

Management's Discussion and Analysis

1. Forward-Looking Statements	2
2. Key Financial Performance Indicators	4
3. Consolidated Results of Operations	5
4. Reportable Operating Segments Results of Operations	11
4.1 Retail Segment	11
4.2 Financial Services Segment	14
4.3 Choice Properties Segment	16
5. Liquidity and Capital Resources	18
5.1 Cash Flows	18
5.2 Liquidity and Capital Structure	20
5.3 Components of Total Debt	21
5.4 Financial Condition	24
5.5 Credit Ratings	24
5.6 Share Capital	25
5.7 Off-Balance Sheet Arrangements	27
6. Financial Derivative Instruments	27
7. Results by Quarter	27
8. Internal Control over Financial Reporting	29
9. Enterprise Risks and Risk Management	29
10. Accounting Standards	30
11. Outlook	36
12. Non-GAAP Financial Measures	36
13. Additional Information	44

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 third quarter 2018 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 30, 2017 and the related annual MD&A included in the Company's 2017 Annual Report – Financial Review ("2017 Annual Report").

The Company's third quarter 2018 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 127 of the Company's 2017 Annual Report.

The information in this MD&A is current to November 13, 2018, unless otherwise noted.

On May 4, 2018, Choice Properties Real Estate Investment Trust ("Choice Properties") completed the acquisition of Canadian Real Estate Investment Trust ("CREIT"), as described in Section 4.3 "Other Choice Properties' Business Matters" of this MD&A. The Company's third quarter 2018 results include the impacts of CREIT.

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 to Weston on a tax-free basis to the Company and its Canadian shareholders (the "reorganization"), as described in Section 3. "Consolidated Results of Operations" of this MD&A. Following the transaction, the Company no longer retains any equity interest in Choice Properties and will cease to consolidate its interest in Choice Properties from its consolidated financial statements.

1. Forward-Looking Statements

This Quarterly Report, including this MD&A, for the Company 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 minimum wage increases and 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 4.1 "Retail Segment" Other Retail Business Matters, Section 4.3 "Choice Properties Segment" Other Choice Properties' Business Matters, Section 5 "Liquidity and Capital Resources", Section 10 "Accounting Standards" Future Accounting Standards, 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 2018 is based on certain assumptions including assumptions about anticipated minimum wage increases, healthcare reform impacts, cost savings, operating efficiencies 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 2017 Annual Report, and the Company's 2017 Annual Information Form ("AIF") (for the year ended December 30, 2017). 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;
- failure to effectively manage the Company's loyalty program;
- 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 execute the Company's e-commerce initiative or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business, including increases to minimum wage;
- public health events including those related to food and drug safety;
- failure to realize the anticipated benefits, including revenue growth, anticipated cost savings or operating efficiencies, associated with the Company's investment in major initiatives that support its strategic priorities, including the failure by the Company to realize the anticipated benefits from the Company's spin-out of Choice Properties;
- adverse outcomes of legal and regulatory proceedings and related matters;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink; and
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, tariff disputes, which may include newly imposed surtaxes, 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 2017 AIF (for the year ended December 30, 2017). 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⁽¹⁾

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 October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (16 weeks)
Consolidated		
Revenue growth	1.8%	0.3%
Operating income	\$ 797	\$ 1,236
Adjusted EBITDA ⁽²⁾	1,321	1,229
Adjusted EBITDA margin ⁽²⁾	9.1%	8.7%
Net earnings	\$ 117	\$ 894
Net earnings attributable to shareholders of the Company	109	886
Net earnings available to common shareholders of the Company	106	883
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	562	549
Diluted net earnings per common share (\$)	\$ 0.28	\$ 2.24
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.49	\$ 1.39
Cash and cash equivalents and short term investments	\$ 1,426	\$ 1,841
Cash flows from operating activities	1,162	872
Free cash flow ⁽²⁾	318	340
Financial Measures		
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	1.5x	1.7x
Rolling year adjusted return on equity ⁽²⁾	14.0%	13.6%
Rolling year adjusted return on capital ⁽²⁾	9.3%	9.5%
Retail Segment		
Food retail same-store sales growth	0.9%	1.4%
Drug retail same-store sales growth	2.5%	3.3%
Operating income	\$ 703	\$ 1,168
Adjusted gross profit ⁽²⁾	4,099	3,944
Adjusted gross profit % ⁽²⁾	29.1%	28.2%
Adjusted EBITDA ⁽²⁾	\$ 1,189	\$ 1,159
Adjusted EBITDA margin ⁽²⁾	8.4%	8.3%
Financial Services Segment		
Earnings before income taxes	\$ 22	\$ 43
Annualized yield on average quarterly gross credit card receivables	13.1%	13.3%
Annualized credit loss rate on average quarterly gross credit card receivables	3.2%	3.8%
Choice Properties Segment		
Net income	\$ 62	\$ 303
Funds from operations ⁽²⁾	170	109

3. Consolidated Results of Operations

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018		2017 ⁽⁴⁾		2018		2017 ⁽⁴⁾	
	(16 weeks)	(16 weeks)	\$ Change	% Change	(40 weeks)	(40 weeks)	\$ Change	% Change
Revenue	\$ 14,453	\$ 14,192	\$ 261	1.8 %	\$ 35,743	\$ 35,676	\$ 67	0.2 %
Operating income	797	1,236	(439)	(35.5)%	1,838	2,358	(520)	(22.1)%
Adjusted EBITDA ⁽²⁾	1,321	1,229	92	7.5 %	3,224	3,083	141	4.6 %
Adjusted EBITDA margin ⁽²⁾	9.1%	8.7%			9.0%	8.6%		
Depreciation and amortization	\$ 486	\$ 476	\$ 10	2.1 %	\$ 1,227	\$ 1,196	\$ 31	2.6 %
Net interest expense and other financing charges	339	119	220	184.9 %	722	407	315	77.4 %
Adjusted net interest expense and other financing charges ⁽²⁾	225	152	73	48.0 %	540	405	135	33.3 %
Income taxes	341	223	118	52.9 %	559	458	101	22.1 %
Adjusted income taxes ⁽²⁾	198	202	(4)	(2.0)%	490	505	(15)	(3.0)%
Adjusted income tax rate ⁽²⁾	25.7%	26.5%			26.4%	26.8%		
Net earnings attributable to shareholders of the Company	\$ 109	\$ 886	\$ (777)	(87.7)%	\$ 542	\$ 1,483	\$ (941)	(63.5)%
Net earnings available to common shareholders of the Company⁽ⁱ⁾	106	883	(777)	(88.0)%	533	1,474	(941)	(63.8)%
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	562	549	13	2.4 %	1,344	1,361	(17)	(1.2)%
Diluted net earnings per common share (\$)	\$ 0.28	\$ 2.24	\$ (1.96)	(87.5)%	\$ 1.40	\$ 3.69	\$ (2.29)	(62.1)%
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.49	\$ 1.39	\$ 0.10	7.2 %	\$ 3.54	\$ 3.41	\$ 0.13	3.8 %
Diluted weighted average common shares outstanding (millions)	376.3	395.0			380.0	399.2		

(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.

The Company's year-over-year financial performance will be negatively impacted by minimum wage increases and incremental healthcare reform. The disposition of the Company's gas bar operations, in the third quarter of 2017, had a negative year-over-year impact on financial performance.

Choice Properties completed the acquisition of CREIT in the second quarter of 2018. In the third quarter of 2018, the acquisition resulted in increases in revenue of \$101 million, adjusted EBITDA⁽²⁾ of approximately \$73 million, adjusted net interest expense and other financing charges⁽²⁾ of \$68 million and adjusted net earnings available to common shareholders of the Company⁽²⁾ of \$3 million. Year-to-date, the acquisition resulted in increases in revenue of \$170 million, adjusted EBITDA⁽²⁾ of approximately \$121 million, adjusted net interest expense and other financing charges⁽²⁾ of \$118 million and adjusted net earnings available to common shareholders of the Company⁽²⁾ of \$2 million. The acquisition had a nominal impact on adjusted net earnings per common share⁽²⁾ in the third quarter of 2018 and year-to-date.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share Net earnings available to common shareholders of the Company in the third quarter of 2018 were \$106 million (\$0.28 per common share), a decrease of \$777 million (\$1.96 per common share) compared to the third quarter of 2017. The decrease included the improvement in underlying operating performance of approximately \$17 million, excluding the unfavourable impact of the disposition of gas bar operations of approximately \$4 million, and the unfavourable year-over-year net impact of adjusting items totaling \$790 million, as described below:

- the improvement in underlying operating performance of \$13 million (\$0.03 per common share) was primarily due to the following:
 - Retail segment (excluding the impact of the consolidation of franchises) driven by an increase in adjusted gross profit⁽²⁾, partially offset by an increase in selling, general and administrative expenses ("SG&A") and depreciation and amortization and the unfavourable impact of the disposition of gas bar operations of approximately \$4 million; and
 - a decrease in the adjusted income tax rate⁽²⁾ attributable to the Company's proportionate interest in Choice Properties, which declined as a result of the acquisition of CREIT.
- the unfavourable year-over-year net impact of adjusting items totaling \$790 million (\$2.06 per common share) was primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$432 million (\$1.10 per common share);
 - the charge related to Glenhuron Bank Limited ("Glenhuron") of \$367 million (\$0.98 per common share); and
 - the unfavourable change in fair value adjustment to investment properties of \$29 million (\$0.08 per common share);
 partially offset by,
 - the favourable change in fair value adjustment to the Trust Unit Liability of \$29 million (\$0.08 per common share); and
 - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$14 million (\$0.03 per common share).
- the decrease in diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months (\$0.07 per common share).

Adjusted net earnings available to common shareholders of the Company⁽²⁾ in the third quarter of 2018 were \$562 million (\$1.49 per common share), an increase of \$13 million (\$0.10 per common share), compared to the third quarter of 2017. Normalized for the disposition of gas bar operations, adjusted net earnings available to common shareholders of the Company⁽²⁾ increased by approximately \$17 million, as described above. Adjusted diluted net earnings per common share⁽²⁾ also included the favourable impact of the repurchase of common shares over the last 12 months (\$0.07 per common share). Normalized for the disposition of gas bar operations, adjusted diluted net earnings per common share⁽²⁾ increased by approximately 8.0%.

Year-to-date net earnings available to common shareholders of the Company were \$533 million (\$1.40 per common share), a decrease of \$941 million (\$2.29 per common share) compared to the same period in 2017. The decrease in net earnings available to common shareholders of the Company included an improvement in underlying operating performance of \$9 million, excluding the unfavourable impact of the disposition of gas bar operations of approximately \$26 million, and the unfavourable year-over-year net impact of adjusting items totaling \$924 million, as described below:

- the decline in underlying operating performance of \$17 million (\$0.04 per common share) was primarily due to the following:
 - the Retail segment (excluding the impact of the consolidation of franchises), driven by an increase in SG&A and depreciation and amortization, and the unfavourable impact of the disposition of gas bar operations of approximately \$26 million partially offset by an increase in adjusted gross profit⁽²⁾; and
 - an increase in adjusted net interest expense and other financing charges⁽²⁾, excluding the acquisition of CREIT, due to higher interest expense in the Choice Properties segment net of Consolidation and Eliminations and in the Financial Services segment; partially offset by,
 - the Financial Services segment, primarily due to the growth of the credit card portfolio;
 - the Choice Properties segment, excluding the acquisition of CREIT, was driven by the expansion of the property portfolio through acquisitions and completed development projects, as well as an increase in net operating income from existing properties; and
 - a decrease in the adjusted income tax rate⁽²⁾ attributable to the Company's proportionate interest in Choice Properties, which declined as a result of the acquisition of CREIT.

- the unfavourable year-over-year net impact of adjusting items totaling \$924 million (\$2.42 per common share) was primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$432 million (\$1.08 per common share);
 - the charge related to Glenhuron of \$367 million (\$0.97 per common share);
 - acquisition and other costs related to Choice Properties' acquisition of CREIT of \$118 million (\$0.31 per common share); and
 - the unfavourable change in fair value adjustment to investment properties of \$37 million (\$0.10 per common share);
 partially offset by,
 - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$26 million (\$0.07 per common share).
- the decrease in diluted net earnings per common share also included the favourable impact of the repurchase of common shares (\$0.17 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company⁽²⁾ were \$1,344 million (\$3.54 per common share), a decrease of \$17 million (increase of \$0.13 per common share) compared to the same period in 2017. Normalized for the disposition of gas bar operations, adjusted net earnings available to common shareholders of the Company⁽²⁾ increased by approximately \$9 million, as described above. Adjusted diluted net earnings per common share⁽²⁾ also included the favourable impact of the repurchase of common shares (\$0.17 per common share). Normalized for the disposition of gas bar operations, adjusted diluted net earnings per common share⁽²⁾ increased by approximately 5.7%.

