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Loblaw Companies Limited

2020 Second Quarter Report to Shareholders

24 weeks ended June 13, 2020

2020 Second Quarter Report to Shareholders

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 second quarter 2020 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 28, 2019 and the related annual MD&A included in the Company's 2019 Annual Report – Financial Review ("2019 Annual Report").

The Company's second quarter 2020 unaudited interim period condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. 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, except when otherwise noted.

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 10 "Non-GAAP Financial Measures", of this MD&A 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 134 of the Company's 2019 Annual Report.

The information in this MD&A is current to July 22, 2020, unless otherwise noted.

1. Forward-Looking Statements

This Quarterly Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 3 "Consolidated Results of Operations", "Section 4.1 "Retail Segment" Other Retail Business Matters, Section 5 "Liquidity and Capital Resources" and Section 10 "Non-GAAP Financial Measures". 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 2020 is based on certain assumptions including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and 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, including the COVID-19 pandemic 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 9 "Enterprise Risks and Risk Management" of this MD&A, and the Company's 2019 Annual Information Form ("AIF") (for the year ended December 28, 2019). Such risks and uncertainties include:

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of the Company, as well as on consumer behaviour and the economy in general;
- 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;
- 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 respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to 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 realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- adverse outcomes of legal and regulatory proceedings and related matters;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- 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; and
- changes to any of the laws, rules, regulations or policies applicable to the Company's business.

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 2019 AIF (for the year ended December 28, 2019), as well as COVID-19 related risks as described in the "Enterprise Risks and Risk Management" section of this MD&A. 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

Unless otherwise indicated, all financial information includes the impacts of the consolidation of franchises and COVID-19.

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 June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)		2020 (12 weeks)		2019[4] (12 weeks)
Consolidated:				
Revenue growth		**7.4 %**		2.9%
Operating income	**$**	**404**	$	588
Adjusted EBITDA[2]		**1,016**		1,175
Adjusted EBITDA margin[2]		**8.5 %**		10.6%
Net earnings	**$**	**162**	$	306
Net earnings attributable to shareholders of the Company		**172**		289
Net earnings available to common shareholders of the Company[i]		**169**		286
Adjusted net earnings available to common shareholders of the Company[2]		**266**		373
Diluted net earnings per common share ($)	**$**	**0.47**	$	0.77
Adjusted diluted net earnings per common share[2] ($)	**$**	**0.74**	$	1.01
Cash and cash equivalents and short term investments	**$**	**2,558**	$	1,190
Cash flows from operating activities		**935**		951
Free cash flow[2]		**334**		333
Financial Measures:				
Retail debt to rolling year retail adjusted EBITDA[2]		**3.0x**		3.0x
Rolling year adjusted return on equity[2]		**13.3 %**		13.5%
Rolling year adjusted return on capital[2]		**7.9 %**		7.9%
Retail Segment:				
Food retail same-store sales growth		**10.0 %**		0.6%
Drug retail same-store sales (decline)/growth		**(1.1)%**		4.0%
Operating income	**$**	**370**	$	546
Adjusted gross profit[2]		**3,484**		3,263
Adjusted gross profit %[2]		**29.6 %**		29.9%
Adjusted EBITDA[2]	**$**	**977**	$	1,128
Adjusted EBITDA margin[2]		**8.3 %**		10.3%
Financial Services Segment:				
Earnings before income taxes	**$**	**12**	$	21
Annualized yield on average quarterly gross credit card receivables		**13.8 %**		13.5%
Annualized credit loss rate on average quarterly gross credit card receivables		**3.8 %**		3.4%

(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.

3. Consolidated Results of Operations

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020 (24 weeks)**	2019 (24 weeks)	$ Change	% Change
Revenue	**$ 11,957**	$ 11,133	$ 824	7.4 %	**$ 23,757**	$ 21,792	$ 1,965	9.0 %
Operating income	**404**	588	(184)	(31.3)%	**945**	1,039	(94)	(9.0)%
Adjusted EBITDA(2)	**1,016**	1,175	(159)	(13.5)%	**2,185**	2,215	(30)	(1.4)%
Adjusted EBITDA margin(2)	**8.5%**	10.6%			**9.2%**	10.2%		
Depreciation and amortization	**$ 598**	$ 580	$ 18	3.1 %	**$ 1,192**	$ 1,160	$ 32	2.8 %
Net interest expense and other financing charges	**176**	175	1	0.6 %	**348**	348	—	— %
Income taxes	**66**	107	(41)	(38.3)%	**159**	179	(20)	(11.2)%
Adjusted income taxes(2)	**101**	143	(42)	(29.4)%	**235**	251	(16)	(6.4)%
Adjusted effective tax rate(2)	**28.1%**	26.7%			**26.6%**	26.6%		
Net earnings attributable to shareholders of the Company	**$ 172**	$ 289	$ (117)	(40.5)%	**$ 415**	$ 490	$ (75)	(15.3)%
Net earnings available to common shareholders of the Company(i)	**169**	286	(117)	(40.9)%	**409**	484	(75)	(15.5)%
Adjusted net earnings available to common shareholders of the Company(2)	**266**	373	$ (107)	(28.7)%	**618**	663	(45)	(6.8)%
Diluted net earnings per common share ($)	**$ 0.47**	$ 0.77	$ (0.30)	(39.0)%	**$ 1.14**	$ 1.30	$ (0.16)	(12.3)%
Adjusted diluted net earnings per common share(2) ($)	**$ 0.74**	$ 1.01	$ (0.27)	(26.7)%	**$ 1.72**	$ 1.79	$ (0.07)	(3.9)%
Diluted weighted average common shares outstanding (in millions)	**359.5**	370.4			**360.3**	371.1		

(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.

In the final two weeks of the first quarter, the Company experienced unprecedented consumer demand and stockpiling relating to COVID-19. Although this resulted in a sharp increase in revenue and profit, spending to protect our colleagues and customers was only just beginning to ramp up. In the second quarter, the Canadian market entered the next phase of the pandemic. Unprecedented demand for products across multiple categories continued. Food sales growth included changes within the mix and the benefit from strong demand for essential food categories. Overall demand shifted towards conventional formats, with the Market division delivering strong same-store sales growth of 18.8% and the Discount division growing sales by 4.9%. Same store sales in Drug declined by 1.1%. Growth in front store sales from essential categories was more than offset by a decline in pharmacy sales due to COVID-19.

As expected, profit declined year over year in the quarter as the strong growth in sales was insufficient to overcome substantial COVID-19 related costs in the quarter. In total, the Company invested $282 million to protect and benefit colleagues and customers, with approximately $180 million related to temporary pay premium costs which included a one-time bonus for store and distribution centre colleagues of $25 million. As the Company exited the second quarter, it continued to incur COVID-19 related costs to enhance the safety and security of its customers and colleagues, although at a lower rate of investment than in the second quarter, reflecting a greater degree of stability in store and distribution centre operations.

The COVID-19 pandemic has accelerated certain longer-term trends, supporting the Company's strategy and accelerating its strategic growth areas of Everyday Digital, Connected Healthcare, and Payment & Rewards. The Company's investments in its Everyday Digital platforms have allowed it to offer Canadians a choice of shopping in-store, or online with either home delivery or convenient pickup locations. In the quarter, its e-commerce sales accelerated sharply, growing by 280%. Year to date, Canadians have purchased almost $1.2 billion in everyday items across the Company's grocery, pharmacy, and apparel eCommerce platforms. The accelerated growth rate has resulted in increased costs and investments in the quarter. The Company expects continued growth in its e-commerce business and is investing to expand capacity and enhance its same-day service offering while also improving the cost structure of the business over time.

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 second quarter of 2020 were $169 million ($0.47 per common share), a decrease of $117 million ($0.30 per common share) compared to the second quarter of 2019. The decrease in net earnings available to common shareholders of the Company included the decline in underlying operating performance of $107 million and the unfavourable year-over year net impact of adjusting items totaling $10 million, as described below:

- the decline in underlying operating performance of $107 million ($0.31 per common share) was primarily due to the following:
  - a decline in the underlying operating performance in the Retail segment (excluding the impact of the consolidation of franchises) which was driven by an increase in selling, general and administrative expenses ("SG&A") due to an increase in COVID-19 related expenses and an increase in depreciation and amortization, which was partially offset by an increase in adjusted gross profit[(2)]; and
  - a decline in the underlying operating performance in the Financial Services segment.
- the unfavourable change in adjusting items totaling $10 million ($0.03 per common share) was primarily due to the following:
  - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of $11 million ($0.03 per common share); and
  - the unfavourable impact of prior year statutory corporate income tax rate change of $4 million ($0.01 per common share);

  partially offset by,
  - the year-over-year favourable change in fair value adjustment on fuel and foreign currency contracts of $5 million ($0.02 per common share).
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares ($0.04 per common share).

Adjusted net earnings available to common shareholders of the Company[(2)] in the second quarter of 2020 were $266 million ($0.74 per common share), a decrease of $107 million or 28.7%, compared to the second quarter of 2019. Adjusted diluted net earnings per common share[(2)] were $0.74 per common share, a decrease of $0.27 or 26.7%. Adjusted diluted net earnings per common share[(2)] also included the favourable impact of the repurchase of common shares.

Year-to-date net earnings available to common shareholders of the Company were $409 million ($1.14 per common share), a decrease of $75 million ($0.16 per common share) or 15.5% compared to the same period in 2019. The decrease in net earnings available to common shareholders of the Company included a decline in underlying operating performance of $45 million and the unfavourable year-over year net impact of adjusting items totaling $30 million, as described below:

- the decline in underlying operating performance of $45 million ($0.14 per common share) was primarily due to the following:
  - a decline in the underlying operating performance in the Financial Services segment; and
  - a decline in the underlying operating performance in the Retail segment (excluding the impact of the consolidation of franchises) was driven by an increase in depreciation and amortization. The increase in SG&A, excluding depreciation and amortization, was more than offset by an increase in adjusted gross profit[(2)].
- the unfavourable year-over-year net impact of adjusting items totaling $30 million ($0.09 per common share) primarily due to the following:
  - the unfavourable impact of the reversal of certain prior period items in 2019 of $11 million ($0.03 per common share);
  - the year-over-year unfavourable change in fair value adjustment on fuel and foreign currency contracts of $7 million ($0.01 per common share);
  - the year-over-year unfavourable impact of restructuring and other related costs of $5 million ($0.01 per common share);
  - the unfavourable impact of a prior year net gain on sale of non-operating properties of $5 million ($0.01 per common share);
  - the unfavourable impact of prior year statutory corporate income tax rate change of $4 million ($0.01 per common share); and
  - the unfavourable impact of fair value adjustments on investment properties of $2 million ($0.01 per common share);

  partially offset by,
  - the year-over-year favourable impact of prior year pension annuities and buy-outs of $7 million ($0.02 per common share).
- the decrease in diluted net earnings per common share also included the favourable impact of the repurchase of common shares ($0.07 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company[(2)] were $618 million ($1.72 per common share), a decrease of $45 million or 6.8% compared to the same period in 2019. Adjusted diluted net earnings per common share[(2)] were $1.72 per common share, a decrease of $0.07 or 3.9%. Adjusted diluted net earnings per common share[(2)] also included the favourable impact of the repurchase of common shares.

Revenue

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020 (24 weeks)**	2019 (24 weeks)	$ Change	% Change
Retail	**$ 11,768**	$ 10,906	$ 862	7.9 %	**$ 23,352**	$ 21,358	$ 1,994	9.3 %
Financial Services	**233**	284	(51)	(18.0)%	**499**	550	(51)	(9.3)%
Consolidation and Eliminations	**(44)**	(57)	13	22.8 %	**(94)**	(116)	22	19.0 %
Revenue	**$ 11,957**	$ 11,133	$ 824	7.4 %	**$ 23,757**	$ 21,792	$ 1,965	9.0 %

Revenue was $11,957 million in the second quarter of 2020, an increase of $824 million, or 7.4%, compared to the second quarter of 2019, primarily due to an increase in the Retail segment sales of $862 million. Excluding the consolidation of franchises, Retail segment sales increased by $762 million or 7.2%, due to positive same-store sales growth and a net increase in Retail square footage. The increase in Retail segment sales was partially offset by a decrease in Financial Services segment sales of $51 million, primarily driven by lower interchange income and credit card related fees and lower sales attributable to partial closure of *The Mobile Shop* kiosks.

Year-to-date revenue was $23,757 million in 2020, an increase of $1,965 million, or 9.0%, compared to the same period in 2019, primarily driven by an increase in Retail segment sales of $1,994 million. Excluding the consolidation of franchises, Retail segment sales increased by $1,708 million or 8.2%, due to positive same-store sales growth and a net increase in Retail square footage. The increase in Retail segment sales was partially offset by a decrease in Financial Services segment sales of $51 million, primarily driven by lower interchange income and credit card related fees and lower sales attributable to partial closure of *The Mobile Shop* kiosks, partially offset by higher interest income.

Operating Income Operating income was $404 million in the second quarter of 2020, a decrease of $184 million, or 31.3% compared to the second quarter of 2019. The decrease in operating income included a decrease in underlying operating performance of $175 million, and the unfavourable year-over-year change in adjusting items totaling $9 million, as described below:

- the decline in underlying operating performance of $175 million was primarily due to the following:
  - a decline in the underlying operating performance of the Retail segment, due to an increase in COVID-19 related expenses. The decline in underlying operating performance also included the unfavourable contribution from the consolidation of franchises of $25 million; and
  - a decline in underlying operating performance in the Financial Services segment.
- the unfavourable change in adjusting items totaling $9 million which was primarily due to the following:
  - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of $15 million;

  partially offset by,
  - the year-over-year favourable change in fair value adjustment on fuel and foreign currency contracts of $7 million.

Year-to-date operating income was $945 million in 2020, a decrease of $94 million compared to the same period in 2019. The decrease in operating income included a decrease in underlying operating performance of $60 million, and the unfavourable year-over-year change in adjusting items totaling $34 million, as described below:

- the decline in underlying operating performance of $60 million was primarily due to the following:
  - a decline in underlying operating performance of the Financial Services segment; and
  - a decline in the underlying operating performance of the Retail segment due to an increase in depreciation and amortization. The increase in SG&A, excluding depreciation and amortization, was more than offset by an increase in adjusted gross profit(2).
- the unfavourable change in adjusting items totaling $34 million which was primarily due to the following:
  - the unfavourable impact of the reversal of certain prior period items in 2019 of $15 million;
  - the year-over-year unfavourable change in fair value adjustment on fuel and foreign currency contracts of $10 million;
  - the year-over-year unfavourable impact of restructuring and other related costs of $8 million;
  - the unfavourable impact of a prior year net gain on sale of non-operating properties of $6 million; and
  - the year-over-year unfavourable change in fair value adjustment on investment properties of $3 million;

  partially offset by,
  - the year-over-year favourable impact of prior year pension annuities and buy-outs of $10 million.

