

Management's Discussion and Analysis

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The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's first quarter 2021 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 January 2, 2021 and the related annual MD&A included in the Company's 2020 Annual Report – Financial Review ("2020 Annual Report").

The Company's first quarter 2021 unaudited interim period condensed consolidated financial statements and the accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). These unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars.

Management uses non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing consolidated and segment underlying operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring. See Section 11 "Non-GAAP Financial Measures" for more information on the Company's non-GAAP financial measures.

A glossary of terms used throughout this Quarterly Report can be found at the back of the Company's 2020 Annual Report.

The information in this MD&A is current to May 4, 2021, 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, Section 5 "Liquidity and Capital Resources", Section 10 "Outlook" and Section 11 "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 2021 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 the Company's MD&A in the 2020 Annual Report, and the Company's 2020 Annual Information Form ("AIF") for the year ended January 2, 2021. 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 vendor operations, 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;

- 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 effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- 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 realize benefits from investments in the Company's new IT systems;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- adverse outcomes of legal and regulatory proceedings and related matters;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- 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;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business and located in both advanced and developing markets;
- 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; 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 2020 AIF (for the year ended January 2, 2021). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this MD&A. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. Key Financial Performance Indicators⁽¹⁾

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

As at or for the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 ⁽⁴⁾ (12 weeks)
Consolidated:		
Revenue growth	0.6 %	10.7 %
Operating income	\$ 617	\$ 541
Adjusted EBITDA ⁽²⁾	1,218	1,165
Adjusted EBITDA margin ⁽²⁾	10.3 %	9.9 %
Net earnings	\$ 335	\$ 276
Net earnings attributable to shareholders of the Company	316	243
Net earnings available to common shareholders of the Company ⁽ⁱ⁾	313	240
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	392	349
Diluted net earnings per common share (\$)	\$ 0.90	\$ 0.66
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.13	\$ 0.97
Cash and cash equivalents and short term investments	\$ 1,775	\$ 2,248
Cash flows from operating activities	852	1,813
Free cash flow ⁽²⁾	288	1,186
Financial Measures:		
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	2.9 x	2.9 x
Rolling year adjusted return on equity ⁽²⁾	14.2 %	14.3 %
Rolling year adjusted return on capital ⁽²⁾	8.3 %	8.4 %
Retail Segment:		
Food retail same-store sales growth	0.1 %	9.6 %
Drug retail same-store sales (decline)/growth	(1.7)%	10.7 %
Operating income	\$ 553	\$ 538
Adjusted gross profit ⁽²⁾	3,533	3,450
Adjusted gross profit % ⁽²⁾	30.3 %	29.8 %
Adjusted EBITDA ⁽²⁾	\$ 1,145	\$ 1,157
Adjusted EBITDA margin ⁽²⁾	9.8 %	10.0 %
Financial Services Segment:		
Earnings/(losses) before income taxes	\$ 48	\$ (19)
Annualized yield on average quarterly gross credit card receivables	13.5 %	13.9 %
Annualized credit loss rate on average quarterly gross credit card receivables	3.0 %	4.0 %

(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

As at or for the periods ended March 27, 2021 and March 21, 2020
(millions of Canadian dollars except where otherwise indicated)

	2021	2020 ⁽⁴⁾		
	(12 weeks)	(12 weeks)	\$ Change	% Change
Revenue	\$ 11,872	\$ 11,800	\$ 72	0.6 %
Operating income	617	541	76	14.0 %
Adjusted EBITDA ⁽²⁾	1,218	1,165	53	4.5 %
Adjusted EBITDA margin ⁽²⁾	10.3 %	9.9 %		
Depreciation and amortization	\$ 610	\$ 594	\$ 16	2.7 %
Net interest expense and other financing charges	160	172	(12)	(7.0)%
Income taxes	122	93	29	31.2 %
Adjusted income taxes ⁽²⁾	151	133	18	13.5 %
Adjusted effective tax rate ⁽²⁾	26.7 %	25.7 %		
Net earnings attributable to non-controlling interests	\$ 19	\$ 33	\$ (14)	(42.4)%
Net earnings attributable to shareholders of the Company	\$ 316	\$ 243	\$ 73	30.0 %
Net earnings available to common shareholders of the Company⁽ⁱ⁾	313	240	73	30.4 %
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	392	349	43	12.3 %
Diluted net earnings per common share (\$)	\$ 0.90	\$ 0.66	\$ 0.24	36.4 %
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.13	\$ 0.97	\$ 0.16	16.5 %
Diluted weighted average common shares outstanding (in millions)	348.2	361.2		

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

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 first quarter of 2021 were \$313 million (\$0.90 per common share). When compared to the first quarter of 2020, this represented an increase of \$73 million (\$0.24 per common share). The increase included improvements in the underlying operating performance of \$43 million and the favourable change in adjusting items totaling \$30 million, as described below:

- the improvement in underlying operating performance of \$43 million (\$0.13 per common share) was primarily due to the following:
 - an improvement in the underlying operating performance in the Financial Services segment due to the \$20 million reduction in the expected credit loss provision in the current quarter and the lapping of the \$50 million increase in the expected credit loss provision recorded in the first quarter of 2020; which was partially offset by,
 - a decline in the underlying operating performance in the Retail segment driven by an increase in selling, general and administrative expenses ("SG&A") and an increase in depreciation and amortization, partially offset by an increase in adjusted gross profit⁽²⁾ within the Retail segment. The decline was driven by the lapping of the late first quarter of 2020 stock-up from the initial onset of the COVID-19 pandemic.
- the favourable change in adjusting items totaling \$30 million (\$0.07 per common share) was primarily due to the following:
 - the year-over-year favourable change in fair value adjustment on fuel and foreign currency contracts of \$17 million (\$0.05 per common share);
 - the year-over-year favourable change in restructuring and other related costs of \$8 million (\$0.02 per common share); and,
 - the favourable impact of gain on the sale of non-operating properties of \$4 million (\$0.01 per common share);
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months (\$0.04 per common share).