Revenue

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018				2017 ⁽⁴⁾⁽⁵⁾			
	(16 weeks)	(16 weeks)	\$ Change	% Change	(40 weeks)	(40 weeks)	\$ Change	% Change
Retail	\$ 14,105	\$ 13,993	\$ 112	0.8%	\$ 34,860	\$ 35,072	\$ (212)	(0.6)%
Financial Services	274	240	34	14.2%	746	679	67	9.9 %
Choice Properties	315	207	108	52.2%	825	619	206	33.3 %
Consolidation and Eliminations	(241)	(248)	7		(688)	(694)	6	
Revenue	\$ 14,453	\$ 14,192	\$ 261	1.8%	\$ 35,743	\$ 35,676	\$ 67	0.2 %

Revenue was \$14,453 million in the third quarter of 2018, an increase of \$261 million, or 1.8%, compared to the third quarter of 2017, primarily driven by an increase in the Choice Properties segment net of Consolidation and Eliminations due to the acquisition of CREIT and an increase in Retail segment sales of \$112 million. Excluding the consolidation of franchises, Retail segment sales increased by \$9 million, or 0.1%. The increase was primarily due to positive same-store sales growth, partially offset by the impact of the disposition of gas bar operations of \$123 million. The increase also included revenue growth in the Financial Services segment driven by an increase in interest and interchange income attributable to the growth in the credit card portfolio.

Year-to-date revenue was \$35,743 million in 2018, an increase of \$67 million, or 0.2%, compared to the same period in 2017, primarily driven by an increase in Choice Properties segment net of Consolidation and Eliminations due to acquisition of CREIT and an increase in Financial Services segment driven by higher year-over-year interchange income, partially offset by a decrease in Retail segment sales of \$212 million. Excluding the consolidation of franchises, Retail segment sales decreased by \$472 million, or 1.4%. The decrease was primarily due to the impact of the disposition of gas bar operations of \$843 million, partially offset by positive same-store sales growth and a net increase in Retail square footage.

Operating Income Operating income was \$797 million in the third quarter of 2018, a decrease of \$439 million compared to the third quarter of 2017. The decrease in operating income included an improvement in underlying operating performance of \$82 million and the unfavourable year-over-year net impact of adjusting items totaling \$521 million, as described below:

- improvements in underlying operating performance of \$82 million were primarily due to the Choice Properties segment net of Consolidation and Eliminations, driven by the acquisition of CREIT, and the Retail segment, including the unfavourable impact of the disposition of gas bar operations, partially offset by the Financial Services segment. The Retail segment's year-over-year third quarter performance included the unfavourable contribution from the consolidation of franchises of \$1 million; and
- the unfavourable year-over-year net impact of adjusting items totaling \$521 million was primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$501 million; and
 - the unfavourable change in fair value adjustment to investment properties of \$34 million; partially offset by,
 - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$20 million.

Year-to-date operating income was \$1,838 million in 2018, a decrease of \$520 million compared to the same period in 2017. The decrease in operating income included an improvement in underlying operating performance of \$108 million and the unfavourable year-over-year net impact of adjusting items totaling \$628 million, as described below:

- improvements in underlying operating performance of \$108 million were primarily due to the Choice Properties segment net of Consolidation and Eliminations, driven by the acquisition of CREIT, and the Financial Services segment partially offset by the Retail segment, including the unfavourable impact of the disposition of gas bar operations. The Retail segment's year-over-year performance included the favourable contribution from the consolidation of franchises of \$6 million; and
- the unfavourable year-over-year net impact of adjusting items totaling \$628 million was primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$501 million;
 - acquisition and other costs related to Choice Properties' acquisition of CREIT of \$130 million;
 - the unfavourable change in fair value adjustment to investment properties of \$44 million; and partially offset by,
 - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$36 million.

Adjusted EBITDA⁽²⁾

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 ⁽⁴⁾⁽⁵⁾ (16 weeks)		2018 (40 weeks)		2017 ⁽⁴⁾⁽⁵⁾ (40 weeks)		
		\$ Change	% Change			\$ Change	% Change	
Retail	\$ 1,189	\$ 1,159	\$ 30	2.6 %	\$ 2,892	\$ 2,900	\$ (8)	(0.3)%
Financial Services	43	52	(9)	(17.3)%	156	139	17	12.2 %
Choice Properties	223	228	(5)	(2.2)%	564	605	(41)	(6.8)%
Consolidation and Eliminations	(134)	(210)	76		(388)	(561)	173	
Adjusted EBITDA ⁽²⁾	\$ 1,321	\$ 1,229	\$ 92	7.5 %	\$ 3,224	\$ 3,083	\$ 141	4.6 %

Adjusted EBITDA⁽²⁾ was \$1,321 million in the third quarter of 2018, an increase of \$92 million compared to the third quarter of 2017. The increase in adjusted EBITDA⁽²⁾ in the third quarter of 2018 was primarily due to the Choice Properties segment net of Consolidation and Eliminations, driven by the acquisition of CREIT, and the Retail segment, which included the unfavourable impact of the disposition of gas bar operations of \$5 million and the favourable contribution from the consolidation of franchises of \$5 million. The increase was partially offset by the Financial Services segment.

Year-to-date adjusted EBITDA⁽²⁾ was \$3,224 million in 2018, an increase of \$141 million compared to the same period in 2017. The year-to-date increase in adjusted EBITDA⁽²⁾ was primarily due to the Choice Properties segment net of Consolidation and Eliminations, driven by the acquisition of CREIT, and the Financial Services segment. The increase was partially offset by the Retail segment which included the unfavourable impact of the disposition of gas bar operations of \$45 million and the favourable contribution from the consolidation of franchises of \$18 million.

Depreciation and Amortization Depreciation and amortization was \$486 million in the third quarter of 2018, an increase of \$10 million compared to the third quarter of 2017. Year-to-date depreciation and amortization was \$1,227 million in 2018, an increase of \$31 million compared to the same period in 2017. The increase in depreciation and amortization in the third quarter of 2018 and year-to-date was primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization in the third quarter of 2018 and year-to-date was the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) of \$161 million (2017 – \$161 million) and \$401 million (2017 – \$403 million), respectively.

Net Interest Expense and Other Financing Charges

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 (16 weeks)	2018 (40 weeks)	2017 (40 weeks)
Net interest expense and other financing charges	\$ 339	\$ 119	\$ 722	\$ 407
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	62	33	(6)	(2)
Charge related to Glenhuron	(176)	—	(176)	—
Adjusted net interest expense and other financing charges ⁽²⁾	\$ 225	\$ 152	\$ 540	\$ 405

Net interest expense and other financing charges were \$339 million in the third quarter of 2018, an increase of \$220 million compared to the third quarter of 2017. The increase in net interest and other financing charges for the third quarter of 2018 was primarily due to the charge related to Glenhuron of \$176 million and higher interest expense in the Choice Properties segment, partially offset by the favourable change in the fair value adjustment to the Trust Unit Liability of \$29 million.

Adjusted net interest expense and other financing charges⁽²⁾ were \$225 million in the third quarter of 2018, an increase of \$73 million compared to the third quarter of 2017 driven by higher interest expense in the Choice Properties segment as a result of the issuance of new senior unsecured debentures, debt assumed on the acquisition of CREIT, higher distributions from newly issued Trust units to former CREIT unitholders as part of the acquisition consideration, partially offset by the repayment of Series A senior unsecured debentures and interest income on the joint ventures assumed on the acquisition of CREIT.

Year-to-date net interest expense and other financing charges were \$722 million in 2018, an increase of \$315 million compared to the same period in 2017. The year-to-date increase in net interest and other financing charges was primarily due to the charge related to Glenhuron of \$176 million, higher interest expense in the Choice Properties segment and the unfavourable change in the fair value adjustment to the Trust Unit Liability of \$4 million.

Year-to-date adjusted net interest expense and other financing charges⁽²⁾ were \$540 million in 2018, an increase of \$135 million compared to the same period in 2017 driven by higher interest expense in the Choice Properties segment net of Consolidation and Eliminations, as discussed above, and higher interest expense in the Financial Services segment due to an increase in borrowings related to credit receivables.

Income Taxes

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 ⁽⁴⁾ (16 weeks)	2018 (40 weeks)	2017 ⁽⁴⁾ (40 weeks)
Income taxes	\$ 341	\$ 223	\$ 559	\$ 458
Add impact of the following:				
Tax impact of items included in adjusted earnings before taxes	48	(21)	122	47
Charge related to Glenhuron	(191)	—	(191)	—
Adjusted income taxes ⁽²⁾	\$ 198	\$ 202	\$ 490	\$ 505
Effective tax rate	74.5%	20.0%	50.1%	23.5%
Adjusted income tax rate ⁽²⁾	25.7%	26.5%	26.4%	26.8%

The effective tax rate in the third quarter of 2018 was 74.5% compared to 20.0% in the third quarter of 2017. The year-to-date effective tax rate in 2018 was 50.1% compared to 23.5% for the same period in 2017. The increase in the effective tax rate in the third quarter of 2018 and year-to-date was primarily attributable to a charge of \$191 million related to Glenhuron, as described in "Other Business Matters" below, as well as the impact of other non-deductible items.

The adjusted income tax rate⁽²⁾ in the third quarter of 2018 was 25.7% compared to 26.5% in the third quarter of 2017. The year-to-date adjusted income tax rate⁽²⁾ in 2018 was 26.4% compared to 26.8% for the same period 2017. The decrease in the adjusted income tax rate⁽²⁾ in the third quarter of 2018 and year-to-date was primarily attributable to the Company's proportionate interest in Choice Properties, which declined as a result of the acquisition of CREIT.

Other Business Matters

Charge related to Glenhuron On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to Glenhuron, a wholly-owned Barbadian subsidiary of the Company that was wound up in 2013. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation.

On October 4, 2018, the Company filed a Notice of Appeal with the Federal Court of Appeal. Although the Company believes in the merits of its position, it recorded a charge during the third quarter of 2018 of \$367 million, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes. The Company believes that this provision will be sufficient to cover its ultimate liability if the appeal is unsuccessful.

In the third quarter of 2018, the Company made a cash payment of \$235 million to fund the tax and interest owing in light of the decision of the Tax Court.

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. In connection with the reorganization, the common shareholders of the Company, other than Weston and its subsidiaries, received 0.135 of a common share of Weston for each common share of the Company held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and Weston received the Company's approximate 61.6% effective interest in Choice Properties.

Following the transaction, the Company no longer retains its interest in Choice Properties and will cease to consolidate its equity interest in Choice Properties from its consolidated financial statements. The transaction has no impact on the ongoing operating relationship between the Company and Choice Properties and all current agreements and arrangements, including The Strategic Alliance Agreement and leases, remain in place. The Company continues to be Choice Properties' largest tenant.

Based on pro forma year ended December 30, 2017 financial results adjusted to reflect the impact of the transaction, the reorganization will reduce adjusted EBITDA⁽²⁾ by approximately \$575 million and adjusted diluted net earnings per share⁽²⁾ by approximately \$0.60. The impacts are primarily driven by the Company no longer eliminating its rent paid to Choice Properties and no longer consolidating Choice Properties' rent received from third party tenants. Adjusted diluted net earnings per share⁽²⁾ also includes the favourable impacts of lower depreciation due to the deconsolidation of properties owned by Choice Properties and lower interest expenses due to the removal of interest expense related to trust unit distributions to third parties and the removal of Choice Properties' debt. Choice Properties will also be deconsolidated from the Company's balance sheet, which will result in a reduction in total assets and liabilities of approximately \$5.0 billion and \$4.5 billion, respectively.

Subsequent to the announcement of the spin out of Choice Properties, Standard & Poor's ("S&P") and Dominion Bond Rating Service ("DBRS") reaffirmed the credit ratings and outlook of the Company, and as expected there were no changes to the ratings as a result of the spin-out.

The Company has recorded \$6 million in spin-out related costs, in SG&A, in the third quarter of 2018.

4. Reportable Operating Segments Results of Operations

As at the end of the third quarter of 2018, the Company has three 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, which includes in-store pharmacies and other health and beauty products, apparel and other general merchandise, and provides 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. Prior to July 17, 2017, the Retail segment also included gas bar operations.
- The Financial Services segment provides credit card services, the *PC Optimum* program, insurance brokerage services, Guaranteed Investment Certificates ("GICs") and telecommunication services. As a result of the wind-down of *PC Financial* banking services, the Financial Services segment no longer offers personal banking services.
- Choice Properties owns, manages and develops a high-quality portfolio of commercial retail, industrial, office and residential properties across Canada. The Choice Properties segment information presented below reflects the accounting policies of Choice Properties, which may differ from those of the consolidated Company. Differences in policies are eliminated in Consolidation and Eliminations. As of May 4, 2018, the Choice Properties segment includes the acquisition of CREIT.