Adjusted EBITDA(2)

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020 (24 weeks)**	2019 (24 weeks)	$ Change	% Change
Retail	**$ 977**	$ 1,128	$ (151)	(13.4)%	**$ 2,138**	$ 2,113	$ 25	1.2 %
Financial Services	**39**	47	(8)	(17.0)%	**47**	102	(55)	(53.9)%
Adjusted EBITDA(2)	**$ 1,016**	$ 1,175	$ (159)	(13.5)%	**$ 2,185**	$ 2,215	$ (30)	(1.4)%

Adjusted EBITDA(2) was $1,016 million in the second quarter of 2020, a decrease of $159 million compared to the second quarter of 2019. The decrease in adjusted EBITDA(2) in the second quarter of 2020 was primarily due to a decrease in the Retail segment of $151 million, which was primarily due to an increase in COVID-19 related expenses. The decrease in the Retail segment included the year-over-year unfavourable impact of consolidation of franchises of $20 million. The decrease in adjusted EBITDA(2) was also due to a decrease in the Financial Services segment of $8 million.

Year-to-date adjusted EBITDA(2) was $2,185 million in 2020, a decrease of $30 million compared to the same period in 2019. The year-to-date decrease in adjusted EBITDA(2) was primarily due to a decrease in the Financial Services Segment of $55 million, partially offset by an increase in the Retail segment of $25 million, and included the year-over-year favourable impact of consolidation of franchises of $16 million.

Depreciation and Amortization Depreciation and amortization was $598 million in the second quarter of 2020, an increase of $18 million compared to the second quarter of 2019. Year-to-date depreciation and amortization was $1,192 million in 2020, an increase of $32 million compared to the same period in 2019. The increase in depreciation and amortization in the second quarter of 2020 and year-to-date was primarily driven by the consolidation of franchises and an increase in IT assets. Depreciation and amortization in the second quarter of 2020 and year-to-date included the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $118 million (2019 – $116 million) and $237 million (2019 – $235 million), respectively.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $176 million in the second quarter of 2020. When compared to the second quarter of 2019, this represented an increase of $1 million. The increase was primarily driven by higher interest expense in the Financial Services segment.

Year-to-date net interest expense and other financing charges were $348 million, flat compared to the same period in 2019.

Income Taxes

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020 (24 weeks)**	2019 (24 weeks)	$ Change	% Change
Income taxes	**$ 66**	$ 107	$ (41)	(38.3)%	**$ 159**	$ 179	$ (20)	(11.2)%
Add (deduct) impact of the following:								
Tax impact of items included in adjusted earnings before taxes	**35**	32	3	9.4 %	**76**	68	8	11.8 %
Statutory corporate income tax rate change	**—**	4	(4)	(100.0)%	**—**	4	(4)	(100.0)%
Adjusted income taxes(2)	**$ 101**	$ 143	$ (42)	(29.4)%	**$ 235**	$ 251	$ (16)	(6.4)%
Effective tax rate	**28.9%**	25.9%			**26.6%**	25.9%		
Adjusted effective tax rate(2)	**28.1%**	26.7%			**26.6%**	26.6%		

Income tax expense in the second quarter of 2020 was $66 million (2019 – $107 million) and the effective tax rate was 28.9% (2019 – 25.9%). Year-to-date income tax expense was $159 million (2019 – $179 million) and the effective tax rate was 26.6% (2019 – 25.9%). The increase in the effective tax rate in the second quarter of 2020 was primarily attributable to lower franchisee earnings during the quarter which were taxed at the lower small business rate. The increase in the year-to-date effective tax rate was primarily attributable to the remeasurement of certain deferred tax balances due to the Alberta rate decrease that was announced and substantively enacted in the second quarter of 2019.

Adjusted income tax expense(2) in the second quarter of 2020 was $101 million (2019 – $143 million) and the adjusted effective tax rate(2) was 28.1% (2019 – 26.7%). Year-to-date adjusted income tax expense(2) was $235 million (2019 – $251 million) and the adjusted income tax rate(2) was 26.6% (2019 – 26.6%). The increase to the adjusted effective tax rate(2) in the second quarter was primarily attributable to lower franchisee earnings during the quarter which were taxed at the lower small business rate.

The Company has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to the 2000 to 2010 taxation years. 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 and recorded a charge of $367 million, of which $176 million was recorded in interest and $191 million was recorded in income taxes, to cover its ultimate liability if the appeal was unsuccessful. On October 15, 2019, the appeal was heard by the Federal Court of Appeal. During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of the Company reversing the decision of the Tax Court. Subsequent to the end of the second quarter, on June 19, 2020, the Crown filed an application for leave to appeal to the Supreme Court of Canada. The Company has not reversed any portion of the previously recorded charge.

Process and Efficiency In the second quarter of 2020, the Company recorded approximately $17 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the restructuring charges is $9 million related to the closure of the two distribution centres in Laval and Ottawa, that were previously announced in the first quarter of 2020. The Company is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Over the next two years, the distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall. The Company expects to incur additional restructuring costs in 2020 and 2021 related to these closures. Year-to-date, the Company recorded approximately $36 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the year-to-date restructuring charges is $24 million related to the closure of the two distribution centres in Laval and Ottawa.

COVID-19 Update

General The COVID-19 pandemic continued to have a dramatic impact on our colleagues, customers, suppliers and other stakeholders in the second quarter. As disclosed previously, starting in March the Company reacted quickly to changing circumstances by ramping up investments in four areas: enhancing customer convenience by expanding on-line capabilities and increasing staffing in our stores; supporting our colleagues in our stores and distribution centres with temporary pay premiums and pay protection safeguards; securing operations, with more in-store cleaning and in-store security, introducing new ways to shop stores to promote social distancing, and installing plexiglass barriers at check outs; and providing financial support to our communities and customers by pledging financial support to food banks and community charities and offering personalized solutions for President's Choice Financial Mastercard® customers who are experiencing financial hardship. These investments continued in the second quarter.

In the first quarter of 2020, the Company announced that the cost of the incremental investments were expected to be approximately $90 million every 4 week period. The cost of these incremental investments was approximately $282 million in the second quarter, exceeding the benefit from incremental sales volumes due to COVID-19. These costs include approximately $180 million related to the temporary pay premium costs which included the one-time bonus for store and DC colleagues of $25 million which was announced on June 11, 2020. The Company continues to incur COVID-19 related costs to enhance the safety and security of its customers and colleagues. In the four weeks following the end of the second quarter, these costs were approximately $19 million. Given the unprecedented nature of the pandemic and the variability in reopening plans across the country, it is expected that consumer behaviour and the resulting impact on sales and gross margin mix will continue to be volatile. In the four weeks following the end of the second quarter, sales mix continued to evolve as restaurants began to re-open. Food retail same-store sales continued at elevated levels but have seen a modest tapering of growth rates, and Drug retail same-store sales growth rates have improved, relative to the second quarter.

In light of the uncertainty surrounding the duration and severity of the pandemic, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. As announced on April 9, 2020, the Company has withdrawn its 2020 Outlook that is contained in its MD&A for the year ended December 28, 2019.

Liquidity The Company's liquidity position is supported by a strong balance sheet and the ability to generate significant cash flow from its operations. As at the end of the second quarter of 2020, the Company's consolidated cash and short-term investments balance was $2.6 billion. The aggregate available liquidity is approximately $4.6 billion including undrawn amounts under committed credit facilities. President's Choice Bank ("PC Bank") continues to maintain a level of liquidity well in excess of required regulatory minimums. Subsequent to the end of the second quarter, the Company's liquidity was reduced by $350 million due to the repayment of the 5.22% Medium Term Notes, Series 2-B, which was paid on June 18, 2020. COVID-19 has impacted the timing and magnitude of capital expenditures within the second quarter.

Risk Factor For more information on the risks presented to the Company by the COVID-19 pandemic, please see Section 9, "Enterprise Risks and Risk Management" of the Company's MD&A for the quarter ended June 13, 2020.

4. Reportable Operating Segments Results of Operations

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

4.1 Retail Segment

Unless otherwise indicated, the following financial information includes the impacts of the consolidation of franchises and COVID-19.

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020 (24 weeks)**	2019 (24 weeks)	$ Change	% Change
Sales	**$ 11,768**	$ 10,906	$ 862	7.9 %	**$ 23,352**	$ 21,358	$ 1,994	9.3 %
Operating income	**370**	546	(176)	(32.2)%	**908**	947	(39)	(4.1)%
Adjusted gross profit[(2)]	**3,484**	3,263	221	6.8 %	**6,934**	6,360	574	9.0 %
Adjusted gross profit %[(2)]	**29.6%**	29.9%			**29.7%**	29.8%		
Adjusted EBITDA[(2)]	**$ 977**	$ 1,128	$ (151)	(13.4)%	**$ 2,138**	$ 2,113	$ 25	1.2 %
Adjusted EBITDA margin[(2)]	**8.3%**	10.3%			**9.2%**	9.9%		
Depreciation and amortization	**$ 593**	$ 575	$ 18	3.1 %	**$ 1,182**	$ 1,150	$ 32	2.8 %

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**		2019 (12 weeks)		**2020 (24 weeks)**		2019 (24 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 8,747**	**10.0 %**	$ 7,858	0.6%	**$ 17,079**	**9.8%**	$ 15,373	1.3%
Drug retail	**3,021**	**(1.1)%**	3,048	4.0%	**6,273**	**4.7%**	5,985	3.1%
Pharmacy	**1,361**	**(6.2)%**	1,449	4.8%	**2,924**	**2.1%**	2,861	3.0%
Front store	**1,660**	**3.3 %**	1,599	3.3%	**3,349**	**6.9%**	3,124	3.2%

Sales Retail segment sales in the second quarter of 2020 were $11,768 million, an increase of $862 million, or 7.9% compared to the second quarter of 2019. After excluding the consolidation of franchises, Retail segment sales increased by $762 million, or 7.2%, primarily driven by the following factors:

- Food retail same-store sales growth was 10.0% (2019 – 0.6%) for the quarter. Food same-store sales growth was positively impacted by COVID-19. The timing of Easter had a nominal impact on Food retail same-store sales growth in the second quarters of 2020 and 2019.
    - Sales growth in food was strong;
    - Sales in pharmacy declined significantly;
    - The Company's Food retail average article price was 4.6% (2019 – 3.3%), which reflects the year over year growth in Food retail revenue over the average number of articles sold in the Company's stores in the quarter.
    - Food retail basket size increased and traffic decreased in the quarter.
- Drug retail same-store sales decreased by 1.1% (2019 – increased by 4.0%). Drug same-store sales was negatively impacted by COVID-19. The timing of Easter had a nominal impact on Drug retail same-store sales decline and growth in the second quarters of 2020 and 2019, respectively.
    - Pharmacy same-store sales decreased by 6.2% (2019 – increased by 4.8%). The number of prescriptions dispensed increased by 4.3% (2019 – 3.8%). On a same-store basis, the number of prescriptions dispensed increased by 4.3% (2019 – 3.7%) and the average prescription value decreased by 11.2% (2019 – increased by 0.6%). Temporary changes in prescription refill limits from 90 days to 30 days related to COVID-19 contributed to a net increase in the number of prescriptions and a reduction in the average prescription value.
    - Front store same-store sales growth was 3.3% (2019 – 3.3%).

In the last 12 months, 13 food and drug stores were opened, and 7 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.1 million square feet, or 0.1%.

On a year-to-date basis, retail sales were $23,352 million, an increase of $1,994 million, or 9.3%, compared to the same period in 2019. After excluding the consolidation of franchises, Retail segment sales increased by $1,708 million, or 8.2%. Year-to-date Food retail sales of $17,079 million increased by $1,706 million, or 11.1%. The increase was primarily due to year-to-date same-store sales growth of 9.8% (2019 – 1.3%). Drug retail sales of $6,273 million increased by $288 million, or 4.8%. Year-to-date Drug retail same-store sales growth was 4.7% (2019 – 3.1%), with pharmacy same-store sales growth of 2.1% (2019 – 3.0%) and Front store same-store sales growth of 6.9% (2019 – 3.2%).

Operating Income Operating income in the second quarter of 2020 was $370 million, a decrease of $176 million compared to the second quarter of 2019. The decrease in operating income was driven by a decline in underlying operating performance of $167 million and the unfavourable year-over-year net impact of adjusting items totaling $9 million as described below:

- the decline in underlying operating performance of $167 million was primarily due to an increase in SG&A due to increase in COVID-19 related expenses and an increase in depreciation and amortization, partially offset by an increase in adjusted gross profit[(2)]. The decline in underlying operating performance included the unfavourable year-over-year contribution from consolidation of franchises of $25 million;
- the unfavourable change in adjusting items totaling $9 million which was primarily due to the following:
    - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of $15 million;

    partially offset by,
    - the year-over-year favourable change in fair value adjustment on fuel and foreign currency contracts of $7 million.

Year-to-date operating income was $908 million, a decrease of $39 million compared to the same period in 2019. The decrease in operating income was driven by decline in underlying operating performance of $5 million and the unfavourable change in adjusting items totaling $34 million as described below:

- the decline in underlying operating performance of $5 million was driven by an increase in depreciation and amortization. The increase in SG&A, excluding depreciation and amortization, was more than offset by an increase in adjusted gross profit[(2)]. The decline in underlying operating performance included the favourable year-over-year contribution from consolidation of franchises of $3 million.
- the unfavourable change in adjusting items totaling $34 million which was primarily due to the following:
    - the unfavourable impact of the reversal of certain prior period items in 2019 of $15 million;
    - the year-over-year unfavourable change in fair value adjustment on fuel and foreign currency contracts of $10 million;
    - the year-over-year unfavourable impact of restructuring and other related costs of $8 million;
    - the unfavourable impact of a prior year net gain on sale of non-operating properties of $6 million; and
    - the year-over-year unfavourable change in fair value adjustment on investment properties of $3 million;

  partially offset by,
    - the year-over-year favourable impact of prior year pension annuities and buy-outs of $10 million.

Adjusted Gross Profit[(2)] Adjusted gross profit[(2)] in the second quarter of 2020 was $3,484 million, an increase of $221 million compared to the second quarter of 2019. Excluding the consolidation of franchises, adjusted gross profit[(2)] increased by $104 million. Adjusted gross profit percentage[(2)] of 29.6% decreased by 30 basis points compared to the second quarter of 2019. Adjusted gross profit percentage[(2)], excluding the consolidation of franchises, was 26.9%. This represented a decrease of 90 basis points compared to the second quarter of 2019. Food and Drug retail margins were negatively impacted as a result of the change in product sales mix, largely due to COVID-19.

Year-to-date adjusted gross profit[(2)] was $6,934 million, an increase of $574 million compared to the same period in 2019. Adjusted gross profit percentage[(2)] of 29.7% decreased by 10 basis points compared to 2019. Excluding the consolidation of franchises, adjusted gross profit[(2)] increased by $332 million. Adjusted gross profit percentage[(2)], excluding the consolidation of franchises, was 27.1%, a decrease of 60 basis points compared to the same period in 2019. Food retail margins were stable while Drug retail margins were negatively impacted by mix. The overall mix between Food and Drug was negative, largely due to COVID-19.

