ 406                           | \$ 424                            |
| Income taxes   | \$ 72                            | \$ 77                             |
| Add (deduct) impact of the following:  |                                  |                                   |
| Tax impact of items included in adjusted earnings before taxes <sup>(ii)</sup>   | 36                               | 37                                |
| Adjusted income taxes  | \$ 108                           | \$ 114                            |
| Effective tax rate   | 25.9%                            | 26.8%                             |
| Adjusted income tax rate   | 26.6%                            | 26.9%                             |

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

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

**Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share** The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company for the periods ended as indicated. The Company believes that adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars except where otherwise indicated) | <b>2019</b><br><b>(12 weeks)</b> | 2018 <sup>(4)</sup><br>(12 weeks) |
|--|----------------------------------|-----------------------------------|
| Net earnings attributable to shareholders of the Company   | \$ 201                           | \$ 380                            |
| Net earnings from Discontinued Operations  | —                                | 165                               |
| Net earnings attributable to shareholders of the Company from Continuing Operations  | \$ 201                           | \$ 215                            |
| Prescribed dividends on preferred shares in share capital  | (3)                              | (3)                               |
| Net earnings available to common shareholders of the Company from Continuing Operations                                    | \$ 198                           | \$ 212                            |
| Net earnings attributable to shareholders of the Company from Continuing Operations  | \$ 201                           | \$ 215                            |
| Adjusting items (refer to the following table)   | 92                               | 100                               |
| Adjusted net earnings attributable to shareholders of the Company from Continuing Operations                               | \$ 293                           | \$ 315                            |
| Prescribed dividends on preferred shares in share capital  | (3)                              | (3)                               |
| Adjusted net earnings available to common shareholders of the Company from Continuing Operations                           | \$ 290                           | \$ 312                            |
| Diluted weighted average common shares outstanding (millions)  | 371.4                            | 384.5                             |

## Management's Discussion and Analysis

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to net earnings available to common shareholders of the Company and diluted net earnings per common share for the periods ended as indicated.

|  | 2019   |                                       | 2018 <sup>(4)</sup>  |                                       |
|--|--|---------------------------------------|--|---------------------------------------|
|  | (12 weeks)   |                                       | (12 weeks)   |                                       |
|  | Net Earnings Available to Common Shareholders of the Company | Diluted Net Earnings Per Common Share | Net Earnings Available to Common Shareholders of the Company | Diluted Net Earnings Per Common Share |
| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars/Canadian dollars) |  |                                       |  |                                       |
| <b>Continuing Operations</b>   | \$ 198   | \$ 0.53                               | \$ 212   | \$ 0.55                               |
| <b>Discontinued Operations</b>   | —  | —                                     | 165  | 0.43                                  |
| <b>As reported</b>   | <b>\$ 198</b>  | <b>\$ 0.53</b>                        | <b>\$ 377</b>  | <b>\$ 0.98</b>                        |
| <b>Continuing Operations</b>   | <b>\$ 198</b>  | <b>\$ 0.53</b>                        | <b>\$ 212</b>  | <b>\$ 0.55</b>                        |
| Add (deduct) impact of the following:  |  |                                       |  |                                       |
| Amortization of intangible assets acquired with Shoppers Drug Mart   | \$ 86  | \$ 0.24                               | \$ 89  | \$ 0.22                               |
| Restructuring and other related costs  | 9  | 0.02                                  | —  | —                                     |
| Pension annuities and buy-outs   | 7  | 0.02                                  | —  | —                                     |
| Loblaw Card Program  | —  | —                                     | 14   | 0.04                                  |
| Wind-down of <i>PC Financial</i> personal banking services   | —  | —                                     | (13)   | (0.03)                                |
| Impact of health care reform on inventory balances   | —  | —                                     | 14   | 0.04                                  |
| Fair value adjustment on fuel and foreign currency contracts   | (1)  | —                                     | (4)  | (0.01)                                |
| Fair value adjustment on investment properties   | (2)  | (0.01)                                | —  | —                                     |
| Gain on sale of non-operating properties   | (7)  | (0.02)                                | —  | —                                     |
| Adjusting items from Continuing Operations   | \$ 92  | \$ 0.25                               | \$ 100   | \$ 0.26                               |
| <b>Adjusted Continuing Operations</b>  | <b>\$ 290</b>  | <b>\$ 0.78</b>                        | <b>\$ 312</b>  | <b>\$ 0.81</b>                        |
| <b>Discontinued Operations</b>   | <b>\$ —</b>  | <b>\$ —</b>                           | <b>\$ 165</b>  | <b>\$ 0.43</b>                        |
| Add (deduct) impact of the following:  |  |                                       |  |                                       |
| Fair value adjustment on Trust Unit Liability <sup>(i)</sup>   | \$ —   | \$ —                                  | \$ (124)   | \$ (0.32)                             |
| CREIT acquisition and other related costs  | —  | —                                     | 9  | 0.02                                  |
| Restructuring and other related costs  | —  | —                                     | (1)  | —                                     |
| Adjusting items from Discontinued Operations   | \$ —   | \$ —                                  | \$ (116)   | \$ (0.30)                             |
| <b>Adjusted Discontinued Operations</b>  | <b>\$ —</b>  | <b>\$ —</b>                           | <b>\$ 49</b>   | <b>\$ 0.13</b>                        |
| <b>Adjusted Total Company</b>  | <b>\$ 290</b>  | <b>\$ 0.78</b>                        | <b>\$ 361</b>  | <b>\$ 0.94</b>                        |