Adjusted net earnings available to common shareholders of the Company⁽²⁾ in the first quarter of 2021 were \$392 million. When compared to the first quarter of 2020, this represented an increase of \$43 million. Adjusted net earnings per common share⁽²⁾ in the first quarter of 2021 were \$1.13. When compared to the first quarter of 2020, this represented an increase of \$0.16. The increase included the favourable impact of the repurchase of common shares.

Revenue

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 (12 weeks)	\$ Change	% Change
Retail	\$ 11,670	\$ 11,584	\$ 86	0.7 %
Financial Services	253	266	(13)	(4.9)%
Consolidation and Eliminations	(51)	(50)	(1)	(2.0)%
Revenue	\$ 11,872	\$ 11,800	\$ 72	0.6 %

Revenue was \$11,872 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented an increase of \$72 million, or 0.6%. The increase was primarily driven by an increase in Retail segment sales of \$86 million due to positive same-store sales growth and a net increase in Retail square footage. The increase was partially offset by a decline in Financial Services segment sales of \$13 million compared to the first quarter of 2020, which was due to lower interest income and lower credit card related fees, partially offset by higher sales attributable to The Mobile Shop™ and higher interchange income.

Operating Income Operating income was \$617 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented an increase of \$76 million. The increase included improvements in the underlying operating performance of \$35 million and a favourable change in adjusting items totaling \$41 million, as described below:

- the improvement in underlying operating performance of \$35 million was primarily due to the improvement in the underlying operating performance of the Financial Services segment, partially offset by a decline in the underlying operating performance of the Retail segment driven by the lapping of the late first quarter of 2020 stock-up from the initial onset of the COVID-19 pandemic.
- the favourable change in adjusting items totaling \$41 million was primarily due to the following:
 - the year-over-year favourable change in fair value adjustment on fuel and foreign currency contracts of \$23 million;
 - the year-over-year favourable change in restructuring and other related costs of \$11 million; and,
 - the favourable impact of the gain on the sale of non-operating properties of \$5 million.

Adjusted EBITDA⁽²⁾

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 ⁽⁴⁾ (12 weeks)	\$ Change	% Change
Retail	\$ 1,145	\$ 1,157	\$ (12)	(1.0)%
Financial Services	73	8	65	812.5 %
Adjusted EBITDA⁽²⁾	\$ 1,218	\$ 1,165	\$ 53	4.5 %

Adjusted EBITDA⁽²⁾ was \$1,218 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented an increase of \$53 million. The increase in adjusted EBITDA⁽²⁾ was primarily due to an increase in the Financial Services segment of \$65 million, partially offset by the decline in the Retail segment. The decline was driven by the lapping of the late first quarter of 2020 stock-up from the initial onset of the COVID-19 pandemic.

Depreciation and Amortization Depreciation and amortization was \$610 million in the first quarter of 2021, an increase of \$16 million compared to the first quarter of 2020, primarily driven by an increase in IT assets, an increase in depreciation of leased assets and an increase in depreciation in the Financial Services segment due to the launch of PC Money™ Account. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) of \$117 million (2020 – \$119 million).

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were \$160 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented a decrease of \$12 million. The decrease in net interest expense and other financing charges was primarily driven by a reduction in interest expense from lease liabilities and lower interest expense in the Financial Services segment due to a decrease in interest rates on borrowings related to credit card receivables and a net decrease in Guaranteed Investment Certificates (“GICs”).

Income Taxes

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 ⁽⁴⁾ (12 weeks)	\$ Change	% Change
Income taxes	\$ 122	\$ 93	\$ 29	31.2 %
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes	29	40	(11)	(27.5)%
Adjusted income taxes ⁽²⁾	\$ 151	\$ 133	\$ 18	13.5 %
Effective tax rate	26.7 %	25.2 %		
Adjusted effective tax rate ⁽²⁾	26.7 %	25.7 %		

Income tax expense in the first quarter of 2021 was \$122 million (2020 – \$93 million) and the effective tax rate was 26.7% (2020– 25.2%). The increase to the effective tax rate was primarily attributable to the impact of certain non-deductible items.

Adjusted income tax expense⁽²⁾ in the first quarter of 2021 was \$151 million (2020⁽⁴⁾ – \$133 million) and the adjusted income tax rate⁽²⁾ was 26.7% (2020 – 25.7%). The increase to the adjusted income tax rate was primarily attributable to the impact of certain non-deductible items.

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. On October 15, 2019, the matter was heard by the Federal Court of Appeal, and on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of the Company and reversed the decision of the Tax Court. On October 29, 2020, the Supreme Court of Canada (“Supreme Court”) granted the Crown leave to appeal and on November 30, 2020, the Crown filed a Notice of Appeal with the Supreme Court. The Supreme Court hearing of the appeal is scheduled for May 13, 2021. The Company has not reversed any portion of the \$367 million of charges recorded during the third quarter of 2018, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes.

Net earnings attributable to non-controlling interests Net earnings attributable to non-controlling interests was \$19 million in the first quarter of 2021. Non-controlling interests represent the franchise’s earnings in Food Retail. When compared to the first quarter of 2020, this represented a decrease of \$14 million or 42.4%. The decrease in non-controlling interests was primarily driven by lower franchise earnings in comparison to the first quarter of 2020, when franchises experienced improved profitability from the initial onset of the COVID-19 pandemic.