Adjusted EBITDA[(2)] Adjusted EBITDA[(2)] in the second quarter of 2020 was $977 million, a decrease of $151 million compared to the second quarter of 2019. The decrease included the year-over-year unfavourable impact of the consolidation of franchises of $20 million. Excluding the consolidation of franchises, the decrease was driven by an increase in SG&A of $235 million, partially offset by an increase in adjusted gross profit[(2)] of $104 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 18.5%, an increase of 90 basis points compared to the second quarter of 2019. The unfavourable increase of 90 basis points was primarily related to costs associated with COVID-19 related investments and additional costs from the acceleration of the Company's e-commerce initiative, partially offset by process and efficiency and cost savings from mitigating other expenses.

Year-to-date adjusted EBITDA[(2)] was $2,138 million, an increase of $25 million compared to the same period in 2019. The increase included the year-over-year favourable impact of the consolidation of franchises of $16 million. Excluding the consolidation of franchises, the increase was driven by an increase in adjusted gross profit[(2)] of $332 million, partially offset by an increase in SG&A of $323 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 18.0%, an increase of 10 basis points compared to the same period in 2019. The unfavourable increase of 10 basis points was primarily driven by COVID-19 related expenses, which was more than offset by the incremental margin from COVID-19 related lift in Food sales.

In the second quarter of 2020, adjusted EBITDA[(2)] included gains of nil (2019 – nil) and nil year-to-date (2019 – $5 million) related to the sale and leaseback of properties to Choice Properties Real Estate Investment Trust ("Choice Properties").

Depreciation and Amortization Depreciation and amortization in the second quarter of 2020 was $593 million, an increase of $18 million compared to the second quarter of 2019. Year-to-date depreciation and amortization was $1,182 million, an increase of $32 million compared to the same period in 2019. The increase in depreciation and amortization in the second quarter of 2020 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 second quarter of 2020 and year-to-date is the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart of $118 million (2019 – $116 million) and $237 million (2019 – $235 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 first quarter of 2020, the Company consolidated all of its remaining franchisees for accounting purposes under a simplified franchise agreement implemented in 2015.

The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars unless where otherwise indicated)	**2020** **(12 weeks)**	2019[4] (12 weeks)	**2020** **(24 weeks)**	2019[4] (24 weeks)
Number of consolidated franchise stores, beginning of period	**526**	414	**470**	400
Add: Net number of consolidated franchise stores in the period	**—**	10	**56**	24
Number of consolidated franchise stores, end of period[i]	**526**	424	**526**	424
Sales	**$ 406**	$ 306	**$ 895**	$ 609
Adjusted gross profit[2]	**429**	312	**845**	603
Adjusted EBITDA[2]	**20**	40	**87**	71
Depreciation and amortization	**22**	17	**47**	34
Operating (loss)/income	**(2)**	23	**40**	37
Net (loss)/earnings	**(8)**	16	**25**	24
Net (loss)/income attributable to non-controlling interests	**(10)**	17	**23**	22

(i) The number of franchise stores disclosed elsewhere includes certain stores under buying arrangements which will not be subject to the simplified franchise agreement.

Operating loss/income that is 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.

In light of the uncertainty surrounding the duration and severity of the pandemic, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of franchises.

4.2 Financial Services Segment

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020** **(24 weeks)**	2019 (24 weeks)	$ Change	% Change
Revenue	**$ 233**	$ 284	$ (51)	(18.0)%	**$ 499**	$ 550	$ (51)	(9.3)%
Earnings (Losses) before income taxes	**12**	21	(9)	(42.9)%	**(7)**	52	(59)	(113.5)%

(millions of Canadian dollars except where otherwise indicated)	**As at** **June 13, 2020**	As at June 15, 2019[4]	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,235**	$ 3,201	$ 34	1.1 %
Credit card receivables	**2,834**	3,243	(409)	(12.6)%
Allowance for credit card receivables	**250**	175	75	42.9 %
Annualized yield on average quarterly gross credit card receivables	**13.8%**	13.5%		
Annualized credit loss rate on average quarterly gross credit card receivables	**3.8%**	3.4%		

Revenue Revenue in the second quarter of 2020 was $233 million. Compared to the second quarter of 2019, this represented a decrease of $51 million, primarily driven by:

- lower interchange income and credit card related fees primarily driven by lower customer spending; and
- lower sales attributable to partial closure of *The Mobile Shop* kiosks, due to COVID-19.

Year-to-date revenue was $499 million. Compared to the same period in 2019, this represented a decrease of $51 million as described above, partially offset by higher interest income.

Earnings (losses) before income taxes Earnings before income taxes in the second quarter of 2020 were $12 million. When compared to the second quarter of 2019, this represented a decrease in earnings of $9 million. Year-to-date losses before income taxes were $7 million. Compared to the same period in 2019, this represented a decrease of $59 million. The decrease in earnings before income taxes in the second quarter of 2020 and year-to-date was primarily driven by:

- lower revenue, as described above;
- higher credit losses; and
- increase in expected credit losses attributable to an immediate increase in unemployment forecasts and recessionary environment when COVID-19 was declared a pandemic;

partially offset by,

- lower loyalty program transaction volume; and
- lower customer acquisition costs.

Credit Card Receivables As at June 13, 2020, credit card receivables were $2,834 million. When compared to June 15, 2019, this represented a decrease of $409 million. This decrease was primarily driven by change in customer behaviour which resulted in a decline in sales volume and a shift in spend to non-discretionary categories. The allowance for credit card receivables increased to $250 million, an increase of $75 million compared to June 15, 2019.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020** **(24 weeks)**	2019 (24 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 2,184**	$ 929	$ 1,255	135.1 %	**$ 1,133**	$ 1,065	$ 68	6.4 %
Cash flows from (used in):								
Operating activities	**$ 935**	$ 951	$ (16)	(1.7)%	**$ 2,748**	$ 1,911	$ 837	43.8 %
Investing activities	**(557)**	(206)	(351)	(170.4)%	**(770)**	472	(1,242)	(263.1)%
Financing activities	**(369)**	(523)	154	29.4 %	**(911)**	(2,298)	1,387	60.4 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	**4**	—	4	100.0 %	**(3)**	1	(4)	(400.0)%
Change in cash and cash equivalents	**$ 13**	$ 222	$ (209)	(94.1)%	**$ 1,064**	$ 86	$ 978	1,137.2 %
Cash and cash equivalents, end of period	**$ 2,197**	$ 1,151	$ 1,046	90.9 %	**$ 2,197**	$ 1,151	$ 1,046	90.9 %

Cash Flows from Operating Activities Cash flows from operating activities in the second quarter of 2020 were $935 million, a decrease of $16 million compared to the second quarter of 2019. The decrease in cash flows from operating activities was primarily due to an unfavourable change in non-cash working capital driven by an increase in inventory purchases and a decrease in trade payables as well as lower cash earnings due to COVID-19, partially offset by a decrease in credit card receivables as a result of reduced customer spending.

Year-to-date cash flows from operating activities were $2,748 million in 2020, an increase of $837 million compared to the same period in 2019. The increase in cash flows from operating activities was primarily due to a decrease in credit card receivables as a result of reduced customer spending and lower income taxes paid.

Cash Flows used in Investing Activities Cash flows used in investing activities in the second quarter of 2020 were $557 million, an increase of $351 million compared to the second quarter of 2019. The increase in cash flows used in investing activities was primarily due to an increase in short term investments and an unfavourable change in security deposits, partially offset by a reduction in capital investments.

Year-to-date cash flows used in investing activities were $770 million in 2020, an increase of $1,242 million compared to the same period in 2019. The increase is cash flows used in investing activities was primarily due to the release of $800 million in security deposits in the prior year to repay $800 million of the Company's debentures and an increase in short term investments.

Capital Investments and Store Activity

As at or for the periods ended June 13, 2020 and June 15, 2019	**2020 (24 weeks)**	2019 (24 weeks)	% Change
Capital investments (millions of Canadian dollars)	**$ 410**	$ 383	7.0 %
Corporate square footage (in millions)	**35.6**	35.7	(0.3)%
Franchise square footage (in millions)	**16.4**	16.3	0.6 %
Associate-owned drug store square footage (in millions)	**18.7**	18.6	0.5 %
Total retail square footage (in millions)	**70.7**	70.6	0.1 %
Number of corporate stores	**549**	551	(0.4)%
Number of franchise stores	**539**	536	0.6 %
Number of Associate-owned drug stores	**1,343**	1,338	0.4 %
Total number of stores	**2,431**	2,425	0.2 %
Percentage of corporate real estate owned	**7%**	8%	
Percentage of franchise real estate owned	**4%**	4%	
Percentage of Associate-owned drug store real estate owned	**1%**	1%	
Average store size (square feet)			
Corporate	**64,800**	64,800	— %
Franchise	**30,400**	30,400	— %
Associate-owned drug store	**13,900**	13,900	— %

Cash Flows used in Financing Activities Cash flows used in financing activities in the second quarter of 2020 were $369 million, a decrease of $154 million compared to the second quarter of 2019. The decrease in cash flows used in financing activities was a result of the Company not repurchasing any common shares under its Normal Course Issuer Bid ("NCIB") during the second quarter of 2020 and a favourable change in bank indebtedness, partially offset by less borrowings under the Other Independent Securitization Trusts due to a decline in the volume of credit card receivables.

Year-to-date cash flows used in financing activities were $911 million in 2020, a decrease of $1,387 million compared to the same period in 2019. The decrease in cash flows used in financing activities was primarily due to a net issuance of long term debt in the current year of $476 million compared to a net repayment of long term debt of $726 million in the prior year. The net issuance of long term debt includes the issuance of $350 million aggregate principal amount of senior unsecured notes in the second quarter of 2020. The net repayment of long term debt in the prior year includes a repayment of $800 million debenture released from security deposit. The Company also did not repurchase any common shares under its NCIB during the second quarter of 2020.

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 June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (12 weeks)	2019 (12 weeks)	$ Change	% Change	2020 (24 weeks)	2019 (24 weeks)	$ Change	% Change
Cash flows from operating activities	**$ 935**	$ 951	$ (16)	(1.7)%	**$ 2,748**	$ 1,911	$ 837	43.8 %
Less:								
Capital investments	**199**	209	(10)	(4.8)%	**410**	383	27	7.0 %
Interest paid	**71**	73	(2)	(2.7)%	**159**	171	(12)	(7.0)%
Lease payments, net	**331**	336	(5)	(1.5)%	**659**	605	54	8.9 %
Free cash flow(2)	**$ 334**	$ 333	$ 1	0.3 %	**$ 1,520**	$ 752	$ 768	102.1 %

Free cash flow(2) in the second quarter of 2020 was $334 million, an increase of $1 million compared to the second quarter of 2019. The increase in free cash flow(2) was primarily due to a decrease in credit card receivables as a result of reduced customer spending, partially offset by an unfavourable change in non-cash working capital driven by an increase in inventory purchases and a decrease in trade payables as well as lower cash earnings due to COVID-19.

Year-to-date free cash flow(2) was $1,520 million in 2020, an increase of $768 million compared to the same period in 2019. The increase in free cash flow(2) was primarily due to a decrease in credit card receivables as a result of reduced customer spending and lower income taxes paid.

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 its credit card portfolio through the issuance of *Eagle Credit Card Trust®* ("*Eagle*") notes and Guaranteed Investment Certificates.

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

	As at June 13, 2020			As at June 15, 2019			As at December 28, 2019		
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total	Retail	Financial Services	Total
Bank indebtedness	**$ 133**	**$ —**	**$ 133**	$ 89	$ —	$ 89	$ 18	$ —	$ 18
Short term debt	**—**	**525**	**525**	—	790	790	—	725	725
Long term debt due within one year	**350**	**890**	**1,240**	—	324	324	350	777	1,127
Long term debt	**4,781**	**1,562**	**6,343**	4,798	1,651	6,449	4,437	1,534	5,971
Certain other liabilities	**66**	**—**	**66**	49	—	49	65	—	65
Total debt excluding lease liabilities	**$ 5,330**	**$ 2,977**	**$ 8,307**	$ 4,936	$ 2,765	$ 7,701	$ 4,870	$ 3,036	$ 7,906
Lease liabilities due within one year	**1,324**	**—**	**1,324**	1,239	—	1,239	1,419	—	1,419
Lease liabilities	**7,685**	**—**	**7,685**	7,749	—	7,749	7,691	—	7,691
Total debt including total lease liabilities	**$ 14,339**	**$ 2,977**	**$ 17,316**	$13,924	$ 2,765	$16,689	$13,980	$ 3,036	$17,016

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 retail adjusted EBITDA[(2)] ratio as a measure of the leverage being employed.

	As at June 13, 2020	As at June 15, 2019	As at December 28, 2019
Retail debt to rolling year retail adjusted EBITDA[(2)]	**3.0x**	3.0x	3.0x

The Retail debt to rolling year retail adjusted EBITDA[(2)] ratio as at June 13, 2020 was flat compared to June 15, 2019 and December 28, 2019.

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

Covenants and Regulatory Requirements The Company is required to comply with certain financial covenants for various debt instruments. As at June 13, 2020 and throughout the second quarter, the Company was in compliance with such covenants. As at June 13, 2020 and throughout the second quarter, PC Bank has met all applicable regulatory requirements.

5.3 Components of Total Debt

Debentures In the second quarter of 2020, the Company issued $350 million aggregate principal amount of senior unsecured notes bearing interest at 2.284% per annum with a maturity date of May 7, 2030. Subsequent to the end of the quarter, the Company used the net proceeds of the issuance to fund the repayment of its $350 million aggregate principal amount of 5.22% Medium Term Notes, Series 2-B on June 18, 2020.

In the second quarter of 2019, there were no debentures issued or repaid.

Committed Credit Facility The Company has a $1.0 billion committed credit facility with a maturity date of June 10, 2021. This committed credit facility contains certain financial covenants. During the second quarter of 2020, the Company repaid the $350 million drawn under this facility in the first quarter of 2020. As at June 13, 2020, June 15, 2019 and December 28, 2019, there were no amounts drawn under this facility.

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

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

(millions of Canadian dollars)	**As at June 13, 2020**	As at June 15, 2019	As at December 28, 2019
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust*®	**$ 1,000**	$ 750	$ 1,000
Securitized to other independent securitization trusts	**525**	790	725
Total securitized to independent securitization trusts	**$ 1,525**	$ 1,540	$ 1,725

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 June 13, 2020 and throughout the first half of 2020.

A repayment accumulation process has been triggered during the second quarter of 2020 due to the upcoming maturity of the *Eagle* Series with $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23% on September 17, 2020. The accumulated funds were recorded as security deposits beginning on June 1, 2020. As at June 13, 2020, approximately $71 million was recorded in security deposits. The remaining $179 million will be accumulated and recorded as security deposits until repayment in September 2020.

Independent Funding Trusts As at June 13, 2020, the independent funding trust had drawn $490 million (June 15, 2019 – $526 million; December 28, 2019 – $505 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 June 13, 2020, the Company provided a credit enhancement of $64 million (June 15, 2019 and December 28, 2019 – $64 million) for the benefit of the independent funding trusts representing not less than 10% (2019 – not less than 10%) of the principal amount of loans outstanding.

The revolving committed credit facility relating to the independent funding trusts has a maturity date of May 27, 2022.

