

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 second quarter 2022 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 1, 2022 and the related MD&A included in the Company's 2021 Annual Report - Financial Review ("2021 Annual Report").

The Company's second quarter 2022 unaudited interim period condensed consolidated financial statements and the accompanying notes have been 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 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 2021 Annual Report.

The information in this MD&A is current to July 26, 2022, 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, and economic conditions. 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 estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the Company's MD&A in the 2021 Annual Report, and the Company's 2021 Annual Information Form ("AIF") for the year ended January 1, 2022. Such risks and uncertainties include:

- inability of the Company's information technology ("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 maintain an effective supply chain and consequently an appropriate assortment of available product at the store and digital retail level;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- failure to execute the Company's e-commerce initiatives or to adapt its business model to shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems and related processes;
- 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;
- 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 achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- adverse outcomes of legal and regulatory proceedings and related matters;
- 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;
- 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;
- failure to adapt to environmental and social risks, including failure to execute against the Company's climate change and social equity initiatives;
- inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- 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;
- 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; 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 2021 AIF (for the year ended January 1, 2022). 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 June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	2022 (12 weeks)	2021 (12 weeks)
Consolidated:		
Revenue growth	2.9 %	4.5 %
Operating income	\$ 742	\$ 752
Adjusted EBITDA ⁽²⁾	1,499	1,371
Adjusted EBITDA margin ⁽²⁾	11.7 %	11.0 %
Net earnings	\$ 428	\$ 434
Net earnings attributable to shareholders of the Company	390	378
Net earnings available to common shareholders of the Company ⁽ⁱ⁾	387	375
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	566	464
Diluted net earnings per common share (\$)	\$ 1.16	\$ 1.09
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.69	\$ 1.35
Cash and cash equivalents and short term investments	\$ 1,661	\$ 2,112
Cash flows from operating activities	1,245	1,635
Free cash flow ⁽²⁾	517	953
Financial Measures:		
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	2.5 x	2.7 x
Rolling year adjusted return on equity ⁽²⁾	19.1 %	16.0 %
Rolling year adjusted return on capital ⁽²⁾	10.4 %	9.4 %
Retail Segment:		
Food retail same-store sales growth/(decline)	0.9 %	(0.1)%
Drug retail same-store sales growth	5.6 %	9.6 %
Operating income	\$ 811	\$ 708
Adjusted gross profit ⁽²⁾	3,962	3,793
Adjusted gross profit % ⁽²⁾	31.4 %	30.9 %
Adjusted EBITDA ⁽²⁾	\$ 1,445	\$ 1,316
Adjusted EBITDA margin ⁽²⁾	11.4 %	10.7 %
Financial Services Segment:		
(Losses) Earnings before income taxes	\$ (86)	\$ 28
Annualized yield on average quarterly gross credit card receivables	12.8 %	12.9 %
Annualized credit loss rate on average quarterly gross credit card receivables	2.5 %	2.9 %

(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 18, 2022 and June 19, 2021
(millions of Canadian dollars except where otherwise indicated)

	2022	2021			2022	2021		
	(12 weeks)	(12 weeks)	\$ Change	% Change	(24 weeks)	(24 weeks)	\$ Change	% Change
Revenue	\$12,847	\$ 12,491	\$ 356	2.9 %	\$25,109	\$24,363	\$ 746	3.1 %
Operating income	742	752	(10)	(1.3)%	1,480	1,369	111	8.1 %
Adjusted EBITDA ⁽²⁾	1,499	1,371	128	9.3 %	2,842	2,589	253	9.8 %
Adjusted EBITDA margin ⁽²⁾	11.7 %	11.0 %			11.3 %	10.6 %		
Depreciation and amortization	\$ 633	\$ 614	\$ 19	3.1 %	\$ 1,264	\$ 1,224	\$ 40	3.3 %
Net interest expense and other financing charges	152	161	(9)	(5.6)%	294	321	(27)	(8.4)%
Adjusted net interest expense and other financing charges ⁽²⁾	152	161	(9)	(5.6)%	305	321	(16)	(5.0)%
Income taxes	162	157	5	3.2 %	285	279	6	2.2 %
Adjusted income taxes ⁽²⁾	221	190	31	16.3 %	402	341	61	17.9 %
Adjusted effective tax rate ⁽²⁾	26.7 %	26.6 %			26.7 %	26.7 %		
Net earnings attributable to non-controlling interests	\$ 38	\$ 56	\$ (18)	(32.1)%	\$ 71	\$ 75	\$ (4)	(5.3)%
Net earnings attributable to shareholders of the Company	\$ 390	\$ 378	\$ 12	3.2 %	\$ 830	\$ 694	\$ 136	19.6 %
Net earnings available to common shareholders of the Company⁽ⁱ⁾	387	375	12	3.2 %	824	688	136	19.8 %
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	566	464	102	22.0 %	1,025	856	169	19.7 %
Diluted net earnings per common share (\$)	\$ 1.16	\$ 1.09	\$ 0.07	6.4 %	\$ 2.46	\$ 1.99	\$ 0.47	23.6 %
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.69	\$ 1.35	\$ 0.34	25.2 %	\$ 3.06	\$ 2.48	\$ 0.58	23.4 %
Diluted weighted average common shares outstanding (in millions)	334.4	342.9			335.5	345.3		

(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.

Loblaw delivered strong operational and financial results as it continued to execute on retail excellence in its core businesses, while advancing its growth and efficiencies initiatives. Drug Retail performance continued to drive overall margin expansion, as sales benefited from growth in higher margin front-store categories. The positive trend in Food Retail continued with the Company's conventional stores performing well relative to peers and sales growth in its discount banners, heightened by the strength of the No Frills® and Maxi® hard-discount stores and the Company's value focused control brand no name®.