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 stores 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 and everyday banking services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

4.1 Retail Segment

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 ⁽⁴⁾ (12 weeks)	\$ Change	% Change
Sales	\$ 11,670	\$ 11,584	\$ 86	0.7 %
Operating income	553	538	15	2.8 %
Adjusted gross profit ⁽²⁾	3,533	3,450	83	2.4 %
Adjusted gross profit % ⁽²⁾	30.3 %	29.8 %		
Adjusted EBITDA ⁽²⁾	\$ 1,145	\$ 1,157	\$ (12)	(1.0)%
Adjusted EBITDA margin ⁽²⁾	9.8 %	10.0 %		
Depreciation and amortization	\$ 601	\$ 589	\$ 12	2.0 %

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)		2020 (12 weeks)	
	Sales	Same-store sales	Sales	Same-store sales
Food retail	\$ 8,479	0.1 %	\$ 8,332	9.6 %
Drug retail	3,191	(1.7)%	3,252	10.7 %
Pharmacy	1,614	3.5 %	1,563	10.6 %
Front Store	1,577	(6.4)%	1,689	10.7 %

Sales Retail segment sales were \$11,670 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented an increase of \$86 million, or 0.7%, primarily driven by the following factors:

- Food retail same-store sales growth was 0.1% (2020 – 9.6%) for the quarter. During the first quarter of 2021, Food Retail experienced continued strong same-store sales growth before lapping the late first quarter of 2020 stock-up from the initial onset of the COVID-19 pandemic.
 - Sales growth in food was flat;
 - Sales growth in pharmacy was modest;
 - The Company's Food Retail average article price was higher by 3.9% (2020 – 1.5%), 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. The increase in average article price was due to sales mix; and,
 - Food Retail basket size increased and traffic decreased in the quarter, as compared to the first quarter of 2020.
- Drug retail same-store sales decreased by 1.7% (2020 – increased by 10.7%). The Drug Retail same-store sales decline reflects the initial demand for grocery and pharmacy products late in the first quarter of 2020 following the onset of the COVID-19 pandemic in Canada.
 - Pharmacy same-store sales growth was 3.5% (2020 – 10.6%). The number of prescriptions dispensed decreased by 0.5% (2020 – increased by 5.5%). On a same-store basis, the number of prescriptions dispensed decreased by 0.8% (2020 – increased by 5.5%) and year-over-year, the average prescription value increased by 2.4% (2020 – 4.8%); and
 - Front store same-store sales declined by 6.4% (2020 – increased by 10.7%).

In the last 12 months, 20 food and drug stores were opened, and nine food and drug stores were closed, resulting in a net increase in Retail square footage of 0.4 million square feet, or 0.6%.

Operating Income Operating income was \$553 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented an increase of \$15 million. The increase in operating income was driven by the favourable change in adjusting items totaling \$41 million which was partially offset by a decrease in underlying operating performance of \$26 million, as described below:

- the decline in underlying operating performance of \$26 million was driven by the lapping of the late first quarter of 2020 stock-up from the initial onset of the COVID-19 pandemic and the unfavourable increase in SG&A as described below;
- the favourable change in adjusting items totaling \$41 million which was primarily due to the following:
 - the year-over-year favourable change in fair value adjustment on fuel and foreign currency contracts of \$23 million;
 - the year-over-year favourable change in restructuring and other related costs of \$11 million; and,
 - the favourable impact of gain on sale of non-operating properties of \$5 million.

Adjusted Gross Profit⁽²⁾ Adjusted gross profit⁽²⁾ in the first quarter of 2021 was \$3,533 million. When compared to the first quarter of 2020, this represented an increase of \$83 million. The adjusted gross profit percentage⁽²⁾ of 30.3% increased by 50 basis points when compared to the first quarter of 2020, from underlying improvements in business initiatives.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ was \$1,145 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented a decrease of \$12 million. The decrease was driven by the lapping of the late first quarter of 2020 stock-up from the initial onset of the COVID-19 pandemic and the unfavourable increase in SG&A as described below. SG&A as a percentage of sales was 20.5%, an increase of 70 basis points compared to the first quarter of 2020. The unfavourable increase of 70 basis points was primarily due to COVID-19 related costs and incremental e-commerce labour costs as a result of increased online sales.

Depreciation and Amortization Depreciation and amortization in the first quarter of 2021 was \$601 million. When compared to the first quarter of 2020, this represented an increase of \$12 million, primarily driven by an increase in IT and leased assets. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of \$117 million (2020 – \$119 million).

4.2 Financial Services Segment

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 (12 weeks)	\$ Change	% Change
Revenue	\$ 253	\$ 266	\$ (13)	(4.9)%
Earnings/(losses) before income taxes	48	(19)	67	352.6 %

(millions of Canadian dollars except where otherwise indicated)	As at March 27, 2021	As at March 21, 2020	\$ Change	% Change
Average quarterly net credit card receivables	\$ 3,006	\$ 3,436	\$ (430)	(12.5)%
Credit card receivables	2,902	3,248	(346)	(10.7)%
Allowance for credit card receivables	217	246	(29)	(11.8)%
Annualized yield on average quarterly gross credit card receivables	13.5 %	13.9 %		
Annualized credit loss rate on average quarterly gross credit card receivables	3.0 %	4.0 %		

Revenue Revenue was \$253 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented a decrease of \$13 million. The decrease was primarily driven by:

- lower interest income and credit card related fees attributable to a lower volume of credit card receivables; partially offset by,
- higher sales attributable to *The Mobile Shop*; and
- higher interchange income due to an increase in customer spending.

Earnings before income taxes Earnings before income taxes were \$48 million in the first quarter of 2021. When compared to the first quarter of 2020, this represented an increase of \$67 million. The increase was primarily driven by:

- a \$20 million reduction in the expected credit loss provision in the current quarter and the lapping of the \$50 million increase in the expected credit loss provision recorded in the first quarter of 2020;
 - lower contractual charge-off;
 - lower funding costs due to lower credit card receivables; and
 - reversal of certain commodity taxes remitted;
- partially offset by,
- lower revenue as described above; and
 - higher customer acquisition costs.