Subsequent to the completion of the spin-out of Choice Properties on November 1, 2018, the Company has two reportable operating segments: the Retail segment and the Financial Services segment.

4.1 Retail Segment

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018				2017 ⁽⁵⁾			
	(16 weeks)	(16 weeks)	\$ Change	% Change	(40 weeks)	(40 weeks)	\$ Change	% Change
Sales	\$ 14,105	\$ 13,993	\$ 112	0.8 %	\$ 34,860	\$ 35,072	\$ (212)	(0.6)%
Operating income	703	1,168	(465)	(39.8)%	1,670	2,192	(522)	(23.8)%
Adjusted gross profit ⁽²⁾	4,099	3,944	155	3.9 %	10,205	9,881	324	3.3 %
Adjusted gross profit % ⁽²⁾	29.1%	28.2%			29.3%	28.2%		
Adjusted EBITDA ⁽²⁾	\$ 1,189	\$ 1,159	\$ 30	2.6 %	\$ 2,892	\$ 2,900	\$ (8)	(0.3)%
Adjusted EBITDA margin ⁽²⁾	8.4%	8.3%			8.3%	8.3%		
Depreciation and amortization	\$ 479	\$ 467	\$ 12	2.6 %	\$ 1,203	\$ 1,172	\$ 31	2.6 %

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018		2017 ⁽⁵⁾		2018		2017 ⁽⁵⁾	
	(16 weeks)		(16 weeks)		(40 weeks)		(40 weeks)	
	Sales	Same-store sales	Sales	Same-store sales	Sales	Same-store sales	Sales	Same-store sales
Food retail	\$ 10,272	0.9%	\$10,242	1.4%	\$ 25,219	1.1%	\$ 25,665	0.6%
Drug retail	3,833	2.5%	3,751	3.3%	9,641	2.6%	9,407	2.7%
Pharmacy	1,828	0.5%	1,820	3.9%	4,604	1.3%	4,540	2.8%
Front Store	2,005	4.3%	1,931	2.8%	5,037	3.8%	4,867	2.7%

Sales, operating income, adjusted gross profit⁽²⁾, adjusted gross profit percentage⁽²⁾, adjusted EBITDA⁽²⁾, adjusted EBITDA margin⁽²⁾ and depreciation and amortization include the impacts of the consolidation of franchises and disposition of gas bar operations.

Sales Retail segment sales in the third quarter of 2018 were \$14,105 million, an increase of \$112 million, or 0.8%, compared to the third quarter of 2017. Excluding the consolidation of franchises, Retail segment sales increased by \$9 million, or 0.1%, primarily driven by the following factors:

- Food retail same-store sales growth was 0.9% (2017 – 1.4%) for the quarter. Gas bar operations had no impact on same-store sales in the third quarter of 2018 and 2017.
 - Sales growth in food was modest;
 - Sales in pharmacy declined significantly; and
 - The Company's Food retail average quarterly internal food price index declined and was marginally lower than (2017 – marginally higher than) the average quarterly national food price inflation of 0.3% (2017 – inflation of 0.3%), 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.
 - Drug retail same-store sales growth was 2.5% (2017 – 3.3%) and was comprised of pharmacy same-store sales growth of 0.5% (2017 – 3.9%) and front store same-store sales growth of 4.3% (2017 – 2.8%).
 - Pharmacy same-store sales growth was 0.5% (2017 – 3.9%). The number of prescriptions dispensed increased by 3.3% (2017 – increased by 4.9%). On a same-store basis, the number of prescriptions dispensed increased by 3.2% (2017 – increased by 4.3%) and year-over-year, the average prescription value decreased by 3.0% (2017 – decreased by 0.6%).
 - 12 food and drug stores were opened and 24 food and drug stores were closed in the last 12 months with Retail square footage remaining flat;
- partially offset by,
- The impact of the disposition of gas bar operations of \$123 million; and
 - The impact of incremental healthcare reform on Drug retail.

On a year-to-date basis, retail sales were \$34,860 million, a decrease of \$212 million, or 0.6%, compared to the same period in 2017. Year-to-date Food retail sales of \$25,219 million were lower by \$446 million, or 1.7%. The decrease was primarily due to the impact of the disposition of gas bar operations of \$843 million. Drug retail sales of \$9,641 million were higher by \$234 million, or 2.5%. Year-to-date Food retail same-store sales growth was 1.1% (2017 – 0.2%), after excluding gas bar operations. Including gas bar operations, same-store sales growth was 1.1% (2017 – 0.6%). Year-to-date Drug retail same-store sales growth was 2.6% (2017 – 2.7%), with pharmacy same-store sales growth of 1.3% (2017 – 2.8%) and front store same-store sales growth of 3.8% (2017 – 2.7%).

The redemption of Loblaw Cards resulted in the delivery of approximately \$17 million of free products to customers in the third quarter of 2018 and \$70 million year-to-date, 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 third quarter of 2018 was \$703 million, a decrease of \$465 million compared to the third quarter of 2017. The decrease in operating income included an improvement in underlying operating performance of \$18 million and the unfavourable year-over-year net impact of adjusting items totaling \$483 million, as described below:

- the improvement in underlying operating performance of \$18 million, including the unfavourable impact of the disposition of gas bar operations, was driven by an increase in adjusted gross profit⁽²⁾ offset by an increase in SG&A and depreciation and amortization. The improvement in underlying operating performance also included the unfavourable year-over-year contribution from the consolidation of franchises of \$1 million; and
- the unfavourable year-over-year net impact of adjusting items totaling \$483 million was primarily due to the prior year gain on the disposition of gas bars operations of \$501 million, partially offset by the favourable change in fair value adjustment on fuel and foreign currency contracts of \$20 million.

Year-to-date operating income was \$1,670 million, a decrease of \$522 million compared to the same period in 2017. The decrease in operating income was driven by a decline in underlying operating performance of \$41 million and the unfavourable year-over-year net impact of adjusting items totaling \$481 million, as described below:

- the decline in underlying operating performance of \$41 million, including the unfavourable impact of the disposition of gas bar operations, was driven by an increase in SG&A and depreciation and amortization, partially offset by an increase in adjusted gross profit⁽²⁾. The decline in underlying operating performance also included the favourable contribution from the consolidation of franchises of \$6 million; and
- the unfavourable year-over-year net impact of adjusting items totaling \$481 million was primarily due to the following:
 - the prior year gain on the disposition of gas bars operations of \$501 million; and
 - the unfavourable impact of healthcare reform on inventory balances of \$19 million; partially offset by,
 - the favourable change in fair value adjustment on fuel and foreign currency contracts of \$36 million; and
 - the favourable year-over-year impact of pension annuities and buy-outs in the prior year of \$11 million.

Adjusted Gross Profit⁽²⁾ Adjusted gross profit⁽²⁾ in the third quarter of 2018 was \$4,099 million, an increase of \$155 million compared to the third quarter of 2017. Adjusted gross profit percentage⁽²⁾ of 29.1% increased by 90 basis points compared to the third quarter of 2017. Excluding the consolidation of franchises, adjusted gross profit⁽²⁾ increased by \$46 million. Adjusted gross profit percentage⁽²⁾, excluding the consolidation of franchises, was 27.3%, an increase of 30 basis points compared to the third quarter of 2017. The increase in adjusted gross profit percentage⁽²⁾ was primarily due to the favourable impact from the disposition of gas bar operations of approximately 20 basis points. Margins were positively impacted by Food retail and negatively impacted by healthcare reform.

Year-to-date adjusted gross profit⁽²⁾ was \$10,205 million, an increase of \$324 million compared to the same period of 2017. Adjusted gross profit percentage⁽²⁾ of 29.3% increased by 110 basis points compared to 2017. Excluding the consolidation of franchises, adjusted gross profit⁽²⁾ increased by \$69 million. Adjusted gross profit percentage⁽²⁾, excluding the consolidation of franchises, was 27.6%, an increase of 50 basis points compared to the same period of 2017. The increase in adjusted gross profit percentage⁽²⁾ was mainly due to the favourable impact from the disposition of gas bar operations of approximately 50 basis points. Margins were positively impacted by Food retail and negatively impacted by healthcare reform.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ in the third quarter of 2018 was \$1,189 million, an increase of \$30 million compared to the third quarter of 2017 and included the favourable impact of the consolidation of franchises of \$5 million and the unfavourable impact of the disposition of gas bar operations of approximately \$5 million. The increase in adjusted EBITDA⁽²⁾ of \$30 million was driven by an increase in adjusted gross profit⁽²⁾ as described above, partially offset by an increase in SG&A of \$125 million. SG&A as a percentage of sales was 20.6%, an increase of 70 basis points compared to the third quarter of 2017. Excluding the consolidation of franchises, SG&A increased \$21 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 18.8%, an increase of 10 basis points compared to the third quarter of 2017 primarily driven by:

- the unfavourable impact from the disposition of gas bar operations of approximately 10 basis points;
 - higher store costs driven by minimum wage increases; and
 - the unfavourable year-over-year impact of foreign exchange;
- partially offset by,
- cost saving initiatives.

Year-to-date adjusted EBITDA⁽²⁾ was \$2,892 million, a decrease of \$8 million, compared to the same period of 2017 and included the favourable impact of the consolidation of franchises of \$18 million as well as the unfavourable impact of the disposition of gas bar operations of approximately \$45 million. The decrease in adjusted EBITDA⁽²⁾ of \$8 million was driven by an increase in SG&A of \$332 million, partially offset by an increase in adjusted gross profit⁽²⁾. SG&A as a percentage of sales was 21.0%, an increase of 110 basis points compared to 2017. Excluding the consolidation of franchises, SG&A increased \$95 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 19.3%, an unfavourable increase of 50 basis points compared to 2017 primarily driven by:

- the unfavourable impact from the disposition of gas bar operations of approximately 40 basis points;
 - higher store costs driven by minimum wage increases and the launch of *PC Optimum*; and
 - the unfavourable year-over-year impact of foreign exchange;
- partially offset by,
- cost saving initiatives.

Depreciation and Amortization Depreciation and amortization in the third quarter of 2018 was \$479 million, an increase of \$12 million compared to the third quarter of 2017. Year-to-date depreciation and amortization was \$1,203 million, an increase of \$31 million compared to the same period of 2017. The increase in depreciation and amortization in the third quarter of 2018 and year-to-date was primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization in the third quarter of 2018 and year-to-date was the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of \$161 million (2017 – \$161 million) and \$401 million (2017 – \$403 million), respectively.

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 third quarter of 2018, 379 of these stores were consolidated for accounting purposes under a new, simplified franchise agreement ("Franchise Agreement") implemented in 2015.

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

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars unless where otherwise indicated)	2018 (16 weeks)	2017 (16 weeks)	2018 (40 weeks)	2017 (40 weeks)
Number of Consolidated Franchise stores, beginning of period	352	241	310	200
Add: Net number of Consolidated Franchise stores in the period	27	32	69	73
Number of Consolidated Franchise stores, end of period	379	273	379	273
Sales	\$ 331	\$ 228	\$ 784	\$ 524
Adjusted gross profit ⁽²⁾	341	232	786	531
Adjusted EBITDA ⁽²⁾	25	20	57	39
Depreciation and amortization	19	13	44	32
Operating income	6	7	13	7
Net income attributable to non-controlling interests	8	8	15	10

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⁽³⁾ that the estimated annual impact in 2018 of new and current consolidated franchises will be revenue of approximately \$1,000 million, adjusted EBITDA⁽²⁾ of approximately \$100 million, depreciation and amortization of approximately \$60 million and net earnings attributable to non-controlling interests of approximately \$30 million.

4.2 Financial Services Segment

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 ⁽⁴⁾ (16 weeks)	\$ Change	% Change	2018 (40 weeks)	2017 ⁽⁴⁾ (40 weeks)	\$ Change	% Change
Revenue	\$ 274	\$ 240	\$ 34	14.2 %	\$ 746	\$ 679	\$ 67	9.9%
Earnings before income taxes	22	43	(21)	(48.8)%	119	98	21	21.4%

(millions of Canadian dollars except where otherwise indicated)	As at October 6, 2018	As at October 7, 2017	\$ Change	% Change
Average quarterly net credit card receivables	\$ 3,009	\$ 2,860	\$ 149	5.2%
Credit card receivables	3,102	2,918	184	6.3%
Allowance for credit card receivables	163	46	117	254.3%
Annualized yield on average quarterly gross credit card receivables	13.1%	13.3%		
Annualized credit loss rate on average quarterly gross credit card receivables	3.2%	3.8%		

Revenue Revenue in the third quarter of 2018 was \$274 million, an increase of \$34 million compared to the third quarter of 2017. Year-to-date revenue was \$746 million, an increase of \$67 million compared to the same period in 2017. The increase in revenue in the third quarter of 2018 and year-to-date was primarily driven by:

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

partially offset by,

- lower revenue from personal banking services attributable to the discontinuation of the services offered under the *PC Financial* brand. Normal operating income from the same personal banking services ended in April 2018.