On July 19, 2022, the Tax Court of Canada ("Tax Court") released its decision relating to President's Choice Bank ("PC Bank"), a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. PC Bank is planning to appeal the decision.

Although the Company believes in the merits of its position, it recorded a charge during the second quarter of \$111 million, inclusive of interest. The Company believes that this provision is sufficient to cover its liability from the initial reassessment period in 2009 through to the end of the second quarter of 2022, if the appeal is ultimately unsuccessful.

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 2022 were \$387 million (\$1.16 per common share). When compared to the second quarter of 2021, this represented an increase of \$12 million (\$0.07 per common share). The increase included improvements in the underlying operating performance of \$102 million which were partially offset by the unfavourable change in adjusting items totaling \$90 million, as described below:

- the improvement in underlying operating performance of \$102 million (\$0.30 per common share) was primarily due to the following:
 - an improvement in the underlying operating performance in the Retail segment driven by an increase in adjusted gross profit⁽²⁾, partially offset by an increase in selling, general and administrative expenses ("SG&A") and depreciation and amortization; and
 - the favourable impact from non-controlling interests.

partially offset by,

- the unfavourable change in adjusting items totaling \$90 million (\$0.27 per common share) was primarily due to the following:
 - the unfavourable impact of the charge related to a PC Bank commodity tax matter of \$86 million (\$0.25 per common share);
 - the unfavourable impact of the Lifemark Health Group transaction costs of \$10 million (\$0.03 per common share); and
 - the year-over-year unfavourable change in fair value adjustment on fuel and foreign currency contracts of \$5 million (\$0.01 per common share);

partially offset by,

- the year-over year favourable impact of restructuring and other related costs of \$5 million (\$0.01 per common share); and
 - the favourable impact of the current year gain on the sale of non-operating properties of \$3 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⁾ were \$566 million, an increase of \$102 million or 22.0% compared to second quarter of 2021. Adjusted net earnings per common share⁽²⁾ were \$1.69, an increase of \$0.34 or 25.2%. The increase includes the favourable impact of the repurchase of common shares.

Year-to-date net earnings available to common shareholders of the Company were \$824 million (\$2.46 per common share), an increase of \$136 million (\$0.47 per common share) or 19.8% compared to the same period in 2021. The increase included improvements in the underlying operating performance of \$169 million which were partially offset by the unfavourable change in adjusting items totaling \$33 million, as described below:

- the improvement in the underlying operating performance of \$169 million (\$0.49 per common share) was primarily due to the following:
 - an improvement in the underlying operating performance in the Retail segment driven by an increase in adjusted gross profit⁽²⁾, partially offset by an increase in SG&A and depreciation and amortization; partially offset by,
 - a decline in the Financial Services segment primarily due to the year-over-year impact of the expected credit loss provision from lapping a larger prior year release versus the current year release and from lapping a prior year reversal of certain commodity tax accrued.

partially offset by,

- the unfavourable change in adjusting items totaling \$33 million (\$0.11 per common share) was primarily due to the following:
 - the unfavourable impact of the charge related to a PC Bank commodity tax matter of \$86 million (\$0.25 per common share); and
 - the unfavourable impact of the Lifemark Health Group transaction costs of \$12 million (\$0.04 per common share);
 partially offset by,
 - the favourable impact of the recovery related to Glenhuron Bank Limited of \$42 million (\$0.13 per common share); and
 - the year-over-year favourable change in restructuring and other related costs of \$22 million (\$0.06 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 (\$0.09 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company⁽²⁾ were \$1,025 million, an increase of \$169 million or 19.7% compared to the same period in 2021. Adjusted net earnings per common share⁽²⁾ were \$3.06 per common share, an increase of \$0.58 or 23.4%. The increase includes the favourable impact of the repurchase of common shares.

Revenue

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	2022				2021			
	(12 weeks)	(12 weeks)	\$ Change	% Change	(24 weeks)	(24 weeks)	\$ Change	% Change
Retail	\$ 12,623	\$ 12,282	\$ 341	2.8 %	\$ 24,668	\$ 23,952	\$ 716	3.0 %
Financial Services	297	272	25	9.2 %	571	525	46	8.8 %
Consolidation and Eliminations	(73)	(63)	(10)	(15.9)%	(130)	(114)	(16)	(14.0)%
Revenue	\$ 12,847	\$ 12,491	\$ 356	2.9 %	\$ 25,109	\$ 24,363	\$ 746	3.1 %

Revenue was \$12,847 million in the second quarter of 2022. When compared to the second quarter of 2021, this represented an increase of \$356 million, or 2.9%. The increase was primarily driven by an increase in Retail segment sales of \$341 million due to positive same-store sales growth and Lifemark Health Group (“Lifemark”) revenues since the date of acquisition. Furthermore, there was an improvement in Financial Services segment sales of \$25 million.

Year-to-date revenue was \$25,109 million, an increase of \$746 million, or 3.1%, compared to the same period in 2021. The increase was primarily driven by an increase in Retail segment sales of \$716 million, due to positive same-store sales growth and Lifemark revenues since the date of acquisition. Furthermore, there was an improvement in Financial Services segment sales of \$46 million.