5.4 Financial Condition

Rolling Year Adjusted Return on Equity(2) and Rolling Year Adjusted Return on Capital(2)

	As at June 13, 2020	As at June 15, 2019	As at December 28, 2019
Rolling year adjusted return on equity(2)	**13.3%**	13.5%	13.7%
Rolling year adjusted return on capital(2)	**7.9%**	7.9%	7.8%

Rolling year adjusted return on equity(2) as at June 13, 2020 decreased compared to June 15, 2019 and December 28, 2019 primarily due to a decline in underlying operating performance of the Retail Segment which was driven by an increase in SG&A due to an increase in COVID-19 related expenses and an increase in depreciation and amortization, which was partially offset by an increase in adjusted gross profit(2). The decrease was also due to a decline in the underlying operating performance of the Financial Services segment.

Rolling year adjusted return on capital(2) as at June 13, 2020 was flat compared to June 15, 2019 and increased compared to December 28, 2019 primarily due to an increase in cash and cash equivalents.

5.5 Credit Ratings

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

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

5.6 Share Capital

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

	June 13, 2020 (12 weeks)		June 15, 2019 (12 weeks)		**June 13, 2020 (24 weeks)**		June 15, 2019 (24 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**357,726,194**	**$ 7,035**	369,092,041	$ 7,203	**360,064,475**	**$ 7,065**	371,790,967	$ 7,177
Issued for settlement of stock options	**59,711**	**3**	619,566	30	**479,007**	**27**	1,316,397	63
Purchased and cancelled	**—**	**—**	(3,611,170)	(70)	**(2,757,577)**	**(54)**	(7,006,927)	(77)
Issued and outstanding, end of period	**357,785,905**	**$ 7,038**	366,100,437	$ 7,163	**357,785,905**	**$ 7,038**	366,100,437	$ 7,163
Shares held in trust, beginning of period	**(874,004)**	**$ (17)**	(576,588)	$ (11)	**(1,113,302)**	**$ (21)**	(734,727)	$ (15)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**(145,000)**	**(3)**	(300,000)	(5)
Released for settlement of RSUs and PSUs	**30,535**	**1**	21,133	1	**414,833**	**8**	479,272	10
Shares held in trust, end of period	**(843,469)**	**$ (16)**	(555,455)	$ (10)	**(843,469)**	**$ (16)**	(555,455)	$ (10)
Issued and outstanding, net of shares held in trust, end of period	**356,942,436**	**$ 7,022**	365,544,982	$ 7,153	**356,942,436**	**$ 7,022**	365,544,982	$ 7,153
Weighted average outstanding, net of shares held in trust	**356,916,153**		367,767,214		**357,742,595**		368,396,964	

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

	June 13, 2020[(i)] (12 weeks)	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Dividends declared per share ($)				
Common Share	**$ 0.315**	$ 0.315	**$ 0.630**	$ 0.610
Second Preferred Share, Series B	**$ 0.33125**	$ 0.33125	**$ 0.66250**	$ 0.66250

(i) The second quarter dividends for 2020 of $0.315 per share declared on Common Shares had a payment date of July 1, 2020. The second quarter dividends for 2020 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of June 30, 2020.

(millions of Canadian dollars)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Dividends declared				
Common Share	**$ 109**	$ 114	**$ 225**	$ 224
Second Preferred Share, Series B	**3**	3	**6**	6
Total dividends declared	**$ 112**	$ 117	**$ 231**	$ 230

Subsequent to the end of the second quarter of 2020, the Board of Directors declared a quarterly dividend of $0.315 per common share, payable on October 1, 2020 to shareholders of record on September 15, 2020 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on September 30, 2020 to shareholders of record on September 15, 2020.

Normal Course Issuer Bid Activities under the Company's NCIB during the periods were as follows:

(millions of Canadian dollars except where otherwise indicated)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**—**	3,611,170	**2,757,577**	7,006,927
Cash consideration paid[(i)]	**$ —**	$ 250	**$ 188**	$ 465
Premium charged to retained earnings	**—**	180	**134**	203
Reduction in common share capital	**—**	70	**54**	77
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	—	**145,000**	300,000
Cash consideration paid	**$ —**	$ —	**$ 10**	$ 20
Premium charged to retained earnings	**—**	—	**7**	15
Reduction in common share capital	**—**	—	**3**	5

(i) In the first quarter of 2019, cash consideration paid included $185 million paid for common shares related to the automatic share purchase plan as described below.

In the first quarter of 2020, the Toronto Stock Exchange ("TSX") accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from George Weston Limited ("Weston") under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company. During the second quarter of 2020, no common shares were purchased under the NCIB for cancellation. On a year-to-date basis, 2,757,577 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $188 million, including 1,355,077 common shares purchased from Weston, for aggregate cash consideration of $92 million.

In the first quarter of 2019, the Company completed an automatic share purchase plan ("ASPP") that was initiated in the fourth quarter of 2018 to facilitate the repurchase of the Company's common shares under its NCIB. Under the ASPP, the Company's broker purchased 2,927,733 common shares for approximately $185 million.

In the second quarter of 2020, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 of the Company's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As at June 13, 2020, the Company had not purchased any common shares for cancellation under its current 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 was no significant changes to these off-balance sheet arrangements during the second quarter of 2020. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2019 Annual Report.

6. Financial Derivative Instruments

The Company uses derivative instruments to offset certain of its financial risks. The Company uses bond forwards to manage its anticipated exposure to fluctuations in interest rates on future debt issuances.

During the second quarter, the Company has settled the bond forward that was entered into in the first quarter of 2020. The purpose of the bond forward was to hedge the interest rate risk in the appropriate Government of Canada yield curve that corresponded to the term of the May 7, 2030 senior unsecured notes ("2030 Notes") bearing interest at 2.284% per annum. The Company has concluded that this hedge was effective as at the settlement date. Accordingly, the accumulated other comprehensive income associated with this bond forward will continue to be amortized over the term of the 2030 Notes as net interest expense and other financing charges within the financial statements, resulting in an effective annual interest rate of approximately 3.34%.

The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. For further details on the impact of these instruments during the second quarter of 2020 see Section 10 "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 2019 and 2018 were 52 weeks. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year such as 2020 contains 53 weeks, the fourth quarter is 13 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:

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
(millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	**2019 (12 weeks)**	2020 (12 weeks)	2019 (12 weeks)	2019 (12 weeks)	2018 (12 weeks)	2019 (16 weeks)	2018 (16 weeks)
Revenue	**$ 11,957**	**$ 11,133**	$ 11,800	$ 10,659	$ 11,590	$ 11,218	$ 14,655	$ 14,319
Adjusted EBITDA[(2)]	**1,016**	**1,175**	1,169	1,040	1,205	895	1,492	1,060
Net earnings available to common shareholders of the Company	**169**	**286**	240	198	254	221	331	106
Continuing Operations	**169**	**286**	240	198	254	228	331	(26)
Discontinuing Operations	**—**	**—**	—	—	—	(7)	—	132
Adjusted net earnings available to common shareholders of the Company[(2)]	**$ 266**	**$ 373**	$ 352	$ 290	$ 395	$ 402	$ 458	$ 562
Continuing Operations	**266**	**373**	352	290	395	388	458	466
Discontinuing Operations	**—**	**—**	—	—	—	14	—	96
Net earnings per common share:								
Basic ($)	**$ 0.47**	**$ 0.78**	$ 0.67	$ 0.54	$ 0.70	$ 0.59	$ 0.91	$ 0.28
Continuing Operations	**$ 0.47**	**$ 0.78**	$ 0.67	$ 0.54	$ 0.70	$ 0.61	$ 0.91	$ (0.07)
Discontinuing Operations	**$ —**	**$ —**	$ —	$ —	$ —	$ (0.02)	$ —	$ 0.35
Diluted ($)	**$ 0.47**	**$ 0.77**	$ 0.66	$ 0.53	$ 0.70	$ 0.59	$ 0.90	$ 0.28
Continuing Operations	**$ 0.47**	**$ 0.77**	$ 0.66	$ 0.53	$ 0.70	$ 0.61	$ 0.90	$ (0.07)
Discontinuing Operations	**$ —**	**$ —**	$ —	$ —	$ —	$ (0.02)	$ —	$ 0.35
Adjusted diluted net earnings per common share [(2)] ($)	**$ 0.74**	**$ 1.01**	$ 0.97	$ 0.78	$ 1.09	$ 1.07	$ 1.25	$ 1.49
Continuing Operations	**$ 0.74**	**$ 1.01**	$ 0.97	$ 0.78	$ 1.09	$ 1.03	$ 1.25	$ 1.24
Discontinuing Operations	**$ —**	**$ —**	$ —	$ —	$ —	$ 0.04	$ —	$ 0.25
Food retail same-store sales growth	**10.0 %**	**0.6%**	9.6%	2.0%	1.9%	0.8%	0.1%	0.9%
Drug retail same-store sales (decline)/growth	**(1.1)%**	**4.0%**	10.7%	2.2%	3.9%	1.9%	4.1%	2.5%

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

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter. In the first and second quarter of 2020 revenue is unusually high compared to the same periods of 2019 due to COVID-19;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices;
- consolidation of franchises; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.5 million square feet to 70.7 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:

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter. The Company's financial results for the 24 weeks ended June 13, 2020 show increased revenue, driven by increased demands for essential items due to COVID-19. In addition, selling, general and administrative expenses ("SG&A") also increased in the 12 weeks ended June 13, 2020 as a result of the incremental cost of COVID–19 related investments to benefit and protect colleagues and customers.
- the timing of holidays;
- the impact of the Company's store closure plan;
- improvements in the underlying operating performance of the Company; and
- the impact of adjusting items, as set out in Section 10 "Non-GAAP Financial Measures", including:
    - the charge related to Glenhuron Bank Limited;
    - the Loblaw Card program;
    - restructuring and other related charges;
    - asset impairments, net of recoveries;
    - the gain and loss on sale of non-operating properties; and
    - certain prior period items.

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 International Financial Reporting Standards.

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

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal control over financial reporting in the second quarter of 2020 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

9. Enterprise Risks and Risk Management

COVID-19 The duration and impact of the COVID-19 pandemic on the Company is unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. The Company continues to closely monitor the situation as it evolves day-to-day and may take further actions in response to directives of government and public health authorities or that are in the best interests of its colleagues, customers, suppliers or other stakeholders, as necessary. As COVID-19 related restrictions are being lifted in many provinces, the Company remains committed to keeping its grocery stores and pharmacies, including its Shoppers Drug Mart locations, open and restocked, all while ensuring appropriate measures are in place to protect the health and safety of its customers and frontline colleagues.

Changes in the Company's operations in response to COVID-19, could materially impact financial results and may include temporary closures of facilities, temporary or long-term labour shortages or disruptions, temporary or long-term impacts on supply chains and distribution channels, temporary or long-term restrictions on cross-border commerce and travel, greater currency volatility, and increased risks to IT systems, networks and digital services. Uncertain economic conditions resulting from the COVID-19 outbreak may, in the short or long term, adversely impact operations and the financial performance of the Company and each of its operating segments.

The spread of COVID-19 has caused an economic slowdown and increased volatility in financial markets. Governments and central banks have responded with monetary and fiscal interventions intended to stabilize economic conditions. However, it is not currently known how these interventions will impact debt and equity markets or the economy generally. Although the ultimate impact of COVID-19 on the global economy and its duration remains uncertain, disruptions caused by COVID-19 may adversely affect the performance of the Company.

Uncertain economic conditions resulting from the COVID-19 outbreak may, in the short or long term, adversely impact demand for the Company's products and services and/or the debt and equity markets, both of which could adversely affect the Company's financial performance. Governmental interventions aimed at containing COVID-19 could also impact the Company's available workforce, its supply chain and distribution channels and/or its ability to engage in cross-border commerce, which could in turn adversely affect the operations or financial performance of the Company.

A detailed full set of risks inherent in the Company's business are included in the Company's AIF for the year ended December 28, 2019 and the Company's MD&A in the Company's 2019 Annual Report, which are hereby incorporated by reference. The Company's 2019 Annual Report and AIF are available online on www.sedar.com.

10. 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 effective 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; and rolling year adjusted return on capital. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

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

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.

				2020 (12 weeks)				2019 (12 weeks)
For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 11,768**	**$ 233**	**$ (44)**	**$ 11,957**	$ 10,906	$ 284	$ (57)	$ 11,133
Cost of merchandise inventories sold	**8,284**	**22**	**—**	**8,306**	7,643	39	—	7,682
Gross profit	**$ 3,484**	**$ 211**	**$ (44)**	**$ 3,651**	$ 3,263	$ 245	$ (57)	$ 3,451
Adjusted gross profit	**$ 3,484**	**$ 211**	**$ (44)**	**$ 3,651**	$ 3,263	$ 245	$ (57)	$ 3,451

				2020 (24 weeks)				2019 (24 weeks)
For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 23,352**	**$ 499**	**$ (94)**	**$ 23,757**	$ 21,358	$ 550	$ (116)	$ 21,792
Cost of merchandise inventories sold	**16,418**	**47**	**—**	**16,465**	14,998	70	—	15,068
Gross profit	**$ 6,934**	**$ 452**	**$ (94)**	**$ 7,292**	$ 6,360	$ 480	$ (116)	$ 6,724
Adjusted gross profit	**$ 6,934**	**$ 452**	**$ (94)**	**$ 7,292**	$ 6,360	$ 480	$ (116)	$ 6,724

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.

			2020 (12 weeks)			2019 (12 weeks)
For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Consolidated**	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 172**			$ 289
Add impact of the following:						
Non-controlling interests			**(10)**			17
Net interest expense and other financing charges			**176**			175
Income taxes			**66**			107
Operating income	**$ 370**	**$ 34**	**$ 404**	$ 546	$ 42	$ 588
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 118**	**$ —**	**$ 118**	$ 116	$ —	$ 116
Restructuring and other related costs	**17**	**—**	**17**	16	—	16
Loss on sale of non-operating properties	**—**	**—**	**—**	2	—	2
Certain prior period items	**—**	**—**	**—**	(15)	—	(15)
Fair value adjustment on fuel and foreign currency contracts	**(3)**	**—**	**(3)**	4	—	4
Adjusting Items	**$ 132**	**$ —**	**$ 132**	$ 123	$ —	$ 123
Adjusted operating income	**$ 502**	**$ 34**	**$ 536**	$ 669	$ 42	$ 711
Depreciation and amortization	**593**	**5**	**598**	575	5	580
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(118)**	**—**	**(118)**	(116)	—	(116)
Adjusted EBITDA	**$ 977**	**$ 39**	**$ 1,016**	$ 1,128	$ 47	$ 1,175

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars)	2020 (24 weeks) Retail	Financial Services	Consolidated	2019 (24 weeks) Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			$ 415			$ 490
Add impact of the following:						
Non-controlling interests			23			22
Net interest expense and other financing charges			348			348
Income taxes			159			179
Operating income	$ 908	$ 37	$ 945	$ 947	$ 92	$ 1,039
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	$ 237	$ —	$ 237	$ 235	$ —	$ 235
Restructuring and other related costs	36	—	36	28	—	28
Fair value adjustment on fuel and foreign currency contracts	12	—	12	2	—	2
Pension annuities and buy-outs	—	—	—	10	—	10
Fair value adjustment on investment properties	—	—	—	(3)	—	(3)
Gain on sale of non-operating properties	—	—	—	(6)	—	(6)
Certain prior period items	—	—	—	(15)	—	(15)
Adjusting Items	$ 285	$ —	$ 285	$ 251	$ —	$ 251
Adjusted operating income	$ 1,193	$ 37	$ 1,230	$ 1,198	$ 92	$ 1,290
Depreciation and amortization	1,182	10	1,192	1,150	10	1,160
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(237)	—	(237)	(235)	—	(235)
Adjusted EBITDA	$ 2,138	$ 47	$ 2,185	$ 2,113	$ 102	$ 2,215

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 $500 million until 2024 and will decrease thereafter.