The increase in year-to-date revenue was also driven by higher year-over-year interchange income due to an industry-wide reduction in interchange rates imposed on MasterCard International Incorporated® (“MasterCard®”) issuers affecting the first half of 2017.

Earnings before income taxes Earnings before income taxes in the third quarter of 2018 were \$22 million, a decrease of \$21 million compared to the third quarter of 2017, primarily driven by:

- increased provision for credit losses as a result of the application of the expected credit loss (“ECL”) model under IFRS 9, “Financial Instruments” (“IFRS 9”), as set out in Section 10 “Accounting Standards”;
- higher operating costs including costs due to investments in digital strategy;
- prior year income of \$7 million, net of certain costs incurred, relating to President’s Choice Bank’s (“PC Bank’s”) agreement to end its business relationship with a major Canadian chartered bank, which provided the personal banking services offered under the *PC Financial* brand; and
- lower core banking income attributable to the discontinuation of the services offered under the *PC Financial* brand. Normal operating income from the same personal banking services ended in April 2018;

partially offset by,

- higher net interest and net interchange income attributable to the growth in the credit card portfolio.

Year-to-date earnings before income taxes was \$119 million, an increase of \$21 million, compared to the same period in 2017. The increase in earnings before income taxes in the third quarter of 2018 and year-to-date was primarily driven by:

- higher interest and net interchange income attributable to the growth in the credit card portfolio;
- recognition of income of \$20 million, net of certain costs incurred, relating to PC Bank’s agreement to end its business relationship with a major Canadian chartered bank, as discussed above; and
- certain year-to-date one-time gains including the sale of charged-off credit card receivables in the first quarter of 2018 and higher year-over-year interchange income due to an industry-wide reduction in interchange rates imposed on MasterCard® issuers affecting the first half of 2017;

partially offset by,

- higher customer acquisition costs;
- higher operating costs including costs due to investments in digital strategy;
- increased provision for credit losses as a result of the application of the ECL model under IFRS 9; and
- lower core banking income attributable to the discontinuation of the services offered under the *PC Financial* brand.

Credit Card Receivables As at October 6, 2018, credit card receivables were \$3,102 million, an increase of \$184 million compared to October 7, 2017. 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, partially offset by an increase in allowances due to the adoption of IFRS 9. As at October 6, 2018, the allowance for credit card receivables was \$163 million, an increase of \$117 million compared to October 7, 2017, primarily due to the adoption of IFRS 9 as set out in Section 10 “Accounting Standards”.

Other Financial Services Business Matters

Wind-down of *PC Financial* 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 will continue 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 program.

4.3 Choice Properties Segment

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018		2017		2018		2017	
	(16 weeks)	(16 weeks)	\$ Change	% Change	(40 weeks)	(40 weeks)	\$ Change	% Change
Revenue	\$ 315	\$ 207	\$ 108	52.2 %	\$ 825	\$ 619	\$ 206	33.3 %
Net interest expense and other financing charges ⁽ⁱ⁾	117	(76)	193	253.9 %	23	235	(212)	(90.2)%
Net income ⁽ⁱⁱ⁾	62	303	(241)	(79.5)%	368	369	(1)	(0.3)%
Funds from operations ⁽ⁱⁱⁱ⁾⁽²⁾	170	109	61	56.0 %	432	326	106	32.5 %

(i) Net interest expense and other financing charges includes a fair value adjustment on Class B Limited Partnership units.

(ii) Choice Properties qualifies as a "mutual fund trust" under the Income Tax Act (Canada) and therefore net income is equal to earnings before income taxes.

(iii) Funds from operations is calculated for management purposes and excludes the accelerated amortization of debt premium of \$37 million.

Revenue Revenue in the third quarter of 2018 was \$315 million, an increase of \$108 million compared to the third quarter of 2017 and included \$181 million (2017 – \$178 million) generated from tenants within the Retail segment. Year-to-date revenue was \$825 million, an increase of \$206 million compared to the same period in 2017 and included \$557 million (2017 – \$538 million) generated from tenants within the Retail segment. The increase in revenue in the third quarter of 2018 and year-to-date was primarily driven by:

- additional revenue generated from the investment properties included in the CREIT acquisition of \$105 million for the quarter and \$175 million year-to-date;
- additional revenue generated from tenant openings in newly developed leasable space;
- revenue generated from other properties acquired in 2017 and 2018; and
- an increase in base rent and operating cost recoveries from existing properties.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were \$117 million, an increase of \$193 million compared to the third quarter of 2017, primarily driven by:

- higher interest expense resulting from the issuance of new debt related to the acquisition of CREIT, including senior unsecured debentures, term loans and draws on the syndicated credit facility and interest expense on the debt assumed on the acquisition of CREIT;
- an increase in interest expense due to higher distributions on Class B Limited Partnership units; and
- the unfavourable change in the fair value adjustment on Class B Limited Partnership units of \$160 million.

Year-to-date net interest expense and other financing charges in the third quarter of 2018 were \$23 million, a decrease of \$212 million compared to the same period in 2017, primarily driven by:

- the favourable change in the fair value adjustment on Class B Limited Partnership units of \$322 million;
- partially offset by,
- higher interest expense as a result of the acquisition of CREIT, as described above;
 - a one-time charge for the accelerated amortization of the debt discount related to the conversion of Class C LP Units; and
 - an increase in interest expense due to higher distributions on Class B Limited Partnership units.

Net income Net income in the third quarter of 2018 was \$62 million, a decrease of \$241 million compared to the third quarter of 2017, primarily driven by:

- the unfavourable change in fair value adjustment to investment properties of \$112 million;
 - an increase in net interest expense and other financing charges; and
 - acquisition and other costs related to the acquisition of CREIT of \$10 million;
- partially offset by,
- an increase in net operating income from investment properties acquired as part of the acquisition of CREIT;
 - additional net operating income generated from acquisitions and tenant openings in newly developed leasable space; and
 - an increase in net operating income from existing properties.

Year-to-date net income was \$368 million, a decrease of \$1 million compared to the same period in 2017 driven by:

- the unfavourable change in fair value adjustment to investment properties of \$233 million;
- acquisition and other costs related to the acquisition of CREIT of \$130 million; and
- the increase in net interest expense and other financing charges;

partially offset by,

- an increase in net operating income from investment properties acquired as part of the acquisition of CREIT;
- an increase in net operating income from existing properties; and
- additional net operating income generated from acquisitions and tenant openings in newly developed leasable space.

Funds from operations⁽²⁾ Funds from operations⁽²⁾ in the third quarter of 2018 were \$170 million, an increase of \$61 million compared to the third quarter of 2017, primarily driven by additional property operating income attributable to the acquired portfolio, partially offset by higher interest expense due to the acquisition of CREIT.

Year-to-date Funds from operations⁽²⁾ were \$432 million, an increase of \$106 million compared to the same period in 2017 primarily driven by additional property operating income attributable to the acquired portfolio, partially offset by higher interest expense due to the acquisition of CREIT.

Other Choice Properties' Business Matters

Acquisition of Investment Properties In the third quarter of 2018, Choice Properties acquired a 75% interest in one investment property from the Company for an aggregate purchase price of \$2 million, which was fully settled in cash.

Choice Properties' Acquisition of CREIT On May 4, 2018, Choice Properties acquired all the assets and assumed all the liabilities, including outstanding debt, of CREIT for total consideration of \$3,708 million. The consideration was comprised of \$1,652 million of cash and the issuance of 182,836,481 new Trust Units.

The cash portion of the acquisition and other transactions in relation to CREIT was financed as follows:

- \$1,300 million of proceeds from the issuance of senior unsecured debentures Series K and L; and
- \$800 million was obtained through two unsecured term loan facilities, of which \$175 million is due in four years and \$625 million is due in five years.

Also, concurrent with the closing of the acquisition, the Company, Choice Properties' controlling unitholder, converted all of its outstanding Class C LP Units with the face value of \$925 million into Class B LP Units of Choice Properties Limited Partnership. Choice Properties issued to the Company 70,881,226 Class B LP Units upon the conversion and the shortfall in value of approximately \$99 million was paid in cash. In connection with this conversion, the Company recognized capital gains income tax expense of \$8 million in contributed surplus.

The preliminary purchase equation is based on management's best estimate of fair value. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The preliminary purchase price allocation at the acquisition date is as follows:

(millions of Canadian dollars)

Net Assets Acquired:	
Cash and cash equivalents	\$ 28
Accounts receivable and other assets	45
Mortgages, loans and notes receivable	204
Equity accounted joint ventures	683
Investment properties	4,730
Intangible assets	30
Goodwill	355
Trade payables and other liabilities	(171)
Long term debt	(1,841)
Deferred income tax liabilities	(355)
Total Net Assets Acquired	\$ 3,708

Choice Properties has one year to finalize the fair value of the assets acquired and the liabilities assumed and does not expect significant changes from the amounts presented above.

Management's Discussion and Analysis

The goodwill is generated on consolidation of Choice Properties and is attributable to deferred income tax recorded on temporary differences arising between the fair value of the investment properties acquired and their respective income tax bases for the Company's effective ownership interest in Choice Properties. The goodwill arising from this acquisition is not deductible for tax purposes. Management has preliminarily allocated this goodwill to the Retail segment.

The following table provides the impacts of the acquisition of CREIT on the Choice Properties segment in the third quarter of 2018:

(millions of Canadian dollars unless where otherwise indicated)	2018 (16 weeks)	2018 (40 weeks)
Revenue	\$ 105	\$ 175
Net income	80	105

On a year-to-date pro forma basis, the impact of the CREIT acquisition on Choice Properties segment revenue and net income in 2018 would have amounted to approximately \$315 million and \$190 million, respectively, excluding the impact of acquisition transaction costs and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective December 31, 2017.

The following table provides the impacts of the acquisition of CREIT on the consolidated results of the Company in the third quarter of 2018:

(millions of Canadian dollars unless where otherwise indicated)	2018 (16 weeks)	2018 ⁽ⁱ⁾ (40 weeks)
Revenue	\$ 101	\$ 170
Adjusted EBITDA ⁽²⁾	73	121
Adjusted net interest expense and other financing charges ⁽²⁾	68	118
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	3	2
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	—	—

(i) Year-to-date adjusted net interest expense and other financing charges⁽²⁾ includes \$2 million recorded in the first quarter of 2018. Year-to-date adjusted net earnings available to common shareholders of the Company⁽²⁾ includes \$1 million loss recorded in the first half of 2018.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 (16 weeks)	\$ Change	% Change	2018 (40 weeks)	2017 ⁽⁴⁾ (40 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 1,187	\$ 1,276	\$ (89)	(7.0)%	\$ 1,798	\$ 1,314	\$ 484	36.8 %
Cash flows from (used in):								
Operating activities	1,162	872	290	33.3 %	2,187	2,123	64	3.0 %
Investing activities	(536)	283	(819)	(289.4)%	(2,500)	(286)	(2,214)	(774.1)%
Financing activities	(501)	(915)	414	45.2 %	(169)	(1,635)	1,466	89.7 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	2	(6)	8	133.3 %	(2)	(6)	4	66.7 %
Cash and cash equivalents, end of period	\$ 1,314	\$ 1,510	\$ (196)	(13.0)%	\$ 1,314	\$ 1,510	\$ (196)	(13.0)%

Cash Flows from Operating Activities Cash flows from operating activities in the third quarter of 2018 were \$1,162 million, an increase of \$290 million compared to the third quarter of 2017. The increase was primarily due to an increase in cash earnings and a decrease in income taxes paid.

Year-to-date cash flows from operating activities were \$2,187 million in 2018, an increase of \$64 million compared to the same period in 2017. The increase was primarily due to an increase in cash earnings and a decrease in income taxes paid, partially offset by an unfavourable change in non-cash working capital and a decrease in provision balances.

Cash Flows used in Investing Activities Cash flows used in investing activities in the third quarter 2018 were \$536 million, an increase of \$819 million compared to the third quarter 2017. The increase was primarily due to proceeds received in the third quarter of 2017 from the disposal of gas bar operations and increase in security deposits, which relate to funds held by PC Bank to repay the Eagle notes, partially offset by a decline in short term investments.

Year-to-date cash flows used in investing activities were \$2,500 million, an increase of \$2,214 million compared to the same period in 2017. The increase was primarily driven by the acquisition of CREIT, proceeds received in the third quarter of 2017 from disposal of gas bar operations and an increase in security deposits, which relate to funds held by PC Bank to repay the Eagle notes, partially offset by a decline in short term investments.