Operating Income Operating income was \$742 million in the second quarter of 2022. When compared to the second quarter of 2021, this represented a decrease of \$10 million, or 1.3%. The decrease included improvements in the underlying operating performance of \$106 million which were more than offset by the unfavourable change in adjusting items totaling \$116 million as described below:

- the improvements in underlying operating performance of \$106 million was primarily due to the following:
 - an improvement in the underlying operating performance of the Retail Segment due to an increase in adjusted gross profit⁽²⁾, partially offset by an increase in SG&A and depreciation and amortization.
- more than offset by,
- the unfavourable change in adjusting items totaling \$116 million was primarily due to the following:
 - the unfavourable impact of the charge related to a PC Bank commodity tax matter of \$111 million;
 - the unfavourable impact of the Lifemark transaction costs of \$13 million; and
 - the year-over-year unfavourable change in fair value adjustments on fuel and foreign currency contracts of \$7 million;
- partially offset by,
- the favourable impact of prior year restructuring and other related costs of \$8 million; and
 - the favourable impact of the current year gain on the sale of non-operating properties of \$4 million.

Year-to-date operating income was \$1,480 million, an increase of \$111 million, or 8.1%, compared to the same period in 2021. The increase in operating income was driven by improvements in the underlying operating performance of \$210 million which were partially offset by an unfavourable change in certain adjusting items totaling \$99 million as described below:

- the improvements in the underlying operating performance of \$210 million were primarily due to the following:
 - an improvement in the underlying operating performance of the Retail segment due to an increase in adjusted gross profit⁽²⁾, partially offset by an increase in SG&A and depreciation and amortization;
- partially offset by,
- a decline in the Financial Services segment primarily due to the year-over-year impact of the expected credit loss provision from lapping a larger prior year release versus the current year release and from lapping a prior year reversal of certain commodity tax accrued.
- partially offset by,
- the unfavourable year-over-year impact of certain adjusting items totaling \$99 million was primarily due to the following:
 - the unfavourable impact of the charge related to a PC Bank commodity tax matter of \$111 million; and
 - the unfavourable impact of the Lifemark transaction costs of \$16 million;
- partially offset by,
- the year-over-year favourable change in restructuring and other related costs of \$27 million.

Adjusted EBITDA⁽²⁾

	For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)							
	2022 (12 weeks)	2021 (12 weeks)	\$ Change	% Change	2022 (24 weeks)	2021 (24 weeks)	\$ Change	% Change
Retail	\$ 1,445	\$ 1,316	\$ 129	9.8 %	\$ 2,730	\$ 2,461	\$ 269	10.9 %
Financial Services	54	55	(1)	(1.8)%	112	128	(16)	(12.5)%
Adjusted EBITDA ⁽²⁾	\$ 1,499	\$ 1,371	\$ 128	9.3 %	\$ 2,842	\$ 2,589	\$ 253	9.8 %

Adjusted EBITDA⁽²⁾ was \$1,499 million in the second quarter of 2022. When compared to the second quarter of 2021, this represented an increase of \$128 million or 9.3%. The increase was primarily due to an increase in the Retail segment of \$129 million, partially offset by a decrease in the Financial Services segment of \$1 million.

Year-to-date adjusted EBITDA⁽²⁾ was \$2,842 million, an increase of \$253 million, or 9.8% compared to the same period in 2021. The increase was primarily driven by an increase in the Retail segment of \$269 million, partially offset by a decrease in the Financial Services segment of \$16 million.

Depreciation and Amortization Depreciation and amortization was \$633 million, an increase of \$19 million or 3.1% compared to the second quarter of 2021. Year-to-date depreciation and amortization was \$1,264 million, an increase of \$40 million compared to the same period in 2021. The increase in depreciation and amortization in the second quarter of 2022 and year-to-date was primarily driven by an increase in depreciation of IT and leased assets. Depreciation and amortization in the second quarter of 2022 and year-to-date included the amortization of intangible assets related to the acquisitions of Shoppers Drug Mart and Lifemark of \$114 million (2021 – \$117 million) and \$231 million (2021 – \$234 million), respectively.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were \$152 million, a decrease of \$9 million or 5.6% compared to the second quarter of 2021. The decrease was primarily driven by a reduction in interest expense from lease liabilities and post-employment and other employee benefits and higher interest income due to an increase in interest rates compared to the second quarter of 2021. Year-to-date net interest expense and other financing charges were \$294 million, a decrease of \$27 million compared to the same period in 2021. The year-to-date decrease was primarily driven by interest income related to Glenhuron Bank Limited (“Glenhuron”), a reduction in interest expense from lease liabilities and post-employment and other employee benefits and higher interest income due to an increase in interest rates compared to the same period in 2021.

Income Taxes

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	2022				2021			
	(12 weeks)	(12 weeks)	\$ Change	% Change	(24 weeks)	(24 weeks)	\$ Change	% Change
Income taxes	\$ 162	\$ 157	\$ 5	3.2 %	\$ 285	\$ 279	\$ 6	2.2 %
Add (deduct) impact of the following:								
Tax impact of items included in adjusted earnings before taxes	59	33	26	78.8 %	84	62	22	35.5 %
Recovery related to Glenhuron	—	—	—	— %	33	—	33	100.0 %
Adjusted income taxes ⁽²⁾	\$ 221	\$ 190	\$ 31	16.3 %	\$ 402	\$ 341	\$ 61	17.9 %
Effective tax rate	27.4 %	26.6 %			24.0 %	26.6 %		
Adjusted effective tax rate ⁽²⁾	26.7 %	26.6 %			26.7 %	26.7 %		

Income tax expense in the second quarter of 2022 was \$162 million (2021 – \$157 million) and the effective tax rate was 27.4% (2021 – 26.6%). The increase in the effective tax rate was primarily attributable to the impact of certain non-deductible items. Year-to-date income tax expense was \$285 million (2021 – \$279 million) and the effective tax rate was 24.0% (2021 – 26.6%). The decrease to the year-to-date effective tax rate was primarily attributable to the recovery of income taxes related to Glenhuron in the first quarter of 2022.