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

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 has undertaken annuity purchases and pension buy-outs in respect of former employees to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks.

Gain/loss on sale of non-operating properties In the second quarter of 2019, the Company disposed of vacant land to a third party and recorded a loss of $2 million related to the sale.

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

Certain prior period items In the second quarter of 2019, the Company revised its estimates of the amount owed associated with a prior period regulatory matter.

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 June 13, 2020 and June 15, 2019 (millions of Canadian dollars)	**2020 (12 weeks)**	2019 (12 weeks)	**2020 (24 weeks)**	2019 (24 weeks)
Net interest expense and other financing charges	**$ 176**	$ 175	**$ 348**	$ 348
Adjusted net interest expense and other financing charges	**$ 176**	$ 175	**$ 348**	$ 348

Adjusted Income Taxes and Adjusted Effective 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 effective 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 June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	**2020 (24 weeks)**	2019 (24 weeks)
Adjusted operating income(i)	**$ 536**	$ 711	**$ 1,230**	$ 1,290
Adjusted net interest expense and other financing charges(i)	**176**	175	**348**	348
Adjusted earnings before taxes	**$ 360**	$ 536	**$ 882**	$ 942
Income taxes	**$ 66**	$ 107	**$ 159**	$ 179
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(ii)	**35**	32	**76**	68
Statutory corporate income tax rate change	**—**	4	**—**	4
Adjusted income taxes	**$ 101**	$ 143	**$ 235**	$ 251
Effective tax rate	**28.9%**	25.9%	**26.6%**	25.9%
Adjusted effective tax rate	**28.1%**	26.7%	**26.6%**	26.6%

(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.

Statutory corporate income tax rate change The Company's deferred income tax assets and liabilities are impacted by changes to provincial statutory corporate income tax rates resulting in a charge or benefit to earnings. The Company implements changes in the statutory corporate income tax rate in the same period the change is substantively enacted by the legislative body.

In the second quarter of 2019, the Government of Alberta announced and substantively enacted a gradual decrease in the provincial statutory corporate income tax rate from 12% to 8% by 2022. The Company recorded income of $4 million in the second quarter of 2019 and year-to-date related to the remeasurement of its deferred income tax balances.

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 June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	**2020 (24 weeks)**	2019 (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 172**	$ 289	**$ 415**	$ 490
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders of the Company	**$ 169**	$ 286	**$ 409**	$ 484
Net earnings attributable to shareholders of the Company	**$ 172**	$ 289	**$ 415**	$ 490
Adjusting items (refer to the following table)	**97**	87	**209**	179
Adjusted net earnings attributable to shareholders of the Company	**$ 269**	$ 376	**$ 624**	$ 669
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Adjusted net earnings available to common shareholders of the Company	**$ 266**	$ 373	**$ 618**	$ 663
Diluted weighted average common shares outstanding (millions)	**359.5**	370.4	**360.3**	371.1

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.

	2020 (12 weeks)		2019 (12 weeks)		**2020 (24 weeks)**		2019 (24 weeks)	
For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars/Canadian dollars)	**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
As reported	**$ 169**	**$ 0.47**	$ 286	$ 0.77	**$ 409**	**$ 1.14**	$ 484	$ 1.30
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 87**	**$ 0.25**	$ 85	$ 0.23	**$ 174**	**$ 0.49**	$ 171	$ 0.46
Restructuring and other related costs	**12**	**0.03**	12	0.03	**26**	**0.07**	21	0.06
Gain on sale of non-operating properties	**—**	**—**	2	0.01	**—**	**—**	(5)	(0.01)
Pension annuities and buy-outs	**—**	**—**	—	—	**—**	**—**	7	0.02
Fair value adjustment on investment properties	**—**	**—**	—	—	**—**	**—**	(2)	(0.01)
Statutory corporate income tax rate change	**—**	**—**	(4)	(0.01)	**—**	**—**	(4)	(0.01)
Certain prior period items	**—**	**—**	(11)	(0.03)	**—**	**—**	(11)	(0.03)
Fair value adjustment on fuel and foreign currency contracts	**(2)**	**(0.01)**	3	0.01	**9**	**0.02**	2	0.01
Adjusting items	**$ 97**	**$ 0.27**	$ 87	$ 0.24	**$ 209**	**$ 0.58**	$ 179	$ 0.49
Adjusted	**$ 266**	**$ 0.74**	$ 373	$ 1.01	**$ 618**	**$ 1.72**	$ 663	$ 1.79

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.

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars)	**2020** **(12 weeks)**	2019 (12 weeks)	**2020** **(24 weeks)**	2019 (24 weeks)
Cash flows from operating activities	**$ 935**	$ 951	**$ 2,748**	$ 1,911
Less:				
Capital investments	**199**	209	**410**	383
Interest paid	**71**	73	**159**	171
Lease payments, net	**331**	336	**659**	605
Free cash flow	**$ 334**	$ 333	**$ 1,520**	$ 752

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.

11. 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.

July 22, 2020
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 134 of the Company's 2019 Annual Report.
(2) See Section 10 "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) Certain figures have been restated to conform with current year presentation.

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Revenue	**$ 11,957**	$ 11,133	**$ 23,757**	$ 21,792
Cost of merchandise inventories sold	**8,306**	7,682	**16,465**	15,069
Selling, general and administrative expenses	**3,247**	2,863	**6,347**	5,684
Operating income	**$ 404**	$ 588	**$ 945**	$ 1,039
Net interest expense and other financing charges (note 4)	**176**	175	**348**	348
Earnings before income taxes	**$ 228**	$ 413	**$ 597**	$ 691
Income taxes (note 5)	**66**	107	**159**	179
Net earnings	**$ 162**	$ 306	**$ 438**	$ 512
Attributable to:				
Shareholders of the Company	**$ 172**	$ 289	**$ 415**	$ 490
Non-controlling interests	**(10)**	17	**23**	22
Net earnings	**$ 162**	$ 306	**$ 438**	$ 512
Net earnings per common share ($) (note 6)				
Basic	**$ 0.47**	$ 0.78	**$ 1.14**	$ 1.31
Diluted	**$ 0.47**	$ 0.77	**$ 1.14**	$ 1.30
Weighted average common shares outstanding (millions) (note 6)				
Basic	**356.9**	367.8	**357.7**	368.4
Diluted	**359.5**	370.4	**360.3**	371.1

See accompanying notes to the unaudited interim period condensed consolidated financial statements.

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Net earnings	**$ 162**	$ 306	**$ 438**	$ 512
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gains (losses)	**$ 3**	$ —	**$ 1**	$ —
Gains (losses) on cash flow hedges (note 17)	**(20)**	(1)	**(41)**	(6)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 16)	**(43)**	14	**(10)**	(57)
Other comprehensive income (loss)	**$ (60)**	$ 13	**$ (50)**	$ (63)
Total comprehensive income	**$ 102**	$ 319	**$ 388**	$ 449
Attributable to:				
Shareholders of the Company	**$ 112**	$ 302	**$ 365**	$ 427
Non-controlling interests	**(10)**	17	**23**	22
Total comprehensive income	**$ 102**	$ 319	**$ 388**	$ 449

See accompanying notes to the unaudited interim period condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Preferred Share Capital	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance as at December 28, 2019	$ 7,044	$ 221	$ 7,265	$ 3,822	$ 100	$ 37	$ (6)	$ 16	$ 47	$ 87	$ 11,321
Net earnings	$ —	$ —	$ —	$ 415	$ —	$ —	$ —	$ —	$ —	$ 23	$ 438
Other comprehensive income (loss)	—	—	—	(10)	—	1	(41)	—	(40)	—	(50)
Total comprehensive income (loss)	$ —	$ —	$ —	$ 405	$ —	$ 1	$ (41)	$ —	$ (40)	$ 23	$ 388
Common shares purchased and cancelled (note 14)	(54)	—	(54)	(134)	—	—	—	—	—	—	(188)
Net effect of equity-based compensation (notes 14 and 15)	27	—	27	—	(8)	—	—	—	—	—	19
Shares purchased and held in trust (note 14)	(3)	—	(3)	(7)	—	—	—	—	—	—	(10)
Shares released from trust (note 15)	8	—	8	16	—	—	—	—	—	—	24
Dividends declared per common share – $0.630 (note 14)	—	—	—	(225)	—	—	—	—	—	—	(225)
Dividends declared per preferred share – $0.66250 (note 14)	—	—	—	(6)	—	—	—	—	—	—	(6)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(24)	(24)
	$ (22)	$ —	$ (22)	$ 49	$ (8)	$ 1	$ (41)	$ —	$ (40)	$ (1)	$ (22)
Balance as at June 13, 2020	$ 7,022	$ 221	$ 7,243	$ 3,871	$ 92	$ 38	$ (47)	$ 16	$ 7	$ 86	$ 11,299

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Preferred Share Capital	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	Accumulated Other Comprehensive Income	Non-Controlling Interests	Total Equity
Balance as at December 29, 2018	$ 7,162	$ 221	$ 7,383	$ 4,580	$ 107	$ 34	$ (1)	$ 16	$ 49	$ 59	$ 12,178
Impact of adopting IFRS 16	—	—	—	(798)	—	—	—	—	—	—	(798)
Restated balance as at December 30, 2018	$ 7,162	$ 221	$ 7,383	$ 3,782	$ 107	$ 34	$ (1)	$ 16	$ 49	$ 59	$ 11,380
Net earnings	$ —	$ —	$ —	$ 490	$ —	$ —	$ —	$ —	$ —	$ 22	$ 512
Other comprehensive income (loss)	—	—	—	(57)	—	—	(6)	—	(6)	—	(63)
Total comprehensive income (loss)	$ —	$ —	$ —	$ 433	$ —	$ —	$ (6)	$ —	$ (6)	$ 22	$ 449
Common shares purchased and cancelled (note 14)	(77)	—	(77)	(203)	—	—	—	—	—	—	(280)
Net effect of equity-based compensation (notes 14 and 15)	63	—	63	—	(17)	—	—	—	—	—	46
Shares purchased and held in trust (note 14)	(5)	—	(5)	(15)	—	—	—	—	—	—	(20)
Shares released from trust (note 14 and 15)	10	—	10	18	—	—	—	—	—	—	28
Dividends declared per common share – $0.610 (note 14)	—	—	—	(224)	—	—	—	—	—	—	(224)
Dividends declared per preferred share – $0.66250 (note 14)	—	—	—	(6)	—	—	—	—	—	—	(6)
Net distribution to non-controlling interests	—	—	—	—	—	—	—	—	—	(20)	(20)
	$ (9)	$ —	$ (9)	$ 3	$ (17)	$ —	$ (6)	$ —	$ (6)	$ 2	$ (27)
Balance as at June 15, 2019	$ 7,153	$ 221	$ 7,374	$ 3,785	$ 90	$ 34	$ (7)	$ 16	$ 43	$ 61	$ 11,353

See accompanying notes to the unaudited interim period condensed consolidated financial statements.

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	**As at June 13, 2020**	As at June 15, 2019[(i)]	As at December 28, 2019
Assets			
Current assets			
Cash and cash equivalents (note 7)	**$ 2,197**	$ 1,151	$ 1,133
Short term investments (note 7)	**361**	39	57
Security deposits (note 7)	**71**	—	—
Accounts receivable	**1,044**	1,054	1,184
Credit card receivables (note 8)	**2,834**	3,243	3,624
Inventories (note 9)	**4,689**	4,593	5,076
Prepaid expenses and other assets	**276**	133	131
Assets held for sale (note 10)	**109**	91	105
Total current assets	**$ 11,581**	$ 10,304	$ 11,310
Fixed assets	**5,360**	5,359	5,490
Right-of-use assets	**7,311**	7,395	7,362
Investment properties	**153**	178	172
Intangible assets	**7,117**	7,524	7,322
Goodwill	**3,948**	3,944	3,946
Deferred income tax assets	**157**	186	169
Franchise loans receivable (note 17)	**—**	49	19
Other assets (note 11)	**504**	541	519
Total assets	**$ 36,131**	$ 35,480	$ 36,309
Liabilities			
Current liabilities			
Bank indebtedness	**$ 133**	$ 89	$ 18
Trade payables and other liabilities	**4,894**	4,613	5,321
Loyalty liability	**215**	232	191
Provisions	**121**	127	119
Income taxes payable	**75**	57	27
Short term debt (note 8)	**525**	790	725
Long term debt due within one year (note 12)	**1,240**	324	1,127
Lease liabilities due within one year	**1,324**	1,239	1,419
Associate interest	**282**	247	280
Total current liabilities	**$ 8,809**	$ 7,718	$ 9,227
Provisions	**109**	106	102
Long term debt (note 12)	**6,343**	6,449	5,971
Lease liabilities	**7,685**	7,749	7,691
Deferred income tax liabilities	**1,435**	1,623	1,539
Other liabilities (note 13)	**451**	482	458
Total liabilities	**$ 24,832**	$ 24,127	$ 24,988
Equity			
Share capital (note 14)	**$ 7,243**	$ 7,374	$ 7,265
Retained earnings	**3,871**	3,785	3,822
Contributed surplus (note 15)	**92**	90	100
Accumulated other comprehensive income	**7**	43	47
Total equity attributable to shareholders of the Company	**$ 11,213**	$ 11,292	$ 11,234
Non-controlling interests	**86**	61	87
Total equity	**$ 11,299**	$ 11,353	$ 11,321
Total liabilities and equity	**$ 36,131**	$ 35,480	$ 36,309

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

Contingent Liabilities (note 18).