Capital Investments and Store Activity

As at or for periods ended October 6, 2018 and October 7, 2017	2018 (40 weeks)	2017 (40 weeks)	% Change
Capital investments (millions of Canadian dollars)	\$ 852	\$ 772	10.4 %
Corporate square footage (in millions)	35.5	35.8	(0.8)%
Franchise square footage (in millions)	16.2	16.1	0.6 %
Associate-owned drug store square footage (in millions)	18.5	18.3	1.1 %
Total retail square footage (in millions)	70.2	70.2	— %
Number of corporate stores	550	565	(2.7)%
Number of franchise stores	532	531	0.2 %
Number of Associate-owned drug stores	1,335	1,333	0.2 %
Total number of stores	2,417	2,429	(0.5)%
Percentage of corporate real estate owned	72%	72%	
Percentage of franchise real estate owned	49%	47%	
Percentage of Associate-owned drug store real estate owned	1%	1%	
Average store size (square feet)			
Corporate	64,500	63,400	1.7 %
Franchise	30,500	30,300	0.7 %
Associate-owned drug store	13,900	13,700	1.5 %

Cash Flows used in Financing Activities Cash flows used in financing activities in the third quarter of 2018 were \$501 million, a decrease of \$414 million compared to the third quarter of 2017. The decline in cash flows used in financing activities was driven by fewer repurchases of common shares, higher net issuances of long term debt, partially offset by an increase in interest paid mainly driven by interest related to Glenhuron and on debt assumed on the acquisition of CREIT.

Year-to-date cash flows used in financing activities were \$169 million, a decrease of \$1,466 million compared to the same period in 2017. The year-to-date decrease in cash flows used in financing activities was driven by higher net issuances of long term debt primarily related to the acquisition of CREIT, partially offset by an increase in interest paid related to Glenhuron and interest on debt assumed on the acquisition of CREIT.

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

Free Cash Flow⁽²⁾

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018		2017 ⁽⁴⁾		2018		2017 ⁽⁴⁾	
	(16 weeks)	(16 weeks)	\$ Change	% Change	(40 weeks)	(40 weeks)	\$ Change	% Change
Cash flows from operating activities	\$ 1,162	\$ 872	\$ 290	33.3 %	\$ 2,187	\$ 2,123	\$ 64	3.0 %
Less:								
Capital investments	384	364	20	5.5 %	852	772	80	10.4 %
Interest paid	460	168	292	173.8 %	712	387	325	84.0 %
Free cash flow ⁽²⁾	\$ 318	\$ 340	\$ (22)	(6.5)%	\$ 623	\$ 964	\$ (341)	(35.4)%

Free cash flow⁽²⁾ in the third quarter of 2018 was \$318 million, a decrease of \$22 million compared to the third quarter of 2017. The decrease in free cash flow⁽²⁾ was primarily driven by higher interest paid mainly driven by interest related to Glenhuron and interest on debt assumed on the acquisition of CREIT, partially offset by higher cash flows from operating activities.

Year-to-date free cash flow⁽²⁾ was \$623 million in 2018, a decrease of \$341 million compared to the same period in 2017, was primarily driven by higher interest paid, as mentioned 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* ("Eagle") notes and GICs.

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

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, as monitored by Management, by reportable operating segment:

(millions of Canadian dollars)	As at October 6, 2018				As at October 7, 2017				As at December 30, 2017			
	Retail	Financial Services	Choice Properties	Total	Retail	Financial Services	Choice Properties	Total	Retail	Financial Services	Choice Properties	Total
Bank indebtedness	\$ 266	\$ —	\$ —	\$ 266	\$ 279	\$ —	\$ —	\$ 279	\$ 110	\$ —	\$ —	\$ 110
Short term debt	—	690	—	690	—	610	—	610	—	640	—	640
Long term debt due within one year	1,386	609	380	2,375	395	232	400	1,027	392	593	650	1,635
Long term debt ⁽ⁱ⁾	3,960	1,522	6,807	12,289	5,619	1,307	2,909	9,835	5,622	1,159	2,761	9,542
Certain other liabilities	48	—	—	48	37	—	—	37	41	—	—	41
Total debt	\$ 5,660	\$ 2,821	\$ 7,187	\$ 15,668	\$ 6,330	\$ 2,149	\$ 3,309	\$ 11,788	\$ 6,165	\$ 2,392	\$ 3,411	\$ 11,968

(i) The Choice Properties segment repaid \$47 million, net of issuances, on its Committed Syndicated Credit Facility between September 30, 2018 and October 6, 2018.

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⁽²⁾ ratio as a measure of the leverage being employed.

	As at October 6, 2018	As at October 7, 2017	As at December 30, 2017
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	1.5x	1.7x	1.6x

The Retail debt to retail adjusted EBITDA⁽²⁾ ratio as at October 6, 2018 decreased compared to October 7, 2017 and December 30, 2017, primarily as a result of a decrease in Retail segment debt.

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").

Choice Properties Choice Properties manages its capital structure with the objective of maintaining credit metrics consistent with those of investment grade real estate investment trusts ("REITs"). Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio. In connection with the acquisition of CREIT, Choice Properties entered into \$1.3 billion of senior unsecured debentures in the first quarter of 2018 and obtained \$800 million through two unsecured term loan facilities in the second quarter of 2018.

Covenants and Regulatory Requirements The Company and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at October 6, 2018 and throughout 2018, the Company and Choice Properties were in compliance with their respective covenants. As at October 6, 2018 and throughout 2018, PC Bank and Choice Properties have met all applicable regulatory requirements.

Short Form Base Shelf Prospectus In the first quarter of 2018, Choice Properties filed a Short Form Base Shelf Prospectus, which allows for the potential issuance of up to \$2 billion of Choice Properties' Trust Units ("Units") and debt securities, or any combination thereof, over a 25-month period. Under this prospectus, Choice Properties issued \$650 million of senior unsecured debentures.

5.3 Components of Total Debt

Debentures and Medium Term Notes The following table summarizes the debentures and Medium Term Notes ("MTNs") issued or assumed during 2018. There were no MTNs issued in the third quarter of 2018 and in the comparative periods in 2017.

(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	October 6, 2018 (40 weeks) Principal Amount
Choice Properties Series senior unsecured debentures			
– Series I ⁽ⁱ⁾	3.01%	March 21, 2022	\$ 300
– Series J ⁽ⁱ⁾	3.55%	January 10, 2025	350
– Series K ⁽ⁱⁱ⁾	3.56%	September 9, 2024	550
– Series L ⁽ⁱⁱ⁾	4.18%	March 8, 2028	750
– Series A-C ⁽ⁱⁱⁱ⁾	3.68%	July 24, 2018	125
– Series B-C ⁽ⁱⁱⁱ⁾	4.32%	January 15, 2021	100
– Series C-C ⁽ⁱⁱⁱ⁾	2.56%	November 30, 2019	100
– Series D-C ⁽ⁱⁱⁱ⁾	2.95%	January 18, 2023	125
Total Debentures and MTNs issued			\$ 2,400

(i) Offerings were made under the Choice Properties' Short Form Base Shelf Prospectus filed in the first quarter of 2018.

(ii) In the first quarter of 2018, the net proceeds from the issuance of Series K and L were held in escrow as a part of the financing for the acquisition of CREIT. During the second quarter of 2018, the Company completed the acquisition of CREIT and the proceeds were released from escrow.

(iii) Assumed by the Company in connection with the acquisition of CREIT.

The following table summarizes the debentures, unsecured term loan facilities, and MTNs repaid during the periods ended as indicated.

			October 6, 2018 (16 weeks)	October 7, 2017 (16 weeks)	October 6, 2018 (40 weeks)	October 7, 2017 (40 weeks)
(millions of Canadian dollars except where otherwise indicated)	Interest Rate	Maturity Date	Principal Amount	Principal Amount	Principal Amount	Principal Amount
Shoppers Drug Mart Corporation Notes	2.36%	May 24, 2018	\$ —	\$ —	\$ 275	\$ —
Loblaw Companies Limited – Term Loan ⁽ⁱ⁾	Variable	Mar 28, 2019	48	—	48	—
Loblaw Companies Limited – Term Loan ⁽ⁱⁱ⁾	Variable	Mar 28, 2019	250	—	250	—
Choice Properties senior unsecured debentures – Series A-C	3.68%	July 24, 2018	125	—	125	—
Choice Properties senior unsecured debentures – Series A	3.55%	July 5, 2018 ⁽ⁱⁱⁱ⁾	—	—	400	—
Choice Properties senior unsecured debentures – Series 6	3.00%	April 20, 2017 ^(iv)	—	—	—	200
Total Debentures, Unsecured Term Loan Facilities, and MTNs repaid			\$ 423	\$ —	\$ 1,098	\$ 200

(i) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.

(ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.

(iii) Choice Properties Series A unsecured debentures were redeemed on February 12, 2018.

(iv) Choice Properties Series 6 unsecured debentures were redeemed on January 23, 2017.

Unsecured Term Loan Facilities In the second quarter of 2018, Choice Properties obtained \$800 million through two unsecured term loan facilities, one \$175 million 4-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2022 and one \$625 million 5-year unsecured term loan provided by a syndicate of lenders maturing May 4, 2023. The term loans bear interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing of these term loans is contingent on Choice Properties credit ratings from DBRS and S&P remaining at "BBB".

Committed Credit Facilities The components of the committed lines of credit as at October 6, 2018, October 7, 2017 and December 30, 2017 were as follows:

(millions of Canadian dollars)	Maturity Date	As at October 6, 2018		As at October 7, 2017		As at December 30, 2017	
		Available Credit	Drawn	Available Credit	Drawn	Available Credit	Drawn
Loblaw Committed Credit Facility	June 10, 2021	\$ 1,000	\$ —	\$ 1,000	\$ —	\$ 1,000	\$ —
Choice Properties Committed Bi-lateral Credit Facility	December 21, 2018	—	—	250	250	250	250
Choice Properties Committed Syndicated Credit Facility	July 5, 2022	—	—	500	215	500	311
Choice Properties Committed Syndicated Credit Facility	May 4, 2023	1,500	340	—	—	—	—
Total Committed Lines of Credit		\$ 2,500	\$ 340	\$ 1,750	\$ 465	\$ 1,750	\$ 561

In the first half of 2018, Choice Properties repaid and cancelled the \$250 million Committed Bi-lateral Credit Facility and the \$500 million Committed Syndicated Credit Facility.

During the second quarter of 2018, Choice properties entered into a new syndicated \$1,500 million senior unsecured committed revolving credit facility maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or Bankers' Acceptance rate plus 1.45%. The pricing of this credit facility is contingent on Choice Properties credit ratings from DBRS and S&P remaining at "BBB".

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 October 6, 2018	As at October 7, 2017	As at December 30, 2017
Securitized to independent securitization trusts:			
Securitized to <i>Eagle</i>	\$ 1,150	\$ 650	\$ 900
Securitized to Other Independent Securitization Trusts	690	610	640
Total securitized to independent securitization trusts	\$ 1,840	\$ 1,260	\$ 1,540

During the third quarter of 2018, *Eagle* issued \$250 million of senior and subordinated term notes with a maturity date of July 17, 2023 at a weighted average interest rate of 3.10%. In connection with this issuance, \$250 million of bond forward agreements were settled, resulting in a realized fair value loss of \$1 million and a net effective interest rate of 3.15% on the *Eagle* notes issued.

Subsequent to the third quarter of 2018, \$400 million 2.91% senior and subordinated term notes issued by *Eagle* matured and were repaid.

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 October 6, 2018 and throughout 2018.

Independent Funding Trusts As at October 6, 2018, the independent funding trusts had drawn \$545 million (October 7, 2017 – \$551 million; December 30, 2017 – \$551 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 October 6, 2018, the Company has agreed to provide a credit enhancement of \$64 million (October 7, 2017 and December 30, 2017 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (2017 – not less than 10%) of the principal amount of loans outstanding.

5.4 Financial Condition**Rolling Year Adjusted Return on Equity⁽²⁾ and Rolling Year Adjusted Return on Capital⁽²⁾**

	As at October 6, 2018	As at October 7, 2017 ⁽⁴⁾	As at December 30, 2017 ⁽⁴⁾
Rolling year adjusted return on equity ⁽²⁾	14.0%	13.6%	14.0%
Rolling year adjusted return on capital ⁽²⁾	9.3%	9.5%	9.7%

The rolling year adjusted return on equity⁽²⁾ as at October 6, 2018 increased compared to October 7, 2017, primarily due to improvements in underlying operating performance and common share repurchases. The rolling year adjusted return on equity⁽²⁾ as at October 6, 2018 was flat compared to December 30, 2017.

The rolling year adjusted return on capital⁽²⁾ as at October 6, 2018 decreased compared to October 7, 2017 and December 30, 2017, primarily due to an increase in long term debt due to the acquisition of CREIT, partially offset by common share repurchases.