Adjusted income tax expense⁽²⁾ in the second quarter of 2022 was \$221 million (2021 – \$190 million) and the adjusted effective tax rate⁽²⁾ was 26.7% (2021 – 26.6%). The increase in the adjusted effective tax rate⁽²⁾ was primarily attributable to the impact of certain non-deductible items. Year-to-date adjusted income tax expense⁽²⁾ was \$402 million (2021 – \$341 million) and the adjusted effective tax rate⁽²⁾ was 26.7% (2021 – 26.7%). The year-to-date adjusted effective tax rate⁽²⁾ was consistent compared to the same period in 2021.

The Company was 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. In 2021, the Supreme Court of Canada (“Supreme Court”) ruled in favour of the Company on the Glenhuron matter. As a result of the related assessments received during the first quarter of 2022, the Company reversed \$35 million of previously recorded charges in the year, of which \$33 million was recorded as income tax recovery and \$2 million was recorded as interest income. In addition, interest of \$9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

Net Earnings attributable to non-controlling interests Net Earnings attributable to non-controlling interests was \$38 million, a decrease of \$18 million or 32.1% compared to the second quarter of 2021. Year-to-date net earnings attributable to non-controlling interests were \$71 million, a decrease of \$4 million or 5.3% compared to the same period in 2021. Non-controlling interests represent the share of earnings that relates to the Company's Food Retail franchisees and is impacted by the timing of when profit sharing with franchisees is agreed and finalized under the terms of the agreements. The decreases in non-controlling interests were primarily driven by a decline in franchisee earnings.

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 healthcare services 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 June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)							
	2022 (12 weeks)	2021 (12 weeks)	\$ Change	% Change	2022 (24 weeks)	2021 (24 weeks)	\$ Change	% Change
Sales	\$12,623	\$12,282	\$ 341	2.8 %	\$24,668	\$23,952	\$ 716	3.0 %
Operating income	811	708	103	14.5 %	1,501	1,261	240	19.0 %
Adjusted gross profit ⁽²⁾	3,962	3,793	169	4.5 %	7,705	7,326	379	5.2 %
Adjusted gross profit % ⁽²⁾	31.4 %	30.9 %			31.2 %	30.6 %		
Adjusted EBITDA ⁽²⁾	\$ 1,445	\$ 1,316	\$ 129	9.8 %	\$ 2,730	\$ 2,461	\$ 269	10.9 %
Adjusted EBITDA margin ⁽²⁾	11.4 %	10.7 %			11.1 %	10.3 %		
Depreciation and amortization	\$ 621	\$ 603	\$ 18	3.0 %	\$ 1,242	\$ 1,204	\$ 38	3.2 %

	2022		2021		2022		2021	
	(12 weeks)		(12 weeks)		(24 weeks)		(24 weeks)	
	Sales	Same-store sales						
Food retail	\$ 8,981	0.9 %	\$ 8,878	(0.1)%	\$ 17,663	1.5 %	\$17,357	0.0 %
Drug retail	3,642	5.6 %	3,404	9.6 %	7,005	5.4 %	6,595	3.8 %
Pharmacy and healthcare services	1,813	6.1 %	1,656	17.2 %	3,537	6.4 %	3,270	10.0 %
Front store	1,829	5.2 %	1,748	3.6 %	3,468	4.5 %	3,325	(1.4)%

Sales Retail segment sales were \$12,623 million in the second quarter of 2022, an increase of \$341 million, or 2.8% compared to the second quarter of 2021, primarily driven by the following factors:

- Food retail same-store sales grew by 0.9% (2021 – declined by 0.1%) for the quarter.
 - Sales growth in food was modest;
 - Sales growth in pharmacy was modest;
 - The Consumer Price Index as measured by The Consumer Price Index for Food Purchased From Stores was 9.6% (2021 – 0.5%) which was generally in line with the Company’s internal food inflation.
 - Food Retail basket size decreased and traffic increased in the quarter when compared to the second quarter of 2021.
- Drug retail same-store sales grew by 5.6% (2021 – 9.6%).
 - Pharmacy and healthcare services same-store sales growth was 6.1% (2021 – 17.2%). Pharmacy and healthcare services same-store sales growth benefited from an increase in acute and chronic prescription volumes from the continued economic re-opening. The number of prescriptions dispensed increased by 2.3% (2021 – 1.9%). On a same-store basis, the number of prescriptions dispensed increased by 2.3% (2021 – 0.3%) and the average prescription value increased by 3.6% (2021 – 15.9%);
 - Pharmacy and healthcare services sales include Lifemark revenues from the date of acquisition of \$49 million. Lifemark revenues are excluded from same-store sales; and
 - Front store same-store sales increased by 5.2% (2021 – 3.6%). Front store same-store sales growth benefited from the continued economic re-opening.

In the last 12 months, 12 food and drug stores were opened, and 17 food and drug stores were closed, keeping the Retail square footage consistent at 71.2 million square feet.

On a year-to-date basis, Retail segment sales were \$24,668 million, an increase of \$716 million, or 3.0% when compared to the same period in 2021. Year-to-date Food retail sales of \$17,663 million increased by \$306 million, or 1.8%. Food same-store sales grew by 1.5% (2021 – remained flat). Drug retail sales of \$7,005 million increased by \$410 million, or 6.2%. Year-to-date Drug retail same-store sales growth was 5.4% (2021 – 3.8%), with pharmacy and healthcare services same-store sales growth of 6.4% (2021 – 10.0%) and Front store sales growth of 4.5% (2021 – decline of 1.4%). Year-to-date Drug retail sales included Lifemark revenues from the date of acquisition of \$49 million. Lifemark revenues are excluded from same-store sales.