See accompanying notes to the unaudited interim period condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	**June 13, 2020 (12 weeks)**	June 15, 2019[(i)] (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019[(i)] (24 weeks)
Operating activities				
Net earnings	**$ 162**	$ 306	**$ 438**	$ 512
Add (Deduct):				
Income taxes (note 5)	**66**	107	**159**	179
Net interest expense and other financing charges (note 4)	**176**	175	**348**	348
Adjustment to fair value of investment properties	**—**	—	**—**	(3)
Depreciation and amortization	**598**	580	**1,192**	1,160
Asset impairments, net of recoveries	**8**	1	**14**	3
Change in provisions	**6**	(25)	**9**	(30)
	$ 1,016	$ 1,144	**$ 2,160**	$ 2,169
Change in non-cash working capital	**(417)**	105	**(46)**	(46)
Change in credit card receivables (note 8)	**414**	(192)	**790**	66
Income taxes paid	**(108)**	(112)	**(192)**	(297)
Interest received	**—**	3	**3**	6
Interest received from finance leases	**1**	1	**2**	2
Other	**29**	2	**31**	11
Cash flows from operating activities	**$ 935**	$ 951	**$ 2,748**	$ 1,911
Investing activities				
Fixed asset purchases	**$ (94)**	$ (133)	**$ (196)**	$ (221)
Intangible asset additions	**(75)**	(76)	**(164)**	(162)
Cash assumed on initial consolidation of franchises (note 3)	**—**	2	**14**	9
Change in short term investments (note 7)	**(297)**	34	**(304)**	55
Change in security deposits	**(71)**	—	**(71)**	800
Proceeds from disposal of assets	**43**	—	**44**	59
Lease payments received from finance leases	**—**	1	**3**	4
Other	**(63)**	(34)	**(96)**	(72)
Cash flows (used in) from investing activities	**$ (557)**	$ (206)	**$ (770)**	$ 472
Financing activities				
Change in bank indebtedness	**$ 50**	$ (41)	**$ 115**	$ 33
Change in short term debt (note 8)	**25**	175	**(200)**	(125)
Long term debt (note 12)				
Issued	**595**	171	**971**	174
Repayments	**(488)**	(71)	**(495)**	(900)
Interest paid	**(71)**	(73)	**(159)**	(171)
Cash rent paid on lease liabilities - Interest	**(88)**	(90)	**(174)**	(180)
Cash rent paid on lease liabilities - Principal	**(244)**	(248)	**(490)**	(431)
Dividends paid on common and preferred shares	**(115)**	(112)	**(231)**	(225)
Common share capital				
Issued (note 15)	**3**	26	**24**	55
Purchased and held in trust (note 14)	**—**	—	**(10)**	(20)
Purchased and cancelled (note 14)	**—**	(250)	**(188)**	(465)
Other	**(36)**	(10)	**(74)**	(43)
Cash flows used in financing activities	**$ (369)**	$ (523)	**$ (911)**	$ (2,298)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 4**	$ —	**$ (3)**	$ 1
Change in cash and cash equivalents	**$ 13**	$ 222	**$ 1,064**	$ 86
Cash and cash equivalents, beginning of period	**2,184**	929	**1,133**	1,065
Cash and cash equivalents, end of period	**$ 2,197**	$ 1,151	**$ 2,197**	$ 1,151

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

See accompanying notes to the unaudited interim period condensed consolidated financial statements.

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, and the nation's largest retailer. Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services, and wireless mobile products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to, in these unaudited interim period condensed consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston"), which owns approximately 52.1% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments Limited ("Wittington"). The remaining common shares are widely held.

The Company has two reportable operating segments: Retail and Financial Services (see note 20).

The Company's business is affected by seasonality and timing of holidays, relative to the Company's interim periods. Accordingly, quarterly performance is not necessarily indicative of annual performance. Historically, the Company has earned more revenue in the fourth quarter relative to the preceding quarters in the Company's fiscal year.

The COVID-19 pandemic continued to have a significant impact on the Company. The Company's financial results for the 24 weeks ended June 13, 2020 show increased revenue, driven by increased demands for essential items, as well as increased cost of merchandise inventories sold. In addition, selling, general and administrative expenses ("SG&A") also increased in the 12 weeks ended June 13, 2020 as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers.

Note 2. Significant Accounting Policies

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company's 2019 audited annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements. These unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

Statement of Compliance These unaudited interim period condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. These unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2019 audited annual consolidated financial statements and accompanying notes.

These unaudited interim period condensed consolidated financial statements were approved for issuance by the Company's Board of Directors ("Board") on July 22, 2020.

Note 3. Business Acquisitions

Consolidation of Franchises The Company accounts for the consolidation of existing franchises as business acquisitions and consolidates its franchises as of the date the franchisee enters into a simplified franchise agreement with the Company. The assets acquired and liabilities assumed through the consolidation are valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises are included in the Company's results of operations from the date of acquisition.

The Company has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2020, the Company consolidated all of its remaining franchisees for accounting purposes under a simplified franchise agreement implemented in 2015.

The following table summarizes the amounts recognized for the assets acquired, the liabilities assumed and the non-controlling interests recognized at the acquisition dates:

(millions of Canadian dollars)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Net assets acquired:				
Cash and cash equivalents	**$ —**	$ 2	**$ 14**	$ 9
Inventories	**—**	11	**42**	24
Fixed assets	**—**	15	**44**	27
Trade payables and other liabilities(i)	**—**	(13)	**(54)**	(24)
Other liabilities(i)	**—**	(15)	**(30)**	(30)
Non-controlling interests	**—**	—	**(16)**	(6)
Total net assets acquired	**$ —**	$ —	**$ —**	$ —

(i) On consolidation, trade payables and other liabilities and other liabilities eliminate against existing accounts receivable, franchise loans receivable and franchise investments held by the Company.

Note 4. Net Interest Expense and Other Financing Charges

The components of net interest expense and other financing charges were as follows:

(millions of Canadian dollars)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Interest expense and other financing charges				
Lease liabilities	**$ 88**	$ 90	**$ 174**	$ 180
Long term debt	**77**	69	**147**	141
Borrowings related to credit card receivables	**8**	10	**20**	17
Post-employment and other long term employee benefits (note 16)	**1**	1	**3**	3
Independent funding trusts	**3**	4	**8**	9
Bank indebtedness	**—**	3	**1**	4
	$ 177	$ 177	**$ 353**	$ 354
Interest income				
Accretion income	**$ (1)**	$ (1)	**$ (2)**	$ (2)
Short term interest income	**—**	(1)	**(3)**	(4)
	$ (1)	$ (2)	**$ (5)**	$ (6)
Net interest expense and other financing charges	**$ 176**	$ 175	**$ 348**	$ 348

Note 5. Income Taxes

Income tax expense in the second quarter of 2020 was $66 million (2019 – $107 million) and the effective tax rate was 28.9% (2019 – 25.9%). Year-to-date income tax expense was $159 million (2019 – $179 million) and the effective tax rate was 26.6% (2019 – 25.9%). The increase in the effective tax rate in the second quarter of 2020 was primarily attributable to lower franchisee earnings during the quarter which were taxed at the lower small business rate. The increase in the year-to-date effective tax rate was primarily attributable to the remeasurement of certain deferred tax balances due to the Alberta rate decrease that was announced and substantively enacted in the second quarter of 2019.

During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron Bank Limited ("Glenhuron") case in favour of the Company reversing the decision of the Tax Court of Canada ("Tax Court"). Subsequent to the end of the second quarter, on June 19, 2020, the Crown filed an application for leave to appeal to the Supreme Court of Canada. The Company has not reversed any portion of the previously recorded charge (see note 18).

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 172**	$ 289	**$ 415**	$ 490
Dividends on Preferred Shares in equity (note 14)	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders	**$ 169**	$ 286	**$ 409**	$ 484
Weighted average common shares outstanding (in millions) (note 14)	**356.9**	367.8	**357.7**	368.4
Dilutive effect of equity-based compensation (in millions)	**1.6**	1.9	**1.6**	2.0
Dilutive effect of certain other liabilities (in millions)	**1.0**	0.7	**1.0**	0.7
Diluted weighted average common shares outstanding (in millions)	**359.5**	370.4	**360.3**	371.1
Basic net earnings per common share ($)	**$ 0.47**	$ 0.78	**$ 1.14**	$ 1.31
Diluted net earnings per common share ($)	**$ 0.47**	$ 0.77	**$ 1.14**	$ 1.30

In the second quarter of 2020 and year-to-date, 3,253,615 (2019 – 1,536,394) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 7. Cash and Cash Equivalents, Short Term Investments and Security Deposits

The components of cash and cash equivalents, short term investments and security deposits were as follows:

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at June 13, 2020**	As at June 15, 2019	As at December 28, 2019
Cash	**$ 612**	$ 507	$ 549
Cash equivalents			
Government treasury bills	**715**	289	161
Bankers' acceptances	**869**	270	348
Corporate commercial paper	**1**	85	75
Total cash and cash equivalents	**$ 2,197**	$ 1,151	$ 1,133

Short Term Investments

(millions of Canadian dollars)	**As at June 13, 2020**	As at June 15, 2019	As at December 28, 2019
Government treasury bills	**$ 338**	$ 30	$ 44
Bankers' acceptances	**23**	7	10
Corporate commercial paper	**—**	2	3
Total short term investments	**$ 361**	$ 39	$ 57

Security Deposits A repayment accumulation process has been triggered during the second quarter of 2020 due to the upcoming maturity of the *Eagle Credit Card Trust*® (*"Eagle"*) Series with $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23% on September 17, 2020. The accumulated funds were recorded as security deposits beginning on June 1, 2020. As at June 13, 2020, approximately $71 million was recorded in security deposits. The remaining $179 million will be accumulated and recorded as security deposits until repayment in September 2020.

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)		**As at June 13, 2020**		As at June 15, 2019[i]		As at December 28, 2019
Gross credit card receivables	**$**	**3,084**	$	3,418	$	3,820
Allowance for credit card receivables		**(250)**		(175)		(196)
Credit card receivables	**$**	**2,834**	$	3,243	$	3,624
Securitized to independent securitization trusts:						
Securitized to *Eagle Credit Card Trust*® (note 12)	**$**	**1,000**	$	750	$	1,000
Securitized to Other Independent Securitization Trusts		**525**		790		725
Total securitized to independent securitization trusts	**$**	**1,525**	$	1,540	$	1,725

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

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

The associated liability of *Eagle* is recorded in long term debt (see note 12). The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt.

On a year-to-date basis in 2020, PC Bank recorded a $200 million net decrease of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts as a result of a decline in the volume of credit card receivables.

As at June 13, 2020, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was $47 million (June 15, 2019 – $71 million; December 28, 2019 – $70 million), which represented 9% (June 15, 2019 – 9%; December 28, 2019 – 10%) of the securitized credit card receivables amount.

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 June 13, 2020 and throughout the first half of 2020.

Note 9. Inventories

For inventories recorded as at June 13, 2020, the Company recorded an inventory provision of $35 million (June 15, 2019 – $31 million; December 28, 2019 – $33 million) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during the first half of 2020 and 2019.

Note 10. Assets Held for Sale

The Company classifies certain assets, primarily land and buildings, that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in the Company's retail business segment. In the second quarter of 2020, the Company recorded a nominal gain (2019 – loss of $2 million) from the sale of these assets. On a year-to-date basis, the Company recorded a nominal loss (2019 – net gain of $6 million) from the sale of these assets. No impairment charges were recognized on these properties in the first half of 2020 (2019 – nil).

Note 11. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	As at June 13, 2020	As at June 15, 2019	As at December 28, 2019
Sundry investments and other receivables	**$ 31**	$ 59	$ 22
Accrued benefit plan asset	**196**	189	229
Finance lease receivable	**102**	122	114
Other	**175**	171	154
Total other assets	**$ 504**	$ 541	$ 519

Note 12. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	As at June 13, 2020	As at June 15, 2019	As at December 28, 2019
Debentures	**$ 4,655**	$ 4,286	$ 4,296
Guaranteed investment certificates	**1,452**	1,225	1,311
Independent securitization trusts (note 8)	**1,000**	750	1,000
Independent funding trusts	**490**	526	505
Transaction costs and other	**(14)**	(14)	(14)
Total long term debt	**$ 7,583**	$ 6,773	$ 7,098
Long term debt due within one year	**1,240**	324	1,127
Long term debt	**$ 6,343**	$ 6,449	$ 5,971

The Company is required to comply with certain financial covenants for various debt instruments. As at June 13, 2020 and throughout the first half of 2020, the Company was in compliance with the financial covenants.

Debentures In the second quarter of 2020, the Company issued $350 million aggregate principal amount of senior unsecured notes bearing interest at 2.284% per annum with a maturity date of May 7, 2030. Subsequent to the end of the quarter, the Company used the net proceeds of the issuance to fund the repayment of its $350 million aggregate principal amount of 5.22% Medium Term Notes, Series 2-B on June 18, 2020.

In the second quarter of 2019, there were no debentures issued or repaid.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, in 2020 and 2019:

(millions of Canadian dollars)	June 13, 2020 (12 weeks)	June 15, 2019 (12 weeks)	June 13, 2020 (24 weeks)	June 15, 2019 (24 weeks)
Balance, beginning of period	**$ 1,324**	$ 1,121	**$ 1,311**	$ 1,141
GICs issued	**266**	181	**286**	184
GICs matured	**(138)**	(77)	**(145)**	(100)
Balance, end of period	**$ 1,452**	$ 1,225	**$ 1,452**	$ 1,225

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 in the amount of $64 million (June 15, 2019 and December 28, 2019 – $64 million), representing not less than 10% (June 15, 2019 and December 28, 2019 – not less than 10%) of the principal amount of loans outstanding.

The revolving committed credit facility relating to the independent funding trusts has a maturity date of May 27, 2022.

Committed Credit Facility The Company has a $1.0 billion committed credit facility with a maturity date of June 10, 2021. This committed credit facility contains certain financial covenants. During the second quarter of 2020, the Company repaid the $350 million drawn under this facility in the first quarter of 2020. As at June 13, 2020, June 15, 2019 and December 28, 2019, there were no amounts drawn under this facility.

Long Term Debt Due Within One Year The following table summarizes long term debt due within one year:

(millions of Canadian dollars)	**As at June 13, 2020**	As at June 15, 2019	As at December 28, 2019
Loblaw Companies Limited notes	**$ 350**	$ —	$ 350
Guaranteed investment certificates	**640**	324	527
Independent securitization trusts	**250**	—	250
Long term debt due within one year	**$ 1,240**	$ 324	$ 1,127

Reconciliation of Long Term Debt The following table reconciles the changes in cash flows from (used in) long term debt financing activities:

(millions of Canadian dollars)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Long term debt, beginning of period	**$ 7,466**	$ 6,663	**$ 7,098**	$ 8,026
Reclassification of finance lease obligations due to IFRS 16	**—**	—	**—**	(535)
Long term debt after reclassification, beginning of period	**$ 7,466**	$ 6,663	**$ 7,098**	$ 7,491
Long term debt issuances[(i)]	**$ 595**	$ 171	**$ 971**	$ 174
Long term debt repayments	**(488)**	(71)	**(495)**	(900)
Total cash flow from (used in) long term debt financing activities	**$ 107**	$ 100	**$ 476**	$ (726)
Other non-cash changes	**$ 10**	$ 10	**$ 9**	$ 8
Long term debt, end of period	**$ 7,583**	$ 6,773	**$ 7,583**	$ 6,773

(i) Includes net movements from the independent funding trusts, which are revolving debt instruments.