Credit Card Receivables As at March 27, 2021, credit card receivables were \$2,902 million. When compared to March 21, 2020, this represented a decrease of \$346 million. This decrease was primarily driven by higher payment rates. The allowance for credit card receivables was \$217 million, a decrease of \$29 million compared to March 21, 2020.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 (12 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 1,668	\$ 1,133	\$ 535	47.2 %
Cash flows from (used in):				
Operating activities	\$ 852	\$ 1,813	\$ (961)	(53.0)%
Investing activities	(153)	(213)	60	28.2 %
Financing activities	(819)	(542)	(277)	(51.1)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	1	(7)	8	114.3 %
Change in cash and cash equivalents	\$ (119)	\$ 1,051	\$ (1,170)	(111.3)%
Cash and cash equivalents, end of period	\$ 1,549	\$ 2,184	\$ (635)	(29.1)%

Cash Flows from Operating Activities Cash flows from operating activities in the first quarter of 2021 were \$852 million, a decrease of \$961 million compared to the first quarter of 2020. The decrease in cash flows from operating activities was primarily driven by a significant sell-through of inventory due to COVID-19 in the late first quarter of 2020 and an unfavourable change in credit card receivables.

Cash Flows used in Investing Activities Cash flows used in investing activities in the first quarter of 2021 were \$153 million, a decrease of \$60 million compared to the first quarter of 2020. The decrease in cash flows used in investing activities was primarily driven by a decrease in short term investments.

Capital Investments and Store Activity

As at or for the periods ended March 27, 2021 and March 21, 2020	2021 (12 weeks)	2020 (12 weeks)	% Change
Corporate square footage (in millions)	35.4	35.5	(0.3)%
Franchise square footage (in millions)	16.8	16.4	2.4 %
Associate-owned drug store square footage (in millions)	18.8	18.7	0.5 %
Total retail square footage (in millions)	71.0	70.6	0.6 %
Number of corporate stores	552	547	0.9 %
Number of franchise stores	546	539	1.3 %
Number of Associate-owned drug stores	1,345	1,344	0.1 %
Total number of stores	2,443	2,430	0.5 %
Percentage of corporate real estate owned	7 %	7 %	
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	64,100	64,900	(1.2)%
Franchise	30,800	30,400	1.3 %
Associate-owned drug store	14,000	13,900	0.7 %

Capital Investments Capital investments in the first quarter of 2021 were \$203 million, a decrease of \$8 million or 3.8% compared to the first quarter of 2020.

Cash Flows used in Financing Activities Cash flows used in financing activities in the first quarter of 2021 were \$819 million, an increase of \$277 million compared to the first quarter of 2020. The increase in cash flows used in financing activities was primarily driven by a higher net issuance of long term debt in the first quarter of 2020 attributable to the withdrawal of \$350 million from the Company's committed credit facility and an increase in share buybacks, partially offset by an increase in bank indebtedness and timing of the dividend payment in the fourth 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 March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 (12 weeks)	\$ Change	% Change
Cash flows from operating activities	\$ 852	\$ 1,813	\$ (961)	(53.0)%
Less:				
Capital investments	203	211	(8)	(3.8)%
Interest paid	86	88	(2)	(2.3)%
Lease payments, net	275	328	(53)	(16.2)%
Free cash flow ⁽²⁾⁽ⁱ⁾	\$ 288	\$ 1,186	\$ (898)	(75.7)%

(i) The consolidated free cash flow⁽²⁾ includes \$37 million (2020 – \$808 million) of free cash flow⁽²⁾ from the Retail segment and \$251 million (2020 – \$378 million) of free cash flow⁽²⁾ from the Financial Services segment.

Free cash flow⁽²⁾ in the first quarter of 2021 was \$288 million, a decrease of \$898 million compared to the first quarter of 2020. The decrease in free cash flow⁽²⁾ was primarily driven by a significant sell-through of inventory due to COVID-19 in the late first quarter of 2020 and an unfavourable change in credit card receivables.

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.

President's Choice Bank ("PC Bank") expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*[®] ("Eagle") notes and GICs.

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

(millions of Canadian dollars)	As at March 27, 2021			As at March 21, 2020			As at January 2, 2021		
	Retail	Financial Services	Total	Retail	Financial Services	Total	Retail	Financial Services	Total
Bank indebtedness	\$ 282	\$ —	\$ 282	\$ 83	\$ —	\$ 83	\$ 86	\$ —	\$ 86
Demand deposits from customers	—	36	36	—	—	—	—	24	24
Short term debt	—	300	300	—	500	500	—	575	575
Long term debt due within one year	—	576	576	350	778	1,128	—	597	597
Long term debt	4,814	1,633	6,447	4,792	1,546	6,338	4,811	1,638	6,449
Certain other liabilities ⁽ⁱ⁾	117	—	117	62	—	62	117	—	117
Total debt excluding lease liabilities	\$ 5,213	\$ 2,545	\$ 7,758	\$ 5,287	\$ 2,824	\$ 8,111	\$ 5,014	\$ 2,834	\$ 7,848
Lease liabilities due within one year	1,341	—	1,341	1,317	—	1,317	1,379	—	1,379
Lease liabilities	7,580	—	7,580	7,738	—	7,738	7,522	—	7,522
Total debt including total lease liabilities	\$ 14,134	\$ 2,545	\$ 16,679	\$ 14,342	\$ 2,824	\$ 17,166	\$ 13,915	\$ 2,834	\$ 16,749

(i) As at March 27, 2021, certain other liabilities include financial liabilities of \$46 million related to the sale of five retail properties to Choice Properties Real Estate Trust (March 21, 2020 — nil; January 2, 2021 — \$46 million).