Operating Income Operating income was \$811 million in the second quarter of 2022, an increase of \$103 million, or 14.5% compared to the second quarter of 2021. The increase in operating income was driven by improvements in underlying operating performance of \$108 million and the unfavourable change in adjusting items totaling \$5 million, as described below:

- the improvement in underlying operating performance of \$108 million was driven by an increase in adjusted gross profit⁽²⁾, partially offset by an increase in SG&A and depreciation and amortization; partially offset by,
- the unfavourable change in adjusting items totaling \$5 million was primarily due to the following:
 - the unfavourable impact of the Lifemark transaction costs of \$13 million; and
 - the year-over-year unfavourable change in fair value adjustments on fuel and foreign currency contracts of \$7 million.partially offset by,
 - the favourable impact of prior year restructuring and other related costs of \$8 million; and
 - the favourable impact of the current year gain on the sale of non-operating properties of \$4 million.

Year-to-date operating income was \$1,501 million, an increase of \$240 million, or 19.0% compared to the same period in 2021. The increase in operating income was driven by an improvement in the underlying operating performance of \$228 million and the favourable change in adjusting items totaling \$12 million, as described below:

- the improvements in the underlying operating performance of \$228 million was primarily from an increase in adjusted gross profit⁽²⁾, partially offset by an increase in SG&A and depreciation and amortization.
- the favourable change in adjusting items totaling \$12 million was primarily due to the following:
 - the year-over-year favourable change in restructuring and other related costs of \$27 million.partially offset by,
 - the unfavourable impact of the Lifemark transaction costs of \$16 million.

Adjusted Gross Profit⁽²⁾ Adjusted gross profit⁽²⁾ in the second quarter of 2022 was \$3,962 million, an increase of \$169 million compared to the second quarter of 2021. Adjusted gross profit percentage⁽²⁾ of 31.4% increased by 50 basis points driven by favourable changes in Drug Retail sales mix. Food Retail margins were stable.

Year-to-date adjusted gross profit⁽²⁾ was \$7,705 million, an increase of \$379 million compared to the same period in 2021. Adjusted gross profit percentage⁽²⁾ of 31.2% increased by 60 basis points driven by favourable changes in Drug Retail sales mix. Food Retail margins were stable.

Adjusted EBITDA⁽²⁾ Adjusted EBITDA⁽²⁾ was \$1,445 million in the second quarter of 2022, an increase of \$129 million, compared to the second quarter of 2021. The increase was driven by a favourable increase in adjusted gross profit⁽²⁾ of \$169 million, partially offset by an unfavourable increase in SG&A of \$40 million. SG&A as a percentage of sales was 19.9%, a decrease of 30 basis points. The favourable decrease of 30 basis points was primarily due to lower COVID-19 related expenses, partially offset by higher costs from the normalization of post-lockdown expenses.

Year-to-date adjusted EBITDA⁽²⁾ was \$2,730 million, an increase of \$269 million when compared to the same period in 2021. The increase was driven by an increase in adjusted gross profit⁽²⁾ of \$379 million, partially offset by an unfavourable increase in SG&A of \$110 million. SG&A as a percentage of sales was 20.2%, a favourable decrease of 10 basis points. The favourable decrease of 10 basis points was primarily due to lower COVID-19 related expenses, partially offset by higher costs from the normalization of post-lockdown expenses.

Depreciation and Amortization Depreciation and amortization in the second quarter of 2022 was \$621 million, an increase of \$18 million compared to the second quarter of 2021. Year-to-date depreciation and amortization was \$1,242 million, an increase of \$38 million compared to the same period in 2021. The increase in depreciation and amortization in the second quarter of 2022 and year-to-date was primarily driven by an increase in IT and leased assets. Included in depreciation and amortization in the second quarter of 2022 and year-to-date is the amortization of intangibles assets related to the acquisitions of Shoppers Drug Mart and Lifemark of \$114 million (2021 – \$117 million) and \$231 million (2021 – \$234 million), respectively.

Lifemark Health Group On May 10, 2022, the Company acquired Lifemark for \$832 million. Lifemark is the leading provider of outpatient physiotherapy, massage therapy, occupational therapy, chiropractic, mental health, and other ancillary rehabilitation services through its more than 300 clinics across Canada. Revenue of \$49 million and nominal net earnings were contributed by Lifemark from the date of acquisition. Net earnings includes amortization related to the acquired intangible assets of \$3 million.

4.2 Financial Services Segment

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	2022				2021			
	(12 weeks)	(12 weeks)	\$ Change	% Change	(24 weeks)	(24 weeks)	\$ Change	% Change
Revenue	\$ 297	\$ 272	\$ 25	9.2 %	\$ 571	\$ 525	\$ 46	8.8 %
(Losses) Earnings before income taxes	(86)	28	(114)	(407.1)%	(54)	76	(130)	(171.1)%

(millions of Canadian dollars except where otherwise indicated)	As at June 18, 2022	As at June 19, 2021	\$ Change	% Change
Average quarterly net credit card receivables	\$ 3,467	\$ 3,015	\$ 452	15.0 %
Credit card receivables	3,626	3,033	593	19.6 %
Allowance for credit card receivables	196	205	(9)	(4.4)%
Annualized yield on average quarterly gross credit card receivables	12.8 %	12.9 %		
Annualized credit loss rate on average quarterly gross credit card receivables	2.5 %	2.9 %		

Revenue Revenue was \$297 million in the second quarter of 2022, an increase of \$25 million compared to the second quarter of 2021. Year-to-date revenue was \$571 million, an increase of \$46 million compared to the same period in 2021. The increase both in the second quarter of 2022 and year-to-date was primarily driven by:

- higher interest income and credit card related fees from normalizing credit card receivable balances; and
 - higher interchange income from an increase in customer spending;
- partially offset by,
- lower sales attributable to *The Mobile Shop*™.