5.5 Credit Ratings

In the third quarter of 2018, subsequent to the announcement of the spin out of Choice Properties, S&P and DBRS reaffirmed the credit ratings and outlook of the Company. 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
MTNs	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

In the third quarter of 2018, subsequent to the announcement of the spin out of Choice Properties, S&P and DBRS reaffirmed the ratings and outlook of Choice Properties. The following table sets out the current credit ratings of Choice Properties:

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service		Standard & Poor's	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Senior unsecured debentures	BBB	Stable	BBB	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 was as follows:

	October 6, 2018 (16 weeks)		October 7, 2017 (16 weeks)		October 6, 2018 (40 weeks)		October 7, 2017 (40 weeks)	
(millions of Canadian dollars except where otherwise indicated)	Number of Common Shares	Common Share Capital						
Issued and outstanding, beginning of period	374,582,150	\$ 7,260	395,248,907	\$ 7,619	386,293,941	\$ 7,460	400,829,870	\$ 7,713
Issued for settlement of stock options	666,171	34	70,094	4	1,621,089	80	572,024	28
Purchased and cancelled	—	—	(7,193,156)	(139)	(12,666,709)	(246)	(13,276,049)	(257)
Issued and outstanding, end of period	375,248,321	\$ 7,294	388,125,845	\$ 7,484	375,248,321	\$ 7,294	388,125,845	\$ 7,484
Shares held in trust, beginning of period	(271,777)	\$ (5)	(858,806)	\$ (16)	(780,938)	\$ (15)	(1,105,620)	\$ (21)
Purchased for future settlement of RSUs and PSUs	—	—	—	—	—	—	(686,000)	(13)
Released for settlement of RSUs and PSUs	33,726	—	33,159	—	542,887	10	965,973	18
Shares held in trust, end of period	(238,051)	\$ (5)	(825,647)	\$ (16)	(238,051)	\$ (5)	(825,647)	\$ (16)
Issued and outstanding, net of shares held in trust, end of period	375,010,270	\$ 7,289	387,300,198	\$ 7,468	375,010,270	\$ 7,289	387,300,198	\$ 7,468
Weighted average outstanding, net of shares held in trust	374,608,772		392,384,392		377,587,465		395,701,411	

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

	October 6, 2018 ⁽ⁱ⁾ (16 weeks)	October 7, 2017 (16 weeks)	October 6, 2018 ⁽ⁱ⁾ (40 weeks)	October 7, 2017 (40 weeks)
Dividends declared per share (\$):				
Common Share	\$ 0.295	\$ 0.270	\$ 0.860	\$ 0.800
Second Preferred Share, Series B	\$ 0.33125	\$ 0.33125	\$ 0.99375	\$ 0.99375

(i) The third quarter dividends for 2018 of \$0.295 per share declared on common shares had a payment date of October 1, 2018. The third quarter dividends for 2018 of \$0.33125 per share declared on Second Preferred Shares, Series B had a payment date of September 30, 2018.

(millions of Canadian dollars)	October 6, 2018 (16 weeks)	October 7, 2017 (16 weeks)	October 6, 2018 (40 weeks)	October 7, 2017 (40 weeks)
Dividends declared:				
Common Share	\$ 109	\$ 106	\$ 322	\$ 316
Second Preferred Share, Series B	3	3	9	9
Total dividends declared	\$ 112	\$ 109	\$ 331	\$ 325

Subsequent to the end of the third quarter of 2018, the Board of Directors ("Board") declared a quarterly dividend of \$0.295 per common share, payable on December 30, 2018 to shareholders of record on December 15, 2018 and a dividend on the Second Preferred Shares, Series B of \$0.33125 per share payable on December 31, 2018 to shareholders of record on December 15, 2018.

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)	October 6, 2018 (16 weeks)	October 7, 2017 (16 weeks)	October 6, 2018 (40 weeks)	October 7, 2017 (40 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	—	7,193,156	12,666,709	13,276,049
Cash consideration paid	\$ —	\$ 485	\$ 844	\$ 937
Premium charged to Retained Earnings	—	346	598	680
Reduction in Common Share Capital	—	139	246	257
Common shares repurchased under the NCIB and held in trust (number of shares)	—	—	—	686,000
Cash consideration paid	\$ —	\$ —	\$ —	\$ 48
Premium charged to Retained Earnings	—	—	—	35
Reduction in Common Share Capital	—	—	—	13

In the first quarter of 2018, the Company entered into and completed an automatic share purchase plan ("ASPP") with a broker in order to facilitate repurchases of the Company's common shares under its current NCIB. Under the Company's ASPP, the Company's broker purchased common shares at times when the Company ordinarily would not be active in the market.

In the second quarter of 2018, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 18,952,573 of the Company's common shares, representing approximately 5% of outstanding common shares. In accordance with the rules and by-laws of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As at October 6, 2018, the Company has purchased 4,559,682 common shares under its current NCIB.

In the third quarter of 2018, the Company did not repurchase any common shares under its NCIB.

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 third quarter of 2018. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2017 Annual Report.

6. Financial Derivative Instruments

Interest Rate Swaps During the third quarter of 2018, Choice Properties held interest rate swap agreements with a notional value of \$322 million to hedge its exposure to interest rate fluctuations associated with an equivalent amount of variable rate mortgages. These agreements qualify for hedge accounting as cash flow hedges. During the third quarter of 2018, Choice Properties recorded an unrealized fair value gain of \$3 million (2017 – nil) net of tax in other comprehensive income related to these agreements.

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 2018 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, 2017 and 2016 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.

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:

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2018 (16 weeks)	2017 ⁽⁴⁾ (16 weeks)	2018 (12 weeks)	2017 ⁽⁴⁾ (12 weeks)	2018 (12 weeks)	2017 ⁽⁴⁾ (12 weeks)	2017 ⁽⁴⁾ (12 weeks)	2016 (12 weeks)
(millions of Canadian dollars except where otherwise indicated)								
Revenue	\$ 14,453	\$ 14,192	\$ 10,923	\$ 11,080	\$ 10,367	\$ 10,404	\$ 11,023	\$ 11,130
Net earnings available to common shareholders of the Company	106	883	50	359	377	232	31	201
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	562	549	421	446	361	366	436	393
Net earnings per common share:								
Basic (\$)	\$ 0.28	\$ 2.25	\$ 0.13	\$ 0.91	\$ 0.99	\$ 0.58	\$ 0.08	\$ 0.50
Diluted (\$)	\$ 0.28	\$ 2.24	\$ 0.13	\$ 0.90	\$ 0.98	\$ 0.58	\$ 0.08	\$ 0.50
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.49	\$ 1.39	\$ 1.11	\$ 1.11	\$ 0.94	\$ 0.91	\$ 1.12	\$ 0.97
Average national food price inflation (deflation) (as measured by CPI)	0.3%	0.3%	0.1%	(1.4)%	1.2%	(3.9)%	1.0%	(2.3)%
Food retail same-store sales growth (decline)	0.9%	1.4%	0.8%	1.2 %	1.9%	(1.2)%	0.5%	1.1 %
Drug retail same-store sales growth	2.5%	3.3%	1.7%	3.7 %	3.7%	0.9 %	3.6%	3.4 %

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;
- Choice Properties' acquisition of CREIT in the second quarter of 2018;
- 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 0.4 million square feet to 70.2 million square feet.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share Net earnings available to common shareholders of the Company and diluted net earnings per common share 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;
- Shoppers Drug Mart acquisition-related net synergies;
- 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;
 - the PC Optimum program;
 - the Loblaw Card Program;
 - restructuring and other related charges;
 - the wind-down of *PC Financial* banking service;
 - the impact of healthcare reform on inventory balances;
 - CREIT acquisition and other related costs;
 - the remeasurement of deferred tax balances;
 - asset impairments, net of recoveries; and
 - the change in fair value adjustment to the Trust Unit Liability.

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 controls over financial reporting in the third quarter of 2018 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting, except as noted below:

As permitted by the provisions of National Instrument 52-109, "Certification of Disclosures in Issuers' Annual and Interim Filings", management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of CREIT. Choice Properties acquired the assets and liabilities of CREIT and its subsidiaries on May 4, 2018. The assessment on CREIT's design effectiveness of disclosure controls and procedures and the harmonization of the internal controls over financial reporting frameworks is expected to be completed by the first quarter of 2019.

Further details related to the acquisition of CREIT are set out in Section 4.3. "Choice Properties Segment" Other Business Matters and in Note 3. Business Acquisitions of the Company's unaudited interim period condensed consolidated financial statements for the third quarter of 2018.

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 30, 2017 and the Company's MD&A in the Company's 2017 Annual Report, which are hereby incorporated by reference. The Company's 2017 Annual Report and AIF are available online on www.sedar.com. Those risks and risk management strategies remain unchanged, inclusive of the acquisition of CREIT.

10. Accounting Standards

Accounting Standards Implemented in 2018

On December 31, 2017, the Company implemented IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15") and IFRS 9, "Financial Instruments" in accordance with IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors". The impacts on implementation of IFRS 15 and IFRS 9 on the Company's consolidated financial statements are described below.

IFRS 15 In 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, "Revenue from Contracts with Customers", replacing IAS 18, "Revenue" ("IAS 18"), IAS 11, "Construction Contracts", and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Company adopted the standard on December 31, 2017 and applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 30, 2017 or were completed on or before January 1, 2017 do not require restatement.

The implementation of IFRS 15 did not have a significant impact on the Company's Retail, Financial Services or Choice Properties segment revenue streams, including its franchise arrangements with non-consolidated stores. IFRS 15 impacted the allocation of revenue that is deferred in relation to the Company's customer loyalty award programs. Under IAS 18 and related interpretations, revenue was allocated to the customer loyalty awards using the residual fair value method. Under this method, a portion of the consideration equaling the fair value of the points was allocated to the loyalty awards and deferred until the points were ultimately redeemed. The residual consideration was allocated to the goods and services sold and recognized as revenue. Under IFRS 15, consideration will be allocated between the loyalty awards and the goods and services on which the awards were earned, based on their relative stand-alone selling prices. Using this relative fair value approach, the amount allocated to the loyalty points and recorded as deferred revenue will be, on average, lower than the amounts allocated under the residual value method. The majority of the Company's loyalty liability, which is a contract liability, is expected to be redeemed and recognized as revenue within one year of issuance.

In addition, in the fourth quarter of 2017, the Company recorded a charge before income taxes of \$189 million under IAS 18 and related interpretations, related to the revaluation of the existing loyalty liability for outstanding points to reflect a higher anticipated redemption rate under the new *PC Optimum* program. Under IFRS 15, using the relative fair value approach, this revaluation of the loyalty liability decreased by \$24 million, resulting in a charge before income taxes of \$165 million.

The impact of the above changes on retained earnings as at January 1, 2017 and December 30, 2017 is as follows:

Consolidated Balance Sheets		As at	
Increase (Decrease)	January 1, 2017	December 30, 2017	As at
(millions of Canadian dollars)			
Loyalty liability	\$ (43)	\$ (64)	
Income taxes payable	12	11	
Deferred income tax liabilities	—	7	
Retained earnings	31	46	

The impact of this change on the comparative periods as at October 7, 2017, and for 16 weeks and 40 weeks ended October 7, 2017 is as follows:

Condensed Consolidated Balance Sheets		As at	
Increase (Decrease)	October 7, 2017		As at
(millions of Canadian dollars)			
Loyalty liability	\$	(47)	
Income taxes payable		13	
Retained earnings		34	

Condensed Consolidated Statements of Earnings

Increase (Decrease) (millions of Canadian dollars)	October 7, 2017 (16 weeks)	October 7, 2017 (40 weeks)
Revenue	\$ —	\$ 4
Income taxes	—	1

The implementation of IFRS 15 had a nominal impact on earnings per share for the comparative periods.

The quarterly and annual impacts of this change in 2017 are as follows:

Summary of Condensed Consolidated Quarterly Statement of Earnings

Increase (Decrease) (millions of Canadian dollars)	March 25, 2017 (12 weeks)	June 17, 2017 (12 weeks)	October 7, 2017 (16 weeks)	December 30, 2017 (12 weeks)	December 30, 2017 (52 weeks)
Revenue	\$ 3	\$ 1	\$ —	\$ (7)	\$ (3)
SG&A	—	—	—	(24)	(24)
Income taxes	1	—	—	5	6
Net earnings available to common shareholders of the Company	2	1	—	12	15

IFRS 9 In 2014, the IASB issued IFRS 9, “Financial Instruments”, replacing IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”), and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company implemented the new requirements for classification and measurement, impairment and general hedging on December 31, 2017 by applying the requirements for classification and measurement, including impairment, retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 31, 2017 with no restatement of comparative periods. The Company also applied related amendments to IFRS 7, “Financial Instruments: Disclosures”.