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 March 27, 2021	As at March 21, 2020	As at January 2, 2021 ⁽⁴⁾
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	2.9 x	2.9 x	2.9 x

The Retail debt to rolling year retail adjusted EBITDA⁽²⁾ ratio as at March 27, 2021 was flat compared to March 21, 2020 and January 2, 2021.

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

Covenants and Regulatory Requirements The Company is required to comply with certain financial covenants for various debt instruments. As at March 27, 2021 and throughout the first quarter, the Company was in compliance with such covenants. As at March 27, 2021 and throughout the first quarter, PC Bank has met all applicable regulatory requirements.

5.3 Components of Total Debt

Debentures There were no debentures issued or repaid in the first quarters of 2021 and 2020.

Committed Credit Facility The Company has a \$1.0 billion committed credit facility with a maturity date of October 7, 2023, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants. As at March 27, 2021, there were no amounts drawn under this facility (March 21, 2020 – \$350 million; January 2, 2021 – no amounts were drawn). In 2020, the Company amended its committed credit facility and extended the maturity date from June 10, 2021 to October 7, 2023.

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 March 27, 2021	As at	
		March 21, 2020	January 2, 2021
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> [®]	\$ 1,050	\$ 1,000	\$ 1,050
Securitized to Other Independent Securitization Trusts	300	500	575
Total securitized to independent securitization trusts	\$ 1,350	\$ 1,500	\$ 1,625

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at March 27, 2021 and throughout the quarter.

Independent Funding Trusts As at March 27, 2021, the independent funding trusts had drawn \$514 million (March 21, 2020 – \$511 million; January 2, 2021 – \$512 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at March 27, 2021, the Company provided a credit enhancement of \$64 million (March 21, 2020 and January 2, 2021 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (March 21, 2020 and January 2, 2021 – 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 March 27, 2021	As at	
		March 21, 2020	January 2, 2021 ⁽⁴⁾
Rolling year adjusted return on equity ⁽²⁾	14.2 %	14.3 %	13.7 %
Rolling year adjusted return on capital ⁽²⁾	8.3 %	8.4 %	8.1 %

Rolling year adjusted return on equity⁽²⁾ as at March 27, 2021 decreased compared to March 21, 2020 primarily due to the negative impact of lapping the Retail segment results with the strong Retail segment results from the first quarter of 2020, mostly offset by declining equity as a result of share buybacks. Rolling year adjusted return on equity⁽²⁾ as at March 27, 2021 increased compared to January 2, 2021 primarily due to an increase in the underlying operating performance of the Retail segment and declining equity as a result of share buybacks.

Rolling year adjusted return on capital⁽²⁾ as at March 27, 2021 decreased compared to March 21, 2020 primarily due to a decrease in tax-effected adjusted operating income⁽²⁾, partially offset by lower debt levels and declining equity as a result of share buybacks. Rolling year adjusted return on capital⁽²⁾ as at March 27, 2021 increased compared to January 2, 2021 primarily due to an increase in adjusted operating income more than offset by a declining cash balance, included in capital.

5.5 Credit Ratings

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

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

5.6 Share Capital

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

	March 27, 2021 (12 weeks)		March 21, 2020 (12 weeks)	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
(millions of Canadian dollars except where otherwise indicated)				
Issued and outstanding, beginning of period	347,361,480	\$ 6,837	360,064,475	\$ 7,065
Issued for settlement of stock options	124,674	8	419,296	24
Purchased and cancelled	(5,371,864)	(106)	(2,757,577)	(54)
Issued and outstanding, end of period	342,114,290	\$ 6,739	357,726,194	\$ 7,035
Shares held in trust, beginning of period	(672,784)	\$ (13)	(1,113,302)	\$ (21)
Purchased for future settlement of RSUs and PSUs	—	—	(145,000)	(3)
Released for settlement of RSUs and PSUs	431,095	8	384,298	7
Shares held in trust, end of period	(241,689)	\$ (5)	(874,004)	\$ (17)
Issued and outstanding, net of shares held in trust, end of period	341,872,601	\$ 6,734	356,852,190	\$ 7,018
Weighted average outstanding, net of shares held in trust	345,890,274		358,569,036	

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

	March 27, 2021⁽ⁱ⁾ (12 weeks)	March 21, 2020 (12 weeks)
Dividends declared per share (\$)		
Common Share	\$ 0.335	\$ 0.315
Second Preferred Share, Series B	\$ 0.33125	\$ 0.33125

(i) The first quarter dividends for 2021 of \$0.335 per share declared on Common Shares had a payment date of April 1, 2021. The first quarter dividends for 2021 of \$0.33125 per share declared on Second Preferred Shares, Series B had a payment date of March 31, 2021.

(millions of Canadian dollars)	March 27, 2021 (12 weeks)	March 21, 2020 (12 weeks)
Dividends declared		
Common Share	\$ 118	\$ 116
Second Preferred Share, Series B	3	3
Total dividends declared	\$ 121	\$ 119

Subsequent to the end of the first quarter of 2021, the Board of Directors declared a quarterly dividend of \$0.335 per common share, payable on July 1, 2021 to shareholders of record on June 15, 2021 and a quarterly dividend of \$0.33125 per share on the Second Preferred Shares, Series B payable on June 30, 2021 to shareholders of record on June 15, 2021.

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)	March 27, 2021 (12 weeks)	March 21, 2020 (12 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	5,371,864	2,757,577
Cash consideration paid ⁽ⁱ⁾	\$ 321	\$ 188
Premium charged to retained earnings	244	134
Reduction in common share capital	106	54
Common shares repurchased under the NCIB and held in trust (number of shares)	—	145,000
Cash consideration paid	\$ —	\$ 10
Premium charged to retained earnings	—	7
Reduction in common share capital	—	3

(i) \$29 million of cash consideration was paid in the second quarter of 2021.