Losses before income taxes Losses before income taxes were \$86 million, a decrease of \$114 million compared to the second quarter of 2021. The decrease was primarily driven by:

- a charge related to a commodity tax matter of \$111 million;
 - the year-over-year impact of the expected credit loss provision from lapping a larger prior year release of \$12 million versus the current quarter release of \$4 million;
 - higher customer acquisition costs;
 - higher loyalty program costs and operating costs; and
 - higher IT costs;
- partially offset by,
- higher revenue as described above.

Year-to-date losses before income taxes were \$54 million, a decrease of \$130 million compared to the same period in 2021. The decrease was primarily driven by:

- a charge related to a commodity tax matter of \$111 million;
 - the year-over-year impact of the expected credit loss provision from lapping a larger prior year release of \$32 million versus the current year release of \$9 million;
 - prior year reversal of certain commodity tax accrued;
 - higher loyalty program costs and operating costs;
 - higher customer acquisition costs; and
 - higher IT costs;
- partially offset by,
- higher revenue as described above.

On July 19, 2022, the Tax Court released its decision relating to PC Bank, a subsidiary of the Company. The Tax Court ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaw's Inc. in respect of redemptions of loyalty points. PC Bank is planning to appeal the decision.

Although the Company believes in the merits of its position, it recorded a charge during the second quarter of \$111 million, inclusive of interest. The Company believes that this provision is sufficient to cover its liability from the initial reassessment period in 2009 through to the end of the second quarter of 2022, if the appeal is ultimately unsuccessful.

Credit Card Receivables As at June 18, 2022, credit card receivables were \$3,626 million, an increase of \$593 million compared to June 19, 2021. This increase was primarily driven by an increase in customer spending, partially offset by higher payment rates. The allowance for credit card receivables was \$196 million, a decrease of \$9 million compared to June 19, 2021.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	2022				2021			
	(12 weeks)	(12 weeks)	\$ Change	% Change	(24 weeks)	(24 weeks)	\$ Change	% Change
Cash and cash equivalents, beginning of period	\$ 2,074	\$ 1,549	\$ 525	33.9 %	\$ 1,976	\$ 1,668	\$ 308	18.5 %
Cash flows from (used in):								
Operating activities	\$ 1,245	\$ 1,635	\$ (390)	(23.9)%	\$ 2,108	\$ 2,487	\$ (379)	(15.2)%
Investing activities	(621)	(241)	(380)	(157.7)%	(1,031)	(394)	(637)	(161.7)%
Financing activities	(1,220)	(1,056)	(164)	(15.5)%	(1,576)	(1,875)	299	15.9 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	(1)	1	(2)	(200.0)%	—	2	(2)	(100.0)%
Change in cash and cash equivalents	\$ (597)	\$ 339	\$ (936)	(276.1)%	\$ (499)	\$ 220	\$ (719)	(326.8)%
Cash and cash equivalents, end of period	\$ 1,477	\$ 1,888	\$ (411)	(21.8)%	\$ 1,477	\$ 1,888	\$ (411)	(21.8)%

Cash Flows from Operating Activities Cash flows from operating activities were \$1,245 million, a decrease of \$390 million compared to the second quarter of 2021. The decrease in cash flows from operating activities was primarily driven by an unfavourable change in non-cash working capital and an increase in credit card receivables from a rise in customer spending, partially offset by net lower income taxes paid due to the recovery of cash taxes related to Glenhuron and higher cash earnings.

Year-to-date cash flows from operating activities were \$2,108 million, a decrease of \$379 million compared to the same period in 2021. The decrease in cash flows from operating activities was primarily driven by an unfavourable change in non-cash working capital and an increase in credit card receivables from a rise in customer spending, partially offset by higher cash earnings and net lower income taxes paid due to the recovery of cash taxes related to Glenhuron.

Cash Flows used in Investing Activities Cash flows used in investing activities were \$621 million in the second quarter of 2022, an increase of \$380 million compared to the second quarter of 2021. The increase in cash flows used in investing activities was primarily driven by the acquisition of Lifemark, partially offset by a decrease in short term investments.

Year-to-date cash flows used in investing activities were \$1,031 million, an increase of \$637 million compared to the same period in 2021. The increase in cash flows used in investing activities was primarily driven by the acquisition of Lifemark, partially offset by a decrease in short term investments.

Capital Investments and Store Activity

As at or for the periods ended June 18, 2022 and June 19, 2021	2022 (24 weeks)	2021 (24 weeks)	% Change
Corporate square footage (in millions)	34.9	35.4	(1.4)%
Franchise square footage (in millions)	17.3	16.9	2.4 %
Associate-owned drug store square footage (in millions)	19.0	18.9	0.5 %
Total retail square footage (in millions)	71.2	71.2	— %
Number of corporate stores	539	548	(1.6)%
Number of franchise stores	552	548	0.7 %
Number of Associate-owned drug stores	1,346	1,346	— %
Total number of stores	2,437	2,442	(0.2)%
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	64,700	64,600	0.2 %
Franchise	31,300	30,800	1.6 %
Associate-owned drug store	14,100	14,000	0.7 %

Capital Investments Capital investments in the second quarter of 2022 were \$302 million, an increase of \$44 million or 17.1% compared to the second quarter of 2021. Year-to-date capital investments were \$488 million, an increase of \$27 million or 5.9%, compared to the same period in 2021.