Note 13. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)	**As at June 13, 2020**	As at June 15, 2019	As at December 28, 2019
Net defined benefit plan obligation	**$ 310**	$ 341	$ 320
Other long term employee benefit obligation	**122**	107	119
Equity-based compensation liabilities (note 15)	**3**	2	3
Other	**16**	32	16
Total other liabilities	**$ 451**	$ 482	$ 458

Note 14. Share Capital

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

	June 13, 2020 (12 weeks)		June 15, 2019 (12 weeks)		**June 13, 2020 (24 weeks)**		June 15, 2019 (24 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**357,726,194**	**$ 7,035**	369,092,041	$ 7,203	**360,064,475**	**$ 7,065**	371,790,967	$ 7,177
Issued for settlement of stock options	**59,711**	**3**	619,566	30	**479,007**	**27**	1,316,397	63
Purchased and cancelled	**—**	**—**	(3,611,170)	(70)	**(2,757,577)**	**(54)**	(7,006,927)	(77)
Issued and outstanding, end of period	**357,785,905**	**$ 7,038**	366,100,437	$ 7,163	**357,785,905**	**$ 7,038**	366,100,437	$ 7,163
Shares held in trust, beginning of period	**(874,004)**	**$ (17)**	(576,588)	$ (11)	**(1,113,302)**	**$ (21)**	(734,727)	$ (15)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**(145,000)**	**(3)**	(300,000)	(5)
Released for settlement of RSUs and PSUs (note 15)	**30,535**	**1**	21,133	1	**414,833**	**8**	479,272	10
Shares held in trust, end of period	**(843,469)**	**$ (16)**	(555,455)	$ (10)	**(843,469)**	**$ (16)**	(555,455)	$ (10)
Issued and outstanding, net of shares held in trust, end of period	**356,942,436**	**$ 7,022**	365,544,982	$ 7,153	**356,942,436**	**$ 7,022**	365,544,982	$ 7,153
Weighted average outstanding, net of shares held in trust (note 6)	**356,916,153**		367,767,214		**357,742,595**		368,396,964	

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

	June 13, 2020[(i)] (12 weeks)	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Dividends declared per share ($)				
Common Share	**$ 0.315**	$ 0.315	**$ 0.630**	$ 0.610
Second Preferred Share, Series B	**$ 0.33125**	$ 0.33125	**$ 0.66250**	$ 0.66250

(i) The second quarter dividends for 2020 of $0.315 per share declared on Common Shares had a payment date of July 1, 2020. The second quarter dividends for 2020 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of June 30, 2020.

(millions of Canadian dollars)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Dividends declared				
Common Share	**$ 109**	$ 114	**$ 225**	$ 224
Second Preferred Share, Series B (note 6)	**3**	3	**6**	6
Total dividends declared	**$ 112**	$ 117	**$ 231**	$ 230

Subsequent to the end of the second quarter of 2020, the Board declared a quarterly dividend of $0.315 per common share, payable on October 1, 2020 to shareholders of record on September 15, 2020 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on September 30, 2020 to shareholders of record on September 15, 2020.

Normal Course Issuer Bid Activities under the Company's Normal Course Issuer Bid ("NCIB") during the periods were as follows:

(millions of Canadian dollars except where otherwise indicated)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**—**	3,611,170	**2,757,577**	7,006,927
Cash consideration paid[i]	**$ —**	$ 250	**$ 188**	$ 465
Premium charged to retained earnings	**—**	180	**134**	203
Reduction in common share capital	**—**	70	**54**	77
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	—	**145,000**	300,000
Cash consideration paid	**$ —**	$ —	**$ 10**	$ 20
Premium charged to retained earnings	**—**	—	**7**	15
Reduction in common share capital	**—**	—	**3**	5

(i) In the first quarter of 2019, cash consideration paid included $185 million paid for common shares related to the automatic share purchase plan as described below.

In the first quarter of 2020, the Toronto Stock Exchange ("TSX") accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from Weston under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company. During the second quarter of 2020, no common shares were purchased under the NCIB for cancellation. On a year-to-date basis, 2,757,577 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $188 million, including 1,355,077 common shares purchased from Weston, for aggregate cash consideration of $92 million.

In the first quarter of 2019, the Company completed an automatic share purchase plan ("ASPP") that was initiated in the fourth quarter of 2018 to facilitate the repurchase of the Company's common shares under its NCIB. Under the ASPP, the Company's broker purchased 2,927,733 common shares for approximately $185 million.

In the second quarter of 2020, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 of the Company's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As at June 13, 2020, the Company had not purchased any common shares for cancellation under its current NCIB.

Note 15. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), Director Deferred Share Unit ("DSU") and Executive Deferred Share Unit ("EDSU") plans was $12 million for the second quarter of 2020 (2019 – $8 million) and $22 million year-to-date (2019 – $19 million). The expense was recognized in SG&A.

The carrying amounts of the Company's equity-based compensation arrangements including Loblaw Stock Option, RSU, PSU, DSU and EDSU plans were recorded on the unaudited interim period condensed consolidated balance sheets as follows:

(millions of Canadian dollars)	**As at June 13, 2020**	As at June 15, 2019	As at December 28, 2019
Other liabilities (note 13)	**$ 3**	$ 2	$ 3
Contributed surplus	**92**	90	100

The following are details related to the equity-based compensation plans of the Company:

Stock Option Plan The following is a summary of the Company's stock option plan activity:

(number of options)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Outstanding options, beginning of period	**7,648,714**	8,205,716	**6,317,922**	7,509,631
Granted	**12,690**	78,438	**1,815,577**	1,540,321
Exercised	**(59,711)**	(619,566)	**(479,007)**	(1,316,397)
Forfeited/Cancelled	**(43,439)**	(240,178)	**(96,238)**	(309,145)
Outstanding options, end of period	**7,558,254**	7,424,410	**7,558,254**	7,424,410

During the second quarter of 2020, the Company granted stock options with a weighted average exercise price of $69.14 (2019 – $67.22) and $70.05 year-to-date (2019 – $65.64). In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the second quarter of 2020 of $68.33 (2019 – $69.49) and $68.04 year-to-date (2019 – $67.74) and received cash consideration of $3 million (2019 – $26 million) and $24 million year-to-date (2019 – $55 million).

The fair value of stock options granted during the second quarter of 2020 was nominal (2019 – $1 million) and $13 million year-to-date (2019 – $12 million). The assumptions used to measure the fair value of options granted during 2020 and 2019 under the Black-Scholes valuation model at date of grant were as follows:

	June 13, 2020 (12 weeks)	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Expected dividend yield	**1.8%**	1.9%	**1.8%**	1.8%
Expected share price volatility	**18.4% – 19.4%**	14.7% – 15.3%	**13.5% – 19.4%**	14.7% – 15.7%
Risk-free interest rate	**0.3% – 0.4%**	1.6%	**0.3% – 1.2%**	1.6% – 1.8%
Expected life of options	**3.7 – 6.2 years**	3.7 – 6.2 years	**3.7 – 6.2 years**	3.7 – 6.2 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at June 13, 2020 was 8.0% (June 15, 2019 – 9.0%).

Restricted Share Unit Plan The following is a summary of the Company's RSU plan activity:

(number of awards)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Restricted share units, beginning of period	**1,050,032**	1,046,883	**1,032,832**	1,024,275
Granted	**1,774**	54,743	**232,784**	305,372
Reinvested	**4,838**	4,506	**9,668**	8,221
Settled	**(26,422)**	(16,680)	**(233,506)**	(240,151)
Forfeited	**(5,704)**	(65,066)	**(17,260)**	(73,331)
Restricted share units, end of period	**1,024,518**	1,024,386	**1,024,518**	1,024,386

The fair value of RSUs granted during the second quarter of 2020 was nominal (2019 – $4 million) and $16 million year-to-date (2019 – $20 million).

Performance Share Unit Plan The following is a summary of the Company's PSU plan activity:

(number of awards)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Performance share units, beginning of period	**701,166**	688,568	**662,695**	674,945
Granted	**5,390**	11,151	**231,626**	251,191
Reinvested	**3,239**	3,068	**6,318**	5,377
Settled	**(4,113)**	(4,453)	**(181,327)**	(227,919)
Forfeited	**(1,037)**	(32,707)	**(14,667)**	(37,967)
Performance share units, end of period	**704,645**	665,627	**704,645**	665,627

The fair value of PSUs granted during the second quarter of 2020 was nominal (2019 – $1 million) and $16 million year-to-date (2019 – $15 million).

Settlement of Awards from Shares Held in Trust During the second quarter of 2020, the Company settled RSUs and PSUs totaling 30,535 (2019 – 21,133) and 414,833 year-to-date (2019 – 468,070), which were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 14).

The settlements in the second quarter of 2020 and year-to-date resulted in a $1 million and $16 million increase to retained earnings, respectively (second quarter of 2019 – $2 million and year-to-date – $18 million) and a $1 million and $8 million increase to common share capital, respectively (second quarter of 2019 – $1 million and year-to-date – $10 million).

Note 16. Post-Employment and Other Long Term Employee Benefits

The costs and actuarial gains (losses) related to the Company's post-employment and other long term employee benefits during the periods were as follows:

(millions of Canadian dollars)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Post-employment benefit costs recognized in operating income(i)	**$ 38**	$ 34	**$ 76**	$ 83
Other long term employee benefits costs recognized in operating income(ii)	**7**	8	**14**	13
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	**1**	1	**3**	3
Actuarial gains (losses) before income taxes recognized in other comprehensive income	**(58)**	20	**(14)**	(77)

(i) Includes costs related to the Company's defined benefit plans, defined contribution pension plans and the multi-employer pension plans in which it participates. Also includes settlement charges in the year-to-date of 2019 of $10 million.

(ii) Includes costs related to the Company's long term disability plans.

The actuarial losses recognized in the second quarter and year-to-date of 2020 were primarily driven by a decrease in discount rates, partially offset by higher than expected returns on assets. The actuarial gain recognized in the second quarter of 2019 was primarily driven by higher than expected returns on assets, partially offset by decline in discount rates. The actuarial loss recognized in the year-to-date of 2019 was primarily driven by decline in discount rates.

In the first half of 2019, the Company completed several annuity purchases and paid $187 million from the impacted plans' assets to settle $177 million of pension obligations and recorded settlement charges of $10 million in SG&A. There were no annuity purchases in the first half of 2020.

Note 17. Financial Instruments

The following table presents the fair value hierarchy of financial assets and financial liabilities, excluding those classified as amortized cost that are short term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long term debt.

				As at June 13, 2020				As at June 15, 2019				As at December 28, 2019
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Amortized cost:												
Franchise loans receivable	**$ —**	**$ —**	**$ —**	**$ —**	$ —	$ —	$ 49	$ 49	$ —	$ —	$ 19	$ 19
Certain other assets[(i)]	**—**	**—**	**—**	**—**	—	—	11	11	—	—	14	14
Fair value through other comprehensive income:												
Certain long term investments and other assets[(i)]	**117**	**—**	**—**	**117**	60	—	—	60	50	—	—	50
Derivatives included in prepaid expenses and other assets	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—	—
Fair value through profit and loss:												
Security deposits	**71**	**—**	**—**	**71**	—	—	—	—	—	—	—	—
Derivatives included in prepaid expenses and other assets	**—**	**4**	**—**	**4**	1	4	—	5	5	—	1	6
Financial liabilities												
Amortized cost:												
Long term debt	**$ —**	**$ 8,774**	**$ —**	**$ 8,774**	$ —	$ 7,725	$ —	$ 7,725	$ —	$ 8,079	$ —	$ 8,079
Certain other liabilities[(i)]	**—**	**—**	**8**	**8**	—	—	12	12	—	—	9	9
Fair value through other comprehensive income:												
Derivatives included in trade payables and other liabilities	**—**	**13**	**—**	**13**	—	14	—	14	—	2	—	2
Fair value through profit and loss:												
Derivatives included in trade payables and other liabilities	**19**	**1**	**1**	**21**	4	2	—	6	—	5	—	5

(i) Certain other assets, certain other long term investments and other assets, and certain other liabilities are included in the unaudited interim period condensed consolidated balance sheets in other assets and other liabilities, respectively.

There were no transfers between levels of the fair value hierarchy during the periods presented.

During the second quarter of 2020, the Company recognized a loss of $4 million (2019 – gain of $3 million) and a gain of $3 million (2019 – gain of $2 million) year-to-date in operating income on financial instruments designated as amortized cost. In addition, during the second quarter of 2020, a net loss of $13 million (2019 – net loss of $6 million) and a net loss of $13 million(2019 – net gain of $2 million) year-to-date were recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Franchise Loans Receivable The value of Loblaw franchise loans receivable of nil (June 15, 2019 – $49 million; December 28, 2019 – $19 million) was recorded in the unaudited interim period condensed consolidated balance sheets. During the second quarter of 2020, the Company recorded nil (2019 – gain of $1million) and nil (2019 – gain of $1 million) year-to-date in operating income related to these loans receivable.

Embedded Derivatives The Company's level 3 financial instruments classified as fair value through profit or loss consist of embedded derivatives on purchase orders placed in neither Canadian dollars nor the functional currency of the vendor. These derivatives are valued using a market approach based on the differential in exchange rates and timing of settlement. The significant unobservable input used in the fair value measurement is the cost of purchase orders. Significant increases (decreases) in any one of the inputs could result in a significantly higher (lower) fair value measurement.

During the second quarter of 2020, a gain of $7 million (2019 – gain of $1 million) and a loss of $2 million (2019 – gain of $3 million) year-to-date were recorded in operating income related to these derivatives. In addition, a corresponding $1 million liability was included in trade payables and other liabilities as at June 13, 2020 (June 15, 2019 – nominal liability; December 28, 2019 – $1 million asset). As at June 13, 2020, a 1% increase (decrease) in foreign currency exchange rates would result in a gain (loss) in fair value of $1 million.

Securities Investments PC Bank holds investments which are considered part of the liquid securities required to be held to meet its Liquidity Coverage Ratio. As at June 13, 2020, the fair value through other comprehensive income securities of $117 million (June 15, 2019 – $60 million; December 28, 2019 – $50 million) was included in other assets. During the second quarter of 2020, PC Bank recorded a nominal unrealized fair value gain (2019 – nominal unrealized fair value gain) and a nominal unrealized fair value gain (2019 – nominal unrealized fair value gain) year-to-date in other comprehensive income related to these investments.

Other Derivatives The Company uses bond forwards and interest rate swaps to manage its anticipated exposure to fluctuations in interest rates on future debt issuances. The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. The following is a summary of the fair values recognized in the unaudited interim period condensed consolidated balance sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's other derivatives:

				June 13, 2020
			(12 weeks)	(24 weeks)
(millions of Canadian dollars)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges					
Bond Forwards(i)	**$ (10)**	**$ (18)**	**$ —**	**$ (43)**	**$ (1)**
Interest Rate Swaps(ii)	**(3)**	**1**	**(2)**	**(2)**	**(2)**
Total derivatives designated as cash flow hedges	**$ (13)**	**$ (17)**	**$ (2)**	**$ (45)**	**$ (3)**
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	**$ 3**	**$ —**	**$ (17)**	**$ —**	**$ 18**
Other Non-Financial Derivatives	**(19)**	**—**	**(3)**	**—**	**(30)**
Total derivatives not designated in a formal hedging relationship	**$ (16)**	**$ —**	**$ (20)**	**$ —**	**$ (12)**
Total derivatives	**$ (29)**	**$ (17)**	**$ (22)**	**$ (45)**	**$ (15)**

(i) PC Bank uses bond forwards, with a notional value of $200 million, to manage its interest risk related to future debt issuances. The fair values of these derivatives are included in trade payables and other liabilities.