During 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 ("ADP Agreement"), in order for Weston to maintain its proportionate ownership interest in the Company. The maximum number of common shares that may be purchased pursuant to the NCIB will be reduced by the number of common shares purchased from Weston. During the first quarter of 2021, 5,371,864 common shares (2020 – 2,757,577) were purchased under the NCIB for cancellation, for aggregate consideration of \$350 million (2020 – \$188 million), including 2,778,077 common shares (2020 – 1,355,077) purchased from Weston, for aggregate consideration of \$181 million (2020 – \$92 million).

Subsequent to the end of the first quarter of 2021, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,106,459 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. The Company will continue to be permitted to purchase its common shares from Weston in accordance with the exemption granted by the TSX. Purchases from Weston will be made pursuant to the ADP Agreement. As at March 27, 2021, the Company had purchased 15,919,038 common shares for cancellation under its previous NCIB.

5.7 Off-Balance Sheet Arrangements

The Company uses off-balance sheet arrangements including letters of credit, guarantees and cash collateralization in connection with certain obligations. There were no significant changes to these off-balance sheet arrangements during the first quarter of 2021. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2020 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.

Bond Forwards During the first quarter of 2021, PC Bank entered into bond forward agreements with a total notional value of \$75 million to hedge its exposure to interest rate fluctuations against the future issuance of debt instruments. The Company has assessed that these hedge agreements were effective as at the quarter-end and has included any fluctuations relating to the bond forwards in Other Comprehensive Income.

Foreign Exchange Forwards During the first quarter of 2021, PC Bank entered into foreign exchange forward agreements with a notional value of USD \$39 million to hedge its exposure on certain USD payables, of which USD \$10 million matured before the end of the quarter. The Company has assessed that these hedge agreements, which will mature by December 2021, were effective as at the quarter-end and has included any fluctuations relating to the foreign exchange forwards in Other Comprehensive Income.

The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates in its underlying operations. For further details on the impact of these instruments during the first quarter of 2021 see Section 11 "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 year 2020 was 53 weeks and fiscal year 2019 was 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:

	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
	2021 (12 weeks)	2020 ⁽⁴⁾ (12 weeks)	2020 ⁽⁴⁾ (13 weeks)	2019 ⁽⁴⁾ (12 weeks)	2020 ⁽⁴⁾ (16 weeks)	2019 ⁽⁴⁾ (16 weeks)	2020 ⁽⁴⁾ (12 weeks)	2019 ⁽⁴⁾ (12 weeks)
(millions of Canadian dollars except where otherwise indicated)								
Revenue	\$11,872	\$11,800	\$13,286	\$11,590	\$15,671	\$14,655	\$11,957	\$11,133
Adjusted EBITDA⁽²⁾	1,218	1,165	1,313	1,113	1,518	1,470	1,008	1,174
Net earnings available to common shareholders of the Company	313	240	345	254	342	331	169	286
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	392	349	431	326	459	451	260	376
Net earnings per common share:								
Basic (\$)	\$ 0.91	\$ 0.67	\$ 0.98	\$ 0.70	\$ 0.96	\$ 0.91	\$ 0.47	\$ 0.78
Diluted (\$)	\$ 0.90	\$ 0.66	\$ 0.98	\$ 0.70	\$ 0.96	\$ 0.90	\$ 0.47	\$ 0.77
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.13	\$ 0.97	\$ 1.22	\$ 0.90	\$ 1.28	\$ 1.23	\$ 0.72	\$ 1.02
Food retail same-store sales growth	0.1 %	9.6 %	8.6 %	1.9 %	6.9 %	0.1 %	10.0 %	0.6 %
Drug retail same-store sales (decline)/growth	(1.7)%	10.7 %	3.7 %	3.9 %	6.1 %	4.1 %	(1.1)%	4.0 %

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. Revenue was unusually high throughout 2020 and into 2021 due to COVID-19;
- the impact of the 13th/53rd week in the fourth quarter of fiscal year 2020;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.6 million square feet to 71 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 impact of the 13th/53rd week in the fourth quarter of fiscal year 2020;
- 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 11 "Non-GAAP Financial Measures", including:
 - restructuring and other related charges;
 - fair value adjustment on non-operating properties;
 - fair value adjustment on fuel and foreign currency;
 - the gain and loss on sale of non-operating properties; and
 - certain prior period items.

8. Internal Control over Financial Reporting

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

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

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

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal control over financial reporting in the first quarter of 2021 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

9. Enterprise Risks and Risk Management

A detailed full set of risks inherent in the Company's business are included in the Company's AIF for the year ended January 2, 2021 and the Company's MD&A in the Company's 2020 Annual Report, which are hereby incorporated by reference. The Company's 2020 Annual Report and AIF are available online on www.sedar.com. Those risks and risk management strategies remain unchanged.

10. Outlook⁽³⁾

The Company cannot predict the precise impacts of COVID-19 on 2021 financial results. However, Loblaw anticipates that grocery sales will remain elevated due to continued impact of the pandemic, including the impact of lockdown measures in many jurisdictions. As economies reopen, revenue growth will be challenged while lapping elevated 2020 sales. Costs are expected to improve, as the Company laps elevated COVID-19 related expenses, and as Process & Efficiencies and Data-Driven Insights programs continue to deliver benefits. Moderate levels of regulatory reform are anticipated.