Cash Flows used in Financing Activities Cash flows used in financing activities in the second quarter of 2022 were \$1,220 million, an increase of \$164 million compared to the second quarter of 2021. The increase in cash flows used in financing activities was primarily driven by higher repurchases of common shares, partially offset by higher net repayments of long term debt in the prior year and an increase in short term debt in the current year.

Year-to-date cash flows used in financing activities were \$1,576 million, a decrease of \$299 million compared to the same period in 2021. The decrease in cash flows used in financing activities was primarily driven by higher net repayments of short term and long term debt in the prior year, partially offset by higher repurchases of common shares in the current year.

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

Free Cash Flow⁽²⁾

	2022				2021			
	(12 weeks)				(12 weeks)			
For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	Retail	Financial Services	Eliminations⁽⁰⁾	Consolidated	Retail	Financial Services	Eliminations⁽⁰⁾	Consolidated
Cash flows from (used in) operating activities	\$ 1,542	\$ (314)	\$ 17	\$ 1,245	\$ 1,666	\$ (50)	\$ 19	\$ 1,635
Less:								
Capital investments	293	9	—	302	252	6	—	258
Interest paid	66	—	17	83	68	—	19	87
Lease payments, net	343	—	—	343	337	—	—	337
Free cash flow ⁽²⁾	\$ 840	\$ (323)	\$ —	\$ 517	\$ 1,009	\$ (56)	\$ —	\$ 953

(i) Interest paid is included in cash flows from operating activities under the Financial Services segment.

	2022				2021			
	(24 weeks)				(24 weeks)			
For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	Retail	Financial Services	Eliminations⁽⁰⁾	Consolidated	Retail	Financial Services	Eliminations⁽⁰⁾	Consolidated
Cash flows from (used in) operating activities	\$2,290	\$ (211)	\$ 29	\$ 2,108	\$ 2,247	\$ 207	\$ 33	\$ 2,487
Less:								
Capital investments	475	13	—	488	449	12	—	461
Interest paid	136	—	29	165	140	—	33	173
Lease payments, net	625	—	—	625	612	—	—	612
Free cash flow ⁽²⁾	\$ 1,054	\$ (224)	\$ —	\$ 830	\$ 1,046	\$ 195	\$ —	\$ 1,241

(i) Interest paid is included in cash flows from operating activities under the Financial Services segment.

Free cash flow⁽²⁾ from the Retail segment in the second quarter of 2022 was \$840 million, a decrease of \$169 million compared to the second quarter of 2021. The decrease was primarily driven by an unfavourable change in non-cash working capital, partially offset by higher cash earnings and net lower income taxes paid due to the recovery of cash taxes related to Glenhuron. Year-to-date free cash flow⁽²⁾ from the Retail segment was \$1,054 million, an increase of \$8 million compared to the same period in 2021. The increase was primarily driven by higher cash earnings and net lower income taxes paid due to the recovery of cash taxes related to Glenhuron, partially offset by an unfavourable change in non-cash working capital. Higher capital investments also negatively impacted Retail segment free cash flow⁽²⁾ in the second quarter and year-to-date compared to the same periods in 2021.

Free cash flow⁽²⁾ used in the Financial Services segment in the second quarter of 2022 was \$323 million, an increase of \$267 million compared to the second quarter of 2021. The increase was primarily driven by an increase in credit card receivables from a rise in customer spending. Year-to-date free cash flow⁽²⁾ used in the Financial Services segment was \$224 million, an increase of \$419 million compared to the same period in 2021. The increase was primarily driven by an increase in credit card receivables from a rise in customer spending and higher 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 (“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 June 18, 2022			As at June 19, 2021			As at January 1, 2022		
	Retail	Financial Services	Total	Retail	Financial Services	Total	Retail	Financial Services	Total
Bank indebtedness	\$ 23	\$ —	\$ 23	\$ 138	\$ —	\$ 138	\$ 52	\$ —	\$ 52
Demand deposits from customers	—	99	99	—	50	50	—	75	75
Short term debt	—	500	500	—	300	300	—	450	450
Long term debt due within one year	—	485	485	582	402	984	570	432	1,002
Long term debt	4,880	1,940	6,820	4,298	1,696	5,994	4,297	1,914	6,211
Certain other liabilities ⁽ⁱ⁾	153	—	153	115	—	115	131	—	131
Total debt excluding lease liabilities	\$5,056	\$ 3,024	\$ 8,080	\$ 5,133	\$ 2,448	\$ 7,581	\$ 5,050	\$ 2,871	\$ 7,921
Lease liabilities due within one year	1,387	—	1,387	1,345	—	1,345	1,297	—	1,297
Lease liabilities	7,530	—	7,530	7,443	—	7,443	7,542	—	7,542
Total debt including total lease liabilities	\$13,973	\$ 3,024	\$16,997	\$13,921	\$ 2,448	\$16,369	\$13,889	\$ 2,871	\$16,760

(i) As at June 18, 2022, certain other liabilities include financial liabilities of \$72 million related to the sale of retail properties to Choice Properties Real Estate Investment Trust (June 19, 2021 – \$46 million; January 1, 2022 – \$57 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 June 18, 2022	As at June 19, 2021	As at January 1, 2022
Retail debt to rolling year retail adjusted EBITDA ⁽²⁾	2.5 x	2.7 x	2.6 x

The Retail debt to rolling year retail adjusted EBITDA⁽²⁾ ratio as at June 18, 2022 decreased compared to June 19, 2021 and January 1, 2022 primarily due to an improvement in rolling year adjusted EBITDA⁽²⁾.