(ii) PC Bank uses interest rate swaps, with a notional value of $300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

During the second quarter of 2020, the Company settled a bond forward with a notional value of $350 million that was entered into during the first quarter of 2020. The purpose of the bond forward was to hedge the interest rate risk in the appropriate Government of Canada yield curve that corresponded to the term of the May 7, 2030 senior unsecured notes ("2030 Notes") issuance bearing interest at 2.284% per annum (see note 12). The Company concluded that this hedge was effective as at the settlement date. Accordingly, the accumulated other comprehensive income associated with this bond forward will amortize over the term of the 2030 Notes as net interest expense and other financing charges within the consolidated statements of earnings, resulting in an effective annual interest rate of approximately 3.34%.

				June 15, 2019	
			(12 weeks)		(24 weeks)
(millions of Canadian dollars)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges					
Foreign Exchange Forwards(i)	$ —	$ (1)	$ —	$ (1)	$ —
Bond Forwards(ii)	(11)	(2)	—	(8)	—
Interest Rate Swaps(iii)	(3)	—	—	(1)	—
Total derivatives designated as cash flow hedges	$ (14)	$ (3)	$ —	$ (10)	$ —
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	$ 2	$ —	$ (3)	$ —	$ (5)
Other Non-Financial Derivatives	(4)	—	(3)	—	4
Total derivatives not designated in a formal hedging relationship	$ (2)	$ —	$ (6)	$ —	$ (1)
Total derivatives	$ (16)	$ (3)	$ (6)	$ (10)	$ (1)

(i) PC Bank uses foreign exchange forwards, with a notional value of $5 million USD, to manage its foreign exchange currency risk related to certain U.S. payables. The fair value of the derivatives is included in prepaid expenses and other assets.

(ii) PC Bank uses bond forwards, with a notional value of $389 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

(iii) PC Bank uses interest rate swaps, with a notional value of $300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

Note 18. Contingent Liabilities

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

There are a number of uncertainties involved in such matters, individually or in aggregate, and as such, there is a possibility that the ultimate resolution of these matters may result in a material adverse effect on the Company's reputation, operations, financial condition or performance in future periods. It is not currently possible to predict the outcome of the Company's legal actions and proceedings with certainty. Management regularly assesses its position on the adequacy of accruals or provisions related to such matters and will make any necessary adjustments.

The following is a description of the Company's significant legal proceedings:

Shoppers Drug Mart Corporation ("Shoppers Drug Mart") has been served with an Amended Statement of Claim in a class action proceeding that has been filed in the Ontario Superior Court of Justice ("Superior Court") by two licensed Associates, claiming various declarations and damages resulting from Shoppers Drug Mart's alleged breaches of the Associate Agreement, in the amount of $500 million. The class action comprises all of Shoppers Drug Mart's current and former licensed Associates residing in Canada, other than in Québec, who are parties to Shoppers Drug Mart's 2002 and 2010 forms of the Associate Agreement. On July 9, 2013, the Superior Court certified as a class proceeding portions of the action. The Superior Court imposed a class closing date based on the date of certification. New Associates after July 9, 2013 are not members of the class. The Company believes this claim is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the unaudited interim period condensed consolidated financial statements.

In 2017, the Company and Weston announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2020 or prior on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Weston will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including the Company and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. In February 2020, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and the Company. The allegations in the Ontario, Quebec and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and February 2020 claims seek recovery of damages on behalf of opioid users directly. The Company believes these proceedings are without merit and is vigorously defending them. The Company does not currently have any significant accruals or provisions for these matters recorded in the unaudited interim period condensed consolidated financial statements.

The Company has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of the Company that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court released its decision relating to the 2000 to 2010 taxation years. 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. On October 15, 2019, the appeal was heard by the Federal Court of Appeal, and on April 23, 2020, the Federal Court of Appeal released its decision and reversed the decision of the Tax Court. Subsequent to the end of the second quarter, on June 19, 2020, the Crown filed an application for leave to appeal the decision of the Federal Court of Appeal with the Supreme Court of Canada. The Company has not reversed any portion of the previously recorded charges.

Indemnification Provisions The Company from time to time enters into agreements in the normal course of its business, such as service and outsourcing arrangements, lease agreements in connection with business or asset acquisitions or dispositions, and other types of commercial agreements. These agreements by their nature may provide for indemnification of counterparties. These indemnification provisions may be in connection with breaches of representations and warranties or in respect of future claims for certain liabilities, including liabilities related to tax and environmental matters. The terms of these indemnification provisions vary in duration and may extend for an unlimited period of time. In addition, the terms of these indemnification provisions vary in amount and certain indemnification provisions do not provide for a maximum potential indemnification amount. Indemnity amounts are dependent on the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. As a result, the Company is unable to reasonably estimate its total maximum potential liability in respect of indemnification provisions. Historically, the Company has not made any significant payments in connection with these indemnification provisions.

Note 19. Related Party Transactions

Disposition of Properties to Choice Properties Real Estate Investment Trust ("Choice Properties") During the second quarter of 2020, the Company disposed of a development property to Choice Properties for proceeds of $8 million. The proceeds were equivalent to the carrying amount of the property. This property was not leased back by the Company.

On a year-to-date basis in 2019, the Company disposed of two properties to Choice Properties for proceeds of $36 million and recognized a gain of $5 million. These properties were leased back by the Company.

Transaction with Choice Properties and Wittington During the second quarter of 2020, the Company recognized $65 million of right-of-use assets and lease liabilities related to leases of retail stores and a corporate office with a joint venture formed between Choice Properties and Wittington.

Venture Fund During the second quarter of 2020, Loblaw, GWL and a wholly-owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington (the "Venture Fund"). A wholly-owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee the Venture Fund. The purpose of the Venture Fund is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have 33% interest in the Venture Fund. The Company has a total capital commitment of $33 million over a 10-year period. Subsequent to the end of the second quarter of 2020, the Company invested $7 million in the Venture Fund.

Note 20. Segment Information

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

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA[2] and adjusted operating income[2], as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	June 13, 2020 (12 weeks)				June 15, 2019 (12 weeks)			
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$ 11,768**	**$ 233**	**$ (44)**	**$ 11,957**	$ 10,906	$ 284	$ (57)	$ 11,133
Operating income	$ 370	$ 34	$ —	$ 404	$ 546	$ 42	$ —	$ 588
Net interest expense and other financing charges	154	22	—	176	154	21	—	175
Earnings before income taxes	**$ 216**	**$ 12**	**$ —**	**$ 228**	$ 392	$ 21	$ —	$ 413
Operating income	**$ 370**	**$ 34**	**$ —**	**$ 404**	$ 546	$ 42	$ —	$ 588
Depreciation and amortization	593	5	—	598	575	5	—	580
Adjusting items(iii)	132	—	—	132	123	—	—	123
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(118)	—	—	(118)	(116)	—	—	(116)
Adjusted EBITDA(iii)	$ 977	$ 39	$ —	$ 1,016	$ 1,128	$ 47	$ —	$ 1,175
Depreciation and amortization(iv)	475	5	—	480	459	5	—	464
Adjusted operating income	**$ 502**	**$ 34**	**$ —**	**$ 536**	$ 669	$ 42	$ —	$ 711

(i) Eliminations includes the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

(ii) Included in Financial Services revenue is $113 million (2019 – $114 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA(2). Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $118 million (2019 – $116 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

	June 13, 2020 (24 weeks)				June 15, 2019 (24 weeks)			
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$ 23,352**	**$ 499**	**$ (94)**	**$ 23,757**	$ 21,358	$ 550	$ (116)	$ 21,792
Operating income	$ 908	$ 37	$ —	$ 945	$ 947	$ 92	$ —	$ 1,039
Net interest expense and other financing charges	304	44	—	348	308	40	—	348
Earnings before income taxes	**$ 604**	**$ (7)**	**$ —**	**$ 597**	$ 639	$ 52	$ —	$ 691
Operating income	**$ 908**	**$ 37**	**$ —**	**$ 945**	$ 947	$ 92	$ —	$ 1,039
Depreciation and amortization	1,182	10	—	1,192	1,150	10	—	1,160
Adjusting items(iii)	285	—	—	285	251	—	—	251
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(237)	—	—	(237)	(235)	—	—	(235)
Adjusted EBITDA(iii)	$ 2,138	$ 47	$ —	$ 2,185	$ 2,113	$ 102	$ —	$ 2,215
Depreciation and amortization(iv)	945	10	—	955	915	10	—	925
Adjusted operating income	**$ 1,193**	**$ 37**	**$ —**	**$ 1,230**	$ 1,198	$ 92	$ —	$ 1,290

(i) Eliminations includes the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

(ii) Included in Financial Services revenue is $242 million (2019 – $230 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA(2). Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $237 million (2019 – $235 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

The Company's revenue, by type of goods or services, is reconciled to the Company's segment revenue:

(millions of Canadian dollars)	**June 13, 2020 (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020 (24 weeks)**	June 15, 2019 (24 weeks)
Food retail	**$ 8,747**	$ 7,858	**$ 17,079**	$ 15,373
Drug retail				
Pharmacy	**$ 1,361**	$ 1,449	**$ 2,924**	$ 2,861
Front store	**1,660**	1,599	**3,349**	3,124
	$ 3,021	$ 3,048	**$ 6,273**	$ 5,985
Retail total	**$ 11,768**	$ 10,906	**$ 23,352**	$ 21,358
Financial Services	**233**	284	**499**	550
Eliminations[(i)]	**(44)**	(57)	**(94)**	(116)
Total	**$ 11,957**	$ 11,133	**$ 23,757**	$ 21,792

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

(millions of Canadian dollars)	**As at June 13, 2020**	As at June 15, 2019	As at December 28, 2019
Total assets			
Retail	**$ 31,607**	$ 31,225	$ 31,661
Financial Services	**4,524**	4,255	4,648
	$ 36,131	$ 35,480	$ 36,309

(millions of Canadian dollars)	**June 13, 2020[(i)] (12 weeks)**	June 15, 2019 (12 weeks)	**June 13, 2020[(i)] (24 weeks)**	June 15, 2019 (24 weeks)
Additions to fixed assets and intangible assets				
Retail	**$ 194**	$ 197	**$ 392**	$ 353
Financial Services	**5**	12	**18**	30
	$ 199	$ 209	**$ 410**	$ 383

(i) Additions to fixed assets in the retail segment included prepayments that were made in 2019 and transferred from other assets in 2020 of $30 million in the second quarter of 2020 and $50 million year-to-date.

Financial Summary[1]

Unless otherwise indicated, the following financial summary includes the impacts of the consolidation of franchises and COVID-19:

As at or for the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)
Consolidated Results of Operations		
Revenue	**$ 11,957**	$ 11,133
Revenue growth	**7.4%**	2.9%
Operating income	**$ 404**	$ 588
Adjusted EBITDA[2]	**1,016**	1,175
Adjusted EBITDA margin[2]	**8.5%**	10.6%
Net interest expense and other financing charges	**$ 176**	$ 175
Adjusted net interest expense and other financing charges[2]	**176**	175
Net earnings	**162**	306
Net earnings attributable to shareholders of the Company	**172**	289
Net earnings available to common shareholders of the Company	**169**	286
Adjusted net earnings available to common shareholders of the Company[2]	**266**	373
Consolidated Per Common Share ($)		
Diluted net earnings	**$ 0.47**	$ 0.77
Adjusted diluted net earnings[2]	**$ 0.74**	$ 1.01
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents and short term investments	**$ 2,558**	$ 1,190
Cash flows from operating activities	**935**	951
Capital investments	**199**	209
Free cash flow[2]	**334**	333
Financial Measures		
Retail debt to rolling year retail adjusted EBITDA[2]	**3.0x**	3.0x
Rolling year adjusted return on equity[2]	**13.3%**	13.5%
Rolling year adjusted return on capital[2]	**7.9%**	7.9%

Financial Summary[1]

As at or for the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (12 weeks)	2019[3] (12 weeks)
Retail Results of Operations		
Sales	**$ 11,768**	$ 10,906
Operating income	**370**	546
Adjusted gross profit[2]	**3,484**	3,263
Adjusted gross profit %[2]	**29.6 %**	29.9%
Adjusted EBITDA[2]	**$ 977**	$ 1,128
Adjusted EBITDA margin[2]	**8.3 %**	10.3%
Depreciation and amortization	**$ 593**	$ 575
Retail Operating Statistics		
Food retail same-store sales growth	**10.0 %**	0.6%
Drug retail same-store sales growth	**(1.1)%**	4.0%
Total retail square footage (in millions)	**70.7**	70.6
Number of corporate stores	**549**	551
Number of franchise stores	**539**	536
Number of Associate-owned drug stores	**1,343**	1,338
Financial Services Results of Operations		
Revenue	**$ 233**	$ 284
Earnings before income taxes	**12**	21
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	**$ 3,235**	$ 3,201
Credit card receivables	**2,834**	3,243
Allowance for credit card receivables	**250**	175
Annualized yield on average quarterly gross credit card receivables	**13.8 %**	13.5%
Annualized credit loss rate on average quarterly gross credit card receivables	**3.8 %**	3.4%

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 134 of the Company's 2019 Annual Report.

(2) See Section 10 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis for the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.

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

Corporate Profile

Loblaw Companies Limited ("Loblaw") is Canada's food and pharmacy leader, and the nation's largest retailer. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services and wireless mobile products and services. With more than 2,400 corporate, franchised and Associate-owned locations, Loblaw, its franchisees and associate-owners employ more than 190,000 full- and part-time employees, making it one of Canada's largest private sector employers.

Loblaw's purpose - *Live Life Well*® - puts first the needs and well-being of Canadians who make one billion transactions annually in the company's stores. Loblaw is positioned to meet and exceed those needs in many ways: convenient locations; more than 1,050 grocery stores that span the value spectrum from discount to specialty; full-service pharmacies at nearly 1,400 *Shoppers Drug Mart*® and *Pharmaprix*® locations and close to 500 Loblaw locations; *PC Financial*® services; affordable *Joe Fresh*® fashion and family apparel; and four of Canada's top-consumer brands in *Life Brand*®, *Farmer's Market™*, *no name*® and *President's Choice*®.

Trademarks

Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited or the licensor and where used in this report, are in italics.

Shareholder Information

Registrar and Transfer Agent

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Toronto, Canada	Toll free fax: 1-888-453-0330
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To change your address or eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Investor Relations

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Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the "Investors" section of the Company's website at loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 23, 2020 at 10:00 a.m. (ET).

To access via tele-conference, please dial (647) 427-7450 or (888) 231-8191. The playback will be made available approximately two hours after the event at (416) 849-0833 or (855) 859-2056, access code: 4096945. To access via audio webcast, please go to the "Investors" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

Ce rapport est disponible en français.

loblaw.ca

shoppersdrugmart.ca

pharmaprix.ca

pcfinancial.ca

joefresh.ca

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Loblaw
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