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

In addition to the items described in the Retail segment adjusted gross profit<sup>(2)</sup> and adjusted EBITDA<sup>(2)</sup> section above, adjusted net earnings available to common shareholders of the Company was impacted by the following:

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

**CREIT acquisition and other related costs** The Company recorded acquisition and other related costs in connection with Choice Properties' acquisition of CREIT in discontinued operations in the first quarter of 2018.

**Free Cash Flow** The following table reconciles free cash flow to cash flows from operating activities as reported in the condensed consolidated statements of cash flows for the periods ended as indicated. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

The definition of free cash flow<sup>(2)</sup> was changed in the first quarter of 2019 to normalize for the impact of the implementation of IFRS 16, which had no impact on cash flow.

| For the periods ended March 23, 2019 and March 24, 2018<br>(millions of Canadian dollars) | 2019<br>(12 weeks) | 2018 <sup>(4)</sup><br>(12 weeks) |
|---|--------------------|-----------------------------------|
| Cash flows from operating activities from Continuing Operations <sup>(i)</sup>            | \$ 960             | \$ 385                            |
| Cash flows from operating activities from Discontinued Operations <sup>(i)</sup>          | —                  | 49                                |
| <b>Cash flows from operating activities Total Company</b>                                 | <b>\$ 960</b>      | <b>\$ 434</b>                     |
| Cash flows from operating activities from Continuing Operations <sup>(i)</sup>            | \$ 960             | \$ 385                            |
| Less:   |                    |                                   |
| Capital investments   | 174                | 163                               |
| Interest paid   | 98                 | 92                                |
| Lease payments, net <sup>(ii)</sup>   | 269                | —                                 |
| <b>Free cash flow from Continuing Operations</b>  | <b>\$ 419</b>      | <b>\$ 130</b>                     |
| Cash flows from operating activities from Discontinued Operations <sup>(i)</sup>          | \$ —               | \$ 49                             |
| Less:   |                    |                                   |
| Capital investments   | —                  | 59                                |
| Interest paid   | —                  | 63                                |
| <b>Free cash flow from Discontinued Operations</b>  | <b>\$ —</b>        | <b>\$ (73)</b>                    |
| <b>Free cash flow from Total Company</b>  | <b>\$ 419</b>      | <b>\$ 57</b>                      |

(i) Cash flows from operating activities from Continuing Operations include distributions received in 2018 and the payment related to the conversion of Class C LP Units in 2018 from Discontinued Operations. Cash flows from Discontinued Operations include the outflow of these items.

(ii) Includes cash rent paid on lease liabilities, net of lease payments received from finance leases.

**Retail Debt to Rolling Year Retail Adjusted EBITDA, Rolling Year Adjusted Return on Equity and Rolling Year Adjusted Return on Capital** The Company uses the following metrics to measure its leverage and profitability. The definitions of these ratios are presented below.

- **Retail Debt to Rolling Year Retail Adjusted EBITDA** Retail segment total debt divided by Retail segment adjusted EBITDA for the last four quarters.
- **Rolling Year Adjusted Return on Equity** Adjusted net earnings available to common shareholders of the Company for the last four quarters divided by average total equity attributable to common shareholders of the Company.
- **Rolling Year Adjusted Return on Capital** Tax-effected adjusted operating income for the last four quarters divided by average capital where capital is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments.

### 13. Additional Information

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

April 30, 2019  
Toronto, Canada

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**MD&A Endnotes**

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- (1) For financial definitions and ratios refer to the Glossary of Terms on page 140 of the Company's 2018 Annual Report.
  - (2) See Section 12 "Non-GAAP Financial Measures", which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
  - (3) To be read in conjunction with Section 1 "Forward-Looking Statements".
  - (4) Comparative figures have been restated. See note 4 in the Company's 2019 first quarter unaudited interim period condensed consolidated financial statements. Certain figures have been restated to conform with current year presentation.
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