Classification and measurement IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on these categories: amortized cost, fair value through other comprehensive income, and fair value through profit and loss. Financial liabilities are classified and measured based on two categories: amortized cost or fair value through profit and loss. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

The following table summarizes the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities, with the exception of credit card receivables as noted below.

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalents	Fair value through profit and loss ⁽ⁱ⁾	Amortized cost
Short term investments	Fair value through profit and loss ⁽ⁱ⁾	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Credit card receivables	Loans and receivables	Amortized cost
Security deposits	Fair value through profit and loss ⁽ⁱ⁾	Fair value through profit and loss
Franchise loans receivable	Loans and receivables	Amortized cost
Certain other assets ⁽ⁱⁱ⁾	Loans and receivables	Amortized cost / fair value through profit and loss
Certain long term investments	Available-for-sale	Fair value through other comprehensive income
Bank indebtedness	Other liabilities	Amortized cost
Trade payables and other liabilities	Other liabilities	Amortized cost
Short term debt	Other liabilities	Amortized cost
Long term debt	Other liabilities	Amortized cost
Trust Unit Liability	Fair value through profit and loss ⁽ⁱⁱⁱ⁾	Fair value through profit and loss
Certain other liabilities	Other liabilities	Amortized cost
Derivatives	Fair value through profit and loss ⁽ⁱⁱⁱ⁾	Fair value through profit and loss

(i) Financial instruments designated at fair value through profit and loss.

(ii) Certain other assets include mortgages, notes and loans receivable which are classified as either amortized cost or fair value through profit and loss.

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

Financial assets are not reclassified subsequent to their initial recognition unless the Company identifies changes in its business model in managing financial assets.

Impairment IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking ECL model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

IFRS 9 outlines a three-stage approach to recognizing ECL which is intended to reflect the increase in credit risks of a financial instrument. The Company applies the ECL model to assess for impairment on its financial assets at each balance sheet date. The Company, through PC Bank, recognizes loss allowances based on ECL on credit card receivables, which are measured at amortized cost. Credit card receivables are assessed collectively for impairment, applying the three-stage approach on assessing the impairment on credit card receivables as described below.

- Stage 1 is comprised of all financial instruments that have not had a significant increase in credit risks since initial recognition or that have low credit risk at the reporting date. PC Bank is required to recognize impairment for Stage 1 financial instruments based on the expected losses over the expected life of the instrument arising from loss events that could occur during the 12 months following the reporting date.
- Stage 2 is comprised of all financial instruments that have had a significant increase in credit risks since initial recognition but that do not have objective evidence of a credit loss event. For Stage 2 financial instruments the impairment is recognized based on the expected losses over the expected life of the instrument arising from loss events that could occur over the expected life. PC Bank is required to recognize a lifetime ECL for Stage 2 financial instruments.
- Stage 3 is comprised of all financial instruments that have objective evidence of impairment at the reporting date. PC Bank is required to recognize impairment based on a lifetime ECL for Stage 3 financial instruments.

In each stage of the impairment model, impairment is determined based on the probability of default, loss given default, and expected exposures at default on drawn and undrawn exposures on credit card receivables, discounted using an average portfolio yield rate. The application of the ECL model required PC Bank to apply the following significant judgments, assumptions and estimations:

- Movement of impairment measurement between the three stages of the ECL model, based on the assessment of increase in credit risks on credit card receivables. The assessment of changes in credit risks includes qualitative and quantitative factors of the accounts, such as historical credit loss experience and external credit scores;
- Thresholds for significant increase in credit risks based on changes in probability of default over the expected life of the instrument relative to initial recognition; and
- Forecasts of future economic conditions.

The ECL model had a significant impact on PC Bank's impairment of credit card receivables. The Company revised certain inputs of the ECL model since the implementation of IFRS 9 in the first quarter of 2018 and has retrospectively applied the impact of these revisions with no impact to earnings. As a result of the refinements, the cumulative impact arising from the ECL model on the impairment of credit card receivables as at December 31, 2017 was as follows:

Consolidated Balance Sheets	
Increase (Decrease) (millions of Canadian dollars)	As at December 31, 2017
Credit card receivables	\$ (98)
Deferred income tax assets	26
Income taxes payable	4
Deferred income tax liabilities	(4)
Retained earnings	(72)

The Company also applied ECL models to the assessment of impairment on trade receivables and other financial assets of the Company. The Company adopted the practical expedient to determine ECL on trade receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied do not have a material impact on trade receivables and other financial assets of the Company.

Impairment losses are recorded in SG&A in the consolidated statement of earnings with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed through the consolidated statement of earnings. The impairment reversal is limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

General hedging IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company's risk management strategy and hedging activities are disclosed in the Company's 2017 Annual Report, Note 30 "Financial Risk Management" and in this Quarterly Report, Note 17 "Financial Instruments".

Changes to Significant Accounting Policies

The following significant accounting policies reflect certain impacts to the presentation and measurement of the Company's unaudited interim period condensed consolidated financial statements, resulting from the acquisition of CREIT. Upon closing the acquisition, the significant accounting policies of CREIT were aligned to those of the Company.

Investment Properties Investment properties are properties owned by the Company that are held to either earn rental income, for capital appreciation, or both. The Company's investment properties include single tenant properties held to earn rental income and certain multiple tenant properties.

In conjunction with the acquisition of CREIT, the Company elected to change the measurement of investment properties from the cost model to the fair value model retrospectively with restatement. 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. Under the discounted cash flow methodology, discount rates are applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the investment properties based on a capitalization rate applied to the estimated net operating income, a non-GAAP measure, in the terminal year. 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.

The Company applied this change in accounting policy retrospectively in the second quarter of 2018. The impacts to the Company's comparative consolidated balance sheets are as follows:

Consolidated Balance Sheets

Increase (Decrease) (millions of Canadian dollars)	As at October 7, 2017	As at December 30, 2017	As at January 1, 2017
Investment properties	\$ 41	\$ 41	\$ 41
Deferred income tax liabilities	5	5	5
Retained earnings	36	36	36

The change in accounting policy had no impact on net earnings for the comparative periods.

Joint Arrangements The Company, through Choice Properties, owns investments under joint arrangements. Joint arrangements are arrangements of which two or more parties have joint control. Joint control is the contractual sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures depending on Choice Properties' rights and obligations in the arrangement based on factors such as the structure, legal form and contractual terms of the arrangement.

Joint Ventures A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement.

Choice Properties' investment in a joint venture is recorded using the equity method and is initially recognized in the consolidated balance sheet at cost and adjusted thereafter to recognize Choice Properties' share of the profit or loss and other comprehensive income of the joint venture. The Company's share of the joint venture's profit or loss is recognized in the Company's operating income and other comprehensive income.

The financial statements of the equity-accounted investment are prepared for the same reporting period as Choice Properties. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company's.

A joint venture is considered to be impaired if there is objective evidence of impairment, as a result of one or more events that occurred after initial recognition of the joint venture, and that event has a negative impact on the future cash flows of the joint venture that can be reliably estimated.

Joint Operations A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. The financial statements of the joint operations are prepared for the same reporting period as Choice Properties. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company's. The Company recognizes its proportionate share of assets, liabilities, revenues and expenses of the joint operations.

Unit-Based Compensation Unit-Settled Restricted Units (“URUs”) are accounted for as cash-settled awards. URUs entitle certain employees to receive the value of the URU award in Units at the end of the applicable vesting period, which is generally three to five years in length. The URUs are subject to vesting conditions and disposition restrictions. The fair value of each URU granted is measured based on the market value of a Unit at the balance sheet date, less a discount to account for the disposition restrictions.

Critical Accounting Estimates and Judgments

The following critical accounting estimate and judgment reflects the Company’s election to change the measurement of investment properties from the cost model to the fair value model in the second quarter of 2018.

Investment Properties

Judgments Made in Relation to Accounting Policies Applied Judgment is applied in determining whether certain costs are additions to the carrying value of investment properties, identifying the point at which substantial completion of the property occurs, and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

The Company, through Choice Properties, also applies judgment in determining whether the properties it acquires are considered to be asset acquisitions or business combinations.

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

Future Accounting Standards

IFRS 16 In 2016, the IASB issued IFRS 16, “Leases” (“IFRS 16”), replacing IAS 17, “Leases” (“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. Lessors continue to classify leases as finance or operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it has the option of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. While early adoption is permitted if IFRS 15 has been adopted, the Company does not intend to early adopt IFRS 16.

The Company intends to adopt the standard on December 30, 2018 by applying the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018 using a modified retrospective approach with no restatement of the comparative period. IFRS 16 permits the use of exemptions and practical expedients. The Company intends to measure the cumulative effect of initial application by applying the use of hindsight in the determination of the lease term if the contract contains options to extend or terminate a lease and continues to evaluate the election of other available practical expedients.

During 2018, the Company has continued to assess the impact of the standard on the Company’s business processes, internal controls over financial reporting, data systems, IT, and financing and compensation arrangements. The Company has implemented a lease management system and continues to refine and validate the inputs and key assumptions used in its IFRS 16 calculation. Based on a preliminary assessment, the adoption of IFRS 16 will result in a material increase in total assets, long term debt, and deferred income taxes, with any difference between the recognition of right-of-use assets and associated lease liabilities impacting opening retained earnings. On a go-forward basis, there will be a decrease in rent expense and an increase in depreciation and amortization and net interest expense and other financing charges. The Company expects to disclose its preliminary financial impacts of IFRS 16 in its 2018 Annual Report.

Subsequent to the completion of the spin-out of Choice Properties on November 1, 2018, leases between Loblaw, as the lessee, and Choice Properties, as the lessor, will be included in the scope of IFRS 16. The inclusion of these leases will materially increase the impact of the standard on the Company’s consolidated financial statements.

11. Outlook⁽³⁾

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.

Headwinds from minimum wage increases and healthcare reform continue to negatively impact the Company's financial performance in 2018. The first half of the year was characterized by incremental cost headwinds and a very competitive retail market. In the second half, the Company is experiencing increased cost pressures, including from the surtax imposed on certain US imports. Management continues to focus on overcoming these headwinds.

In 2018, on a full-year comparative basis, normalized for the disposition of the gas bar business, the impact of the CREIT acquisition and spin-out of Choice Properties in the fourth quarter, the Company expects to:

- deliver positive same-store sales and stable gross margin in its Retail segment in a highly competitive market;
- deliver essentially flat adjusted net earnings growth with positive adjusted earnings per share growth based on our share buyback program;
- invest approximately \$1.3 billion in capital expenditures, including \$1.0 billion in its Retail segment; 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 rolling year retail adjusted EBITDA; rolling year adjusted return on equity; rolling year adjusted return on capital and with respect to Choice Properties: funds from operations. 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.

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 October 6, 2018 and October 7, 2017 (millions of Canadian dollars)	2018 (16 weeks)					2017 ⁽⁴⁾⁽⁵⁾ (16 weeks)				
	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Revenue	\$ 14,105	\$ 274	\$ 315	\$ (241)	\$ 14,453	\$ 13,993	\$ 240	\$ 207	\$ (248)	\$ 14,192
Cost of Merchandise Inventories Sold	10,006	35	—	—	10,041	10,049	25	—	—	10,074
Gross Profit	\$ 4,099	\$ 239	\$ 315	\$ (241)	\$ 4,412	\$ 3,944	\$ 215	\$ 207	\$ (248)	\$ 4,118
Adjusted Gross Profit	\$ 4,099	\$ 239	\$ 315	\$ (241)	\$ 4,412	\$ 3,944	\$ 215	\$ 207	\$ (248)	\$ 4,118

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars)	2018 (40 weeks)					2017 ⁽⁴⁾⁽⁵⁾ (40 weeks)				
	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Revenue	\$34,860	\$ 746	\$ 825	\$ (688)	\$ 35,743	\$35,072	\$ 679	\$ 619	\$ (694)	\$ 35,676
Cost of Merchandise Inventories Sold	24,674	83	—	—	24,757	25,191	65	—	—	25,256
Gross Profit	\$10,186	\$ 663	\$ 825	\$ (688)	\$ 10,986	\$ 9,881	\$ 614	\$ 619	\$ (694)	\$ 10,420
Add impact of the following:										
Impact of healthcare reform on inventory balances	19	—	—	—	19	—	—	—	—	—
Adjusted Gross Profit	\$10,205	\$ 663	\$ 825	\$ (688)	\$ 11,005	\$ 9,881	\$ 614	\$ 619	\$ (694)	\$ 10,420