The Company previously announced that, on a full year basis, it expects:

- its core Retail segment business to grow earnings faster than sales;
- growth in PC Financial[®] profitability;
- EPS growth in the low double digits, excluding the impact of the 53rd week in the fourth quarter of fiscal year 2020;
- to invest approximately \$1.2 billion in capital expenditures, net of proceeds from property disposals; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

The Company delivered strong financial performance in the first quarter and that momentum has continued into the first four weeks of the second quarter, positioning the Company to exceed its full year EPS growth outlook. However, it is still early in the year and given the on-going uncertainty and volatility caused by the COVID-19 pandemic, the Company will not update its full year outlook at the current time.

The COVID-19 pandemic continued to impact the Company's operations. In the first quarter, sales in the Food Retail business were positively impacted, however the company was lapping unprecedented demand and stockpiling towards the end of the quarter. Loblaw continued to deliver value in the categories that mean the most to consumers, maintaining conventional, drug and beauty market share improvements earned over the course of the pandemic. In Drug Retail, mix negatively affected front store sales and continued to negatively impact higher margin categories.

In the second quarter of 2021, the Company will be lapping last year's surge in revenues and its highest quarter of COVID-19 related costs. In the four weeks following the end of the first quarter, Food same-store sales have declined slightly, while Drug same-store sales have trended positively, compared to same-store sales growth of 10.0% in Food Retail and a decline of 1.1% in Drug Retail in the second quarter of last year. The Company expects to incur COVID-19 related costs in the range of approximately \$65 million – \$75 million in the second quarter of 2021, compared to \$282 million in COVID-19 related costs incurred in the second quarter of 2020.

Looking ahead, the COVID-19 pandemic has accelerated certain longer-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital Retail, Connected Healthcare Network, and Payments and Rewards.

11. 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.

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars)	2021 (12 weeks)				2020 (12 weeks)			
	Retail	Financial Services	Eliminations	Total	Retail	Financial Services	Eliminations	Total
Revenue	\$ 11,670	\$ 253	\$ (51)	\$ 11,872	\$ 11,584	\$ 266	\$ (50)	\$ 11,800
Cost of merchandise inventories sold	8,137	37	—	8,174	8,134	25	—	8,159
Gross profit	\$ 3,533	\$ 216	\$ (51)	\$ 3,698	\$ 3,450	\$ 241	\$ (50)	\$ 3,641
Adjusted gross profit	\$ 3,533	\$ 216	\$ (51)	\$ 3,698	\$ 3,450	\$ 241	\$ (50)	\$ 3,641

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

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

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars)	2021 (12 weeks)			2020 ⁽⁴⁾ (12 weeks)		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			\$ 316			\$ 243
Add impact of the following:						
Non-controlling interests			19			33
Net interest expense and other financing charges			160			172
Income taxes			122			93
Operating income	\$ 553	\$ 64	\$ 617	\$ 538	\$ 3	\$ 541
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 117	\$ —	\$ 117	\$ 119	\$ —	\$ 119
Restructuring and other related costs	4	—	4	15	—	15
Gain on sale of non-operating properties	(5)	—	(5)	—	—	—
Fair value adjustment on fuel and foreign currency contracts	(8)	—	(8)	15	—	15
Adjusting Items	\$ 108	\$ —	\$ 108	\$ 149	\$ —	\$ 149
Adjusted operating income	\$ 661	\$ 64	\$ 725	\$ 687	\$ 3	\$ 690
Depreciation and amortization	601	9	610	589	5	594
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(117)	—	(117)	(119)	—	(119)
Adjusted EBITDA	\$ 1,145	\$ 73	\$ 1,218	\$ 1,157	\$ 8	\$ 1,165

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. Only restructuring activities that are publicly announced related to these initiatives are considered adjusting items.

In the first quarter of 2021, the Company recorded \$4 million of restructuring and other related charges related to the previously announced closure of two distribution centres in Laval and Ottawa. 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. Volumes from the distribution centres in Laval and Ottawa will be transferred to Cornwall and the Company expects to incur additional restructuring costs throughout 2021 and through to 2022 related to these closures.

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.

Gain/loss on sale of non-operating properties In the first quarter of 2021, the Company disposed of non-operating properties to a third party and recorded a gain of \$5 million related to the sale.

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

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars)	2021 (12 weeks)	2020 (12 weeks)
Net interest expense and other financing charges	\$ 160	\$ 172
Adjusted net interest expense and other financing charges	\$ 160	\$ 172

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 March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 ⁽⁴⁾ (12 weeks)
Adjusted operating income ⁽ⁱ⁾	\$ 725	\$ 690
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	160	172
Adjusted earnings before taxes	\$ 565	\$ 518
Income taxes	\$ 122	\$ 93
Add (deduct) impact of the following:		
Tax impact of items included in adjusted earnings before taxes ⁽ⁱⁱ⁾	29	40
Adjusted income taxes	\$ 151	\$ 133
Effective tax rate	26.7 %	25.2 %
Adjusted effective tax rate	26.7 %	25.7 %

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

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

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

For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020 ⁽⁴⁾ (12 weeks)
Net earnings attributable to shareholders of the Company	\$ 316	\$ 243
Prescribed dividends on preferred shares in share capital	(3)	(3)
Net earnings available to common shareholders of the Company	\$ 313	\$ 240
Net earnings attributable to shareholders of the Company	\$ 316	\$ 243
Adjusting items (refer to the following table)	79	109
Adjusted net earnings attributable to shareholders of the Company	\$ 395	\$ 352
Prescribed dividends on preferred shares in share capital	(3)	(3)
Adjusted net earnings available to common shareholders of the Company	\$ 392	\$ 349
Diluted weighted average common shares outstanding (millions)	348.2	361.2

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

	2021 (12 weeks)		2020 ⁽⁴⁾ (12 weeks)	
	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars/Canadian dollars)				
As reported	\$ 313	\$ 0.90	\$ 240	\$ 0.66
Add (deduct) impact of the following:				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 86	\$ 0.25	\$ 87	\$ 0.24
Restructuring and other related costs	3	0.01	11	0.03
Gain on sale of non-operating properties	(4)	(0.01)	—	—
Fair value adjustment on fuel and foreign currency contracts	(6)	(0.02)	11	0.03
Adjusting items	\$ 79	\$ 0.23	\$ 109	\$ 0.30
Adjusted⁽ⁱ⁾	\$ 392	\$ 1.13	\$ 349	\$ 0.97

(i) The comparative for Adjusted Diluted Net Earnings per Common Share has been restated due to rounding.

Free Cash Flow⁽²⁾ 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.

	2021 (12 weeks)		2020 (12 weeks)	
	For the periods ended March 27, 2021 and March 21, 2020 (millions of Canadian dollars)			
Cash flows from operating activities	\$ 852		\$ 1,813	
Less:				
Capital investments	203		211	
Interest paid	86		88	
Lease payments, net	275		328	
Free cash flow⁽²⁾⁽ⁱ⁾	\$ 288		\$ 1,186	

(i) The consolidated free cash flow⁽²⁾ includes \$37 million (2020 – \$808 million) of free cash flow⁽²⁾ from the Retail segment and \$251 million (2020 – \$378 million) of free cash flow⁽²⁾ from the Financial Services segment.

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.

Non-GAAP Financial Measures Policy Change Effective First Quarter of 2021 In 2020, management undertook a review of historical adjusting items as part of an effort to reduce the number of items it excludes from its non-GAAP financial measures. Management concluded that, in order to present adjusting items in a manner more consistent with that of its Canadian and U.S. peers, the Company will no longer adjust for fixed asset and other related impairments (net of recoveries), certain restructuring and other related costs, pension settlement costs, statutory income tax rate changes or other items.

Starting in the first quarter of 2021, restructuring and other related costs will be considered an adjusting item only if significant and if part of a publicly announced restructuring plan. Other unusual items will be assessed on a case by case basis based on their nature, magnitude and propensity to re-occur. This change took effect in the first quarter of 2021 with restatement of comparative periods at that time.

The below summary reconciles the non-GAAP financial measures as previously reported in 2020 to those reported under the new policy starting in the first quarter of 2021:

(millions of Canadian dollars)	12 weeks ended March 21, 2020			12 weeks ended June 13, 2020			16 weeks ended October 3, 2020			13 weeks ended January 2, 2021			53 weeks ended January 2, 2021		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Adjusted Operating income - previously reported	\$ 691	\$ 3	\$ 694	\$ 502	\$ 34	\$ 536	\$ 840	\$ 44	\$ 884	\$ 787	\$ 53	\$ 840	\$2,820	\$ 134	\$2,954
Add (deduct) impact of the following:															
Fixed asset and other related Impairments, net of recoveries	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	(17)	—	(17)	\$ (17)	\$ —	\$ (17)
Restructuring and other related costs	(4)	—	(4)	(8)	—	(8)	(6)	—	(6)	(2)	—	(2)	(20)	—	(20)
Adjusting Items	\$ (4)	\$ —	\$ (4)	\$ (8)	\$ —	\$ (8)	\$ (6)	\$ —	\$ (6)	\$ (19)	\$ —	\$ (19)	\$ (37)	\$ —	\$ (37)
Adjusted operating income - Restated	\$ 687	\$ 3	\$ 690	\$ 494	\$ 34	\$ 528	\$ 834	\$ 44	\$ 878	\$ 768	\$ 53	\$ 821	\$2,783	\$ 134	\$2,917
Depreciation and amortization	589	5	594	593	5	598	789	6	795	600	9	609	2,571	25	2,596
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	(119)	(118)	—	(118)	(155)	—	(155)	(117)	—	(117)	(509)	—	(509)
Adjusted EBITDA - Restated	\$ 1,157	\$ 8	\$ 1,165	\$ 969	\$ 39	\$ 1,008	\$ 1,468	\$ 50	\$ 1,518	\$ 1,251	\$ 62	\$ 1,313	\$4,845	\$ 159	\$5,004

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net earnings per Common Share are presented below:

	12 weeks ended March 21, 2020		12 weeks ended June 13, 2020		16 weeks ended October 3, 2020		13 weeks ended January 2, 2021		53 weeks ended January 2, 2021	
(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	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
Adjusted - As previously reported	\$ 352	\$ 0.97	\$ 266	\$ 0.74	\$ 464	\$ 1.30	\$ 445	\$ 1.26	\$ 1,527	\$ 4.26
Add (deduct) impact of the following:										
Fixed asset and other related impairments, net of recoveries	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (13)	\$ (0.04)	\$ (13)	\$ (0.04)
Restructuring and other related costs	(3)	—	(6)	(0.02)	(5)	(0.02)	(1)	—	(15)	(0.04)
Adjusting items	\$ (3)	\$ —	\$ (6)	\$ (0.02)	\$ (5)	\$ (0.02)	\$ (14)	\$ (0.04)	\$ (28)	\$ (0.08)
Adjusted - Restated	\$ 349	\$ 0.97	\$ 260	\$ 0.72	\$ 459	\$ 1.28	\$ 431	\$ 1.22	\$ 1,499	\$ 4.18

This policy change did not impact previously reported Retail segment gross profit, Retail segment adjusted gross profit and Retail segment adjusted gross profit percentage or adjusted net interest expense and other financing charges, as reported in the Company's 2020 annual and interim MD&A.

12. 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.

May 4, 2021
Toronto, Canada

MD&A Endnotes

- (1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2020 Annual Report.
- (2) See Section 11 "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 due to the non-GAAP financial measures policy change. See section 11 "Non- GAAP Financial Measures" of the Company's 2021 First Quarter Report to Shareholders.