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 October 6, 2018 and October 7, 2017 (millions of Canadian dollars)	2018 (16 weeks)					2017 ⁽⁴⁾⁽⁵⁾ (16 weeks)				
	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					\$ 109					\$ 886
Add (deduct) impact of the following:										
Non-Controlling Interests					8					8
Net interest expense and other financing charges					339					119
Income taxes					341					223
Operating income	\$ 703	\$ 41	\$ 179	\$ (126)	\$ 797	\$ 1,168	\$ 57	\$ 227	\$ (216)	\$ 1,236
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 161	\$ —	\$ —	\$ —	\$ 161	\$ 161	\$ —	\$ —	\$ —	\$ 161
Fair value adjustment on investment properties	—	—	34	—	34	—	—	—	—	—
CREIT acquisition and other related costs	—	—	10	—	10	—	—	—	—	—
Spin-out of Choice Properties	6	—	—	—	6	—	—	—	—	—
Restructuring and other related costs	5	—	—	—	5	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	—	—	—	—	—	20	—	—	—	20
Pension annuities and buy-outs	—	—	—	—	—	5	—	—	—	5
Wind-down of <i>PC Financial</i> banking services	—	—	—	—	—	—	(7)	—	—	(7)
Gain on disposition of gas bar operations	—	—	—	—	—	(501)	—	—	—	(501)
Loblaw Card Program	(4)	—	—	—	(4)	—	—	—	—	—
Gain on sale of air rights	—	—	—	(13)	(13)	—	—	—	—	—
Adjusting Items	\$ 168	\$ —	\$ 44	\$ (13)	\$ 199	\$ (315)	\$ (7)	\$ —	\$ —	\$ (322)
Adjusted operating income	\$ 871	\$ 41	\$ 223	\$ (139)	\$ 996	\$ 853	\$ 50	\$ 227	\$ (216)	\$ 914
Depreciation and amortization	479	2	—	5	486	467	2	1	6	476
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(161)	—	—	—	(161)	(161)	—	—	—	(161)
Adjusted EBITDA	\$ 1,189	\$ 43	\$ 223	\$ (134)	\$ 1,321	\$ 1,159	\$ 52	\$ 228	\$ (210)	\$ 1,229

	2018 (40 weeks)					2017 ⁽⁴⁾⁽⁶⁾ (40 weeks)				
For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars)	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated	Retail	Financial Services	Choice Properties	Consolidation & Eliminations	Consolidated
Net earnings attributable to shareholders of the Company					\$ 542					\$ 1,483
Add (deduct) impact of the following:										
Non-Controlling Interests					15					10
Net interest expense and other financing charges					722					407
Income taxes					559					458
Operating income	\$1,670	\$ 169	\$ 391	\$ (392)	\$ 1,838	\$ 2,192	\$ 139	\$ 604	\$ (577)	\$ 2,358
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 401	\$ —	\$ —	\$ —	\$ 401	\$ 403	\$ —	\$ —	\$ —	\$ 403
CREIT acquisition and other related costs	—	—	130	—	130	—	—	—	—	—
Fair value adjustment on investment properties	1	—	43	—	44	—	—	—	—	—
Impact of healthcare reform on inventory balances	19	—	—	—	19	—	—	—	—	—
Spin-out of Choice Properties	6	—	—	—	6	—	—	—	—	—
Loblaw Card Program	4	—	—	—	4	—	—	—	—	—
Pension annuities and buy- outs	1	—	—	—	1	12	—	—	—	12
Gain on disposition of gas bar operations	—	—	—	—	—	(501)	—	—	—	(501)
Restructuring and other related costs	(1)	—	—	—	(1)	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	(11)	—	—	—	(11)	25	—	—	—	25
Gain on sale of air rights	—	—	—	(13)	(13)	—	—	—	—	—
Wind-down of <i>PC Financial</i> banking services	—	(20)	—	—	(20)	—	(7)	—	—	(7)
Adjusting Items	\$ 420	\$ (20)	\$ 173	\$ (13)	\$ 560	\$ (61)	\$ (7)	\$ —	\$ —	\$ (68)
Adjusted operating income	\$2,090	\$ 149	\$ 564	\$ (405)	\$ 2,398	\$ 2,131	\$ 132	\$ 604	\$ (577)	\$ 2,290
Depreciation and amortization	1,203	7	—	17	1,227	1,172	7	1	16	1,196
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(401)	—	—	—	(401)	(403)	—	—	—	(403)
Adjusted EBITDA	\$2,892	\$ 156	\$ 564	\$ (388)	\$ 3,224	\$ 2,900	\$ 139	\$ 605	\$ (561)	\$ 3,083

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.

Fair value adjustment to investment properties In conjunction with the acquisition of CREIT, 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.

CREIT acquisition and other related costs As at the end of the third quarter of 2018, the Company has recorded acquisition and other related costs in connection with the acquisition of CREIT.

Spin-out of Choice Properties In the third quarter of 2018, the Company recorded transaction and other related costs in connection with the spin-out of its interest in Choice Properties.

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.

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.

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.

Wind-down of PC Financial 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 payments of approximately \$44 million, net of related costs, which was recognized between the third quarter of 2017 and the second quarter of 2018.

Gain on disposition of gas bar operations On July 17, 2017, the Company sold its gas bar operations, for proceeds of approximately \$540 million. The Company has recorded a pre-tax gain on sale of \$501 million (post-tax gain of \$432 million), net of related costs, in the third quarter of 2017.

Loblaw Card Program In the fourth quarter of 2017, the Company and Weston acknowledged their involvement in an industry wide price-fixing arrangement. 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, the Company recorded a reversal of \$11 million in the second quarter of 2018 and a reversal of \$4 million in the third quarter of 2018.

Gain on sale of air rights In the third quarter of 2018, a joint venture owned by Choice Properties completed the sale of air rights on one of its properties. The Company recorded a gain of \$13 million in the third quarter 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 October 6, 2018 and October 7, 2017 (millions of Canadian dollars)	2018 (16 weeks)	2017 (16 weeks)	2018 (40 weeks)	2017 (40 weeks)
Net interest expense and other financing charges	\$ 339	\$ 119	\$ 722	\$ 407
Add (deduct) impact of the following:				
Fair value adjustment to the Trust Unit Liability	62	33	(6)	(2)
Charge related to Glenhuron	(176)	—	(176)	—
Adjusted net interest expense and other financing charges	\$ 225	\$ 152	\$ 540	\$ 405

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

Charge related to Glenhuron In the third quarter of 2018, the Company recorded a charge of \$367 million related to the Tax Court of Canada's decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest and other financing charges and \$191 million was recorded in income taxes.

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 October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 ⁽⁴⁾ (16 weeks)	2018 (40 weeks)	2017 ⁽⁴⁾ (40 weeks)
Adjusted operating income ⁽ⁱ⁾	\$ 996	\$ 914	\$ 2,398	\$ 2,290
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	225	152	540	405
Adjusted earnings before taxes	\$ 771	\$ 762	\$ 1,858	\$ 1,885
Income taxes	\$ 341	\$ 223	\$ 559	\$ 458
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes ⁽ⁱⁱ⁾	48	(21)	122	47
Charge related to Glenhuron	(191)	—	(191)	—
Adjusted income taxes	\$ 198	\$ 202	\$ 490	\$ 505
Effective tax rate	74.5%	20.0%	50.1%	23.5%
Adjusted income tax rate	25.7%	26.5%	26.4%	26.8%

(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.

Charge related to Glenhuron In the third quarter of 2018, the Company recorded a charge of \$367 million related to the Tax Court of Canada's decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest and other financing charges and \$191 million was recorded in income 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 October 6, 2018 and October 7, 2017 (millions of Canadian dollars except where otherwise indicated)	2018 (16 weeks)	2017 ⁽⁴⁾ (16 weeks)	2018 (40 weeks)	2017 ⁽⁴⁾ (40 weeks)
Net earnings attributable to shareholders of the Company	\$ 109	\$ 886	\$ 542	\$ 1,483
Prescribed dividends on preferred shares in share capital	(3)	(3)	(9)	(9)
Net earnings available to common shareholders of the Company	\$ 106	\$ 883	\$ 533	\$ 1,474
Net earnings attributable to shareholders of the Company	\$ 109	\$ 886	\$ 542	\$ 1,483
Adjusting items (refer to the following table)	456	(334)	811	(113)
Adjusted net earnings attributable to shareholders of the Company	\$ 565	\$ 552	\$ 1,353	\$ 1,370
Prescribed dividends on preferred shares in share capital	(3)	(3)	(9)	(9)
Adjusted net earnings available to common shareholders of the Company	\$ 562	\$ 549	\$ 1,344	\$ 1,361
Diluted weighted average common shares outstanding (millions)	376.3	395.0	380.0	399.2

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.

	2018 (16 weeks)		2017 ⁽⁴⁾ (16 weeks)		2018 (40 weeks)		2017 ⁽⁴⁾ (40 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	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 October 6, 2018 and October 7, 2017 (millions of Canadian dollars/Canadian dollars)								
As reported	\$ 106	\$ 0.28	\$ 883	\$ 2.24	\$ 533	\$ 1.40	\$ 1,474	\$ 3.69
Add (deduct) impact of the following:								
Charge related to Glenhuron	\$ 367	\$ 0.98	\$ —	\$ —	\$ 367	\$ 0.97	\$ —	\$ —
Amortization of intangible assets acquired with Shoppers Drug Mart	118	0.31	118	0.30	294	0.76	295	0.74
Fair value adjustment on investment properties	29	0.08	—	—	37	0.10	—	—
CREIT acquisition and other related costs	9	0.02	—	—	118	0.31	—	—
Spin-out of Choice Properties	6	0.01	—	—	6	0.02	—	—
Restructuring and other related costs	3	0.01	—	—	(1)	—	—	—
Impact of healthcare reform on inventory balances	—	—	—	—	14	0.04	—	—
Pension annuities and buy-outs	—	—	4	0.01	1	—	9	0.02
Wind-down of PC Financial banking services	—	—	(5)	(0.01)	(15)	(0.04)	(5)	(0.01)
Gain on disposition of gas bar operations	—	—	(432)	(1.10)	—	—	(432)	(1.08)
Fair value adjustment on fuel and foreign currency contracts	—	—	14	0.03	(8)	(0.02)	18	0.05
Loblaw Card Program	(3)	(0.01)	—	—	3	0.01	—	—
Gain on sale of air rights	(11)	(0.03)	—	—	(11)	(0.03)	—	—
Fair value adjustment to the Trust Unit Liability ⁽ⁱ⁾	(62)	(0.16)	(33)	(0.08)	6	0.02	2	—
Adjusting items	\$ 456	\$ 1.21	\$ (334)	\$ (0.85)	\$ 811	\$ 2.14	\$ (113)	\$ (0.28)
Adjusted	\$ 562	\$ 1.49	\$ 549	\$ 1.39	\$ 1,344	\$ 3.54	\$ 1,361	\$ 3.41

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

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.

	2018 (16 weeks)		2017 ⁽⁴⁾ (16 weeks)		2018 (40 weeks)		2017 ⁽⁴⁾ (40 weeks)	
	For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars)							
Cash flows from operating activities	\$ 1,162	\$ 872	\$ 2,187	\$ 2,123				
Less:								
Capital investments	384	364	852	772				
Interest paid	460	168	712	387				
Free cash flow	\$ 318	\$ 340	\$ 623	\$ 964				

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.

Choice Properties' Funds from Operations The following table reconciles Choice Properties' Funds from Operations to net income for the periods ended as indicated. Choice Properties considers Funds from Operations to be a useful measure of operating performance as it adjusts for items included in net income that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust's performance.

For the periods ended October 6, 2018 and October 7, 2017 (millions of Canadian dollars)	2018 (16 weeks)	2017 (16 weeks)	2018 (40 weeks)	2017 (40 weeks)
Net income	\$ 62	\$ 303	\$ 368	\$ 369
Add (deduct) impact of the following:				
Fair value adjustments on Class B Limited Partnership units	(15)	(175)	(379)	(57)
Distributions on Class B Limited Partnership units	72	58	199	173
Fair value adjustments on investment properties	34	(78)	70	(163)
CREIT acquisition and other related costs	10	—	130	—
Fair value adjustments of investment property held in equity accounted joint ventures	3	—	4	1
Internal expenses for leasing	2	1	4	2
Capitalized interest on equity accounted joint venture	1	—	2	—
Income taxes	1	—	1	—
Accelerated amortization of debt premium	—	—	37	—
Fair value adjustments on unit-based compensation	—	(1)	(4)	—
Amortization of tenant improvement allowances	—	1	—	1
Funds from operations	\$ 170	\$ 109	\$ 432	\$ 326

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 and with OSFI as the primary regulator for the Company's subsidiary, PC Bank.

November 13, 2018
Toronto, Canada

MD&A Endnotes

- (1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2017 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 as a result of the implementation of IFRS 15, "Revenue from Contracts with Customers". See note 2 in the Company's 2018 third quarter unaudited interim period condensed consolidated financial statements.
- (5) Comparative figures have been restated to conform with current year presentation.