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 18, 2022 and throughout the second quarter, the Company was in compliance with such covenants. As at June 18, 2022 and throughout the second quarter, PC Bank has met all applicable regulatory requirements.

5.3 Components of Total Debt

Debentures There were no debentures issued or repaid on a year-to-date basis in 2022 and 2021.

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. Subsequent to the end of the second quarter of 2022, the Company extended the maturity date to July 15, 2027 with all other terms and conditions remaining substantially the same. This committed credit facility contains certain financial covenants. As at June 18, 2022, there were no amounts drawn under this facility (June 19, 2021 and January 1, 2022 – no amounts were drawn).

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 18, 2022	As at June 19, 2021	As at January 1, 2022
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> [®]	\$ 1,350	\$ 1,050	\$ 1,350
Securitized to Other Independent Securitization Trusts	500	300	450
Total securitized to independent securitization trusts	\$ 1,850	\$ 1,350	\$ 1,800

During the second quarter of 2022, Eagle filed a Short Form Base Shelf Prospectus, which allows for the issuance of up to \$1.25 billion of notes over a 25-month period.

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 18, 2022 and throughout the first half of 2022.

Independent Funding Trusts As at June 18, 2022, the independent funding trusts had drawn \$582 million (June 19, 2021 – \$582 million; January 1, 2022 – \$570 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 18, 2022, the Company provided a credit enhancement of \$64 million (June 19, 2021 and January 1, 2022 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (June 19, 2021 and January 1, 2022 – not less than 10%) of the principal amount of loans outstanding.

The revolving committed credit facility that is the source of funding to the independent funding trusts has a maturity date of April 14, 2025. The Company extended the maturity date during the second quarter of 2022 with all other terms and conditions remaining substantially the same.

Guaranteed Investment Certificates The following table summarizes PC Bank's GICs activity, before commissions:

(millions of Canadian dollars)	June 18, 2022 (12 weeks)	June 19, 2021 (12 weeks)	June 18, 2022 (24 weeks)	June 19, 2021 (24 weeks)
Balance, beginning of period	\$ 1,023	\$ 1,159	\$ 996	\$ 1,185
GICs issued	145	155	179	156
GICs matured	(93)	(266)	(100)	(293)
Balance, end of period	\$ 1,075	\$ 1,048	\$ 1,075	\$ 1,048

As at June 18, 2022, \$235 million in GICs were recorded as long term debt due within one year (June 19, 2021 – \$402 million; January 1, 2022 – \$182 million).

5.4 Financial Condition

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

	As at June 18, 2022	As at June 19, 2021	As at January 1, 2022
Rolling year adjusted return on equity ⁽²⁾	19.1 %	16.0 %	17.3 %
Rolling year adjusted return on capital ⁽²⁾	10.4 %	9.4 %	9.8 %

Rolling year adjusted return on equity⁽²⁾ as at June 18, 2022 increased compared to June 19, 2021 and January 1, 2022, primarily due to an increase in the underlying operating performance of the Retail segment on a rolling four quarter basis.

Rolling year adjusted return on capital⁽²⁾ as at June 18, 2022 increased compared to June 19, 2021 and January 1, 2022, primarily due to an increase in tax-effected adjusted operating income⁽²⁾ on a rolling four quarter basis.

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

Subsequent to the end of the second quarter of 2022, Standard and Poor's and Dominion Bond Rating Service confirmed the above ratings and trend of the Company.

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 were as follows:

(millions of Canadian dollars except where otherwise indicated)	June 18, 2022 (12 weeks)		June 19, 2021 (12 weeks)		June 18, 2022 (24 weeks)		June 19, 2021 (24 weeks)	
	Number of Common Shares	Common Share Capital						
Issued and outstanding, beginning of period	332,921,473	\$6,638	342,114,290	\$ 6,739	333,527,369	\$6,643	347,361,480	\$ 6,837
Issued for settlement of stock options	146,069	10	782,102	48	879,424	59	906,776	56
Purchased and cancelled	(5,369,375)	(94)	(4,806,098)	(95)	(6,708,626)	(148)	(10,177,962)	(201)
Issued and outstanding, end of period	327,698,167	\$6,554	338,090,294	\$ 6,692	327,698,167	\$6,554	338,090,294	\$ 6,692
Shares held in trust, beginning of period	(410,157)	\$ (8)	(241,689)	\$ (5)	(595,495)	\$ (12)	(672,784)	\$ (13)
Purchased for future settlement of RSUs and PSUs	(305,000)	(6)	—	—	(557,000)	(11)	—	—
Released for settlement of RSUs and PSUs	43,707	1	66,033	2	481,045	10	497,128	10
Shares held in trust, end of period	(671,450)	\$ (13)	(175,656)	\$ (3)	(671,450)	\$ (13)	(175,656)	\$ (3)
Issued and outstanding, net of shares held in trust, end of period	327,026,717	\$6,541	337,914,638	\$ 6,689	327,026,717	\$6,541	337,914,638	\$ 6,689
Weighted average outstanding, net of shares held in trust	330,554,680		340,395,307		331,801,608		343,142,800	

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

	June 18, 2022 ⁽ⁱ⁾ (12 weeks)	June 19, 2021 (12 weeks)	June 18, 2022 (24 weeks)	June 19, 2021 (24 weeks)
Dividends declared per share (\$)				
Common Share	\$ 0.405	\$ 0.335	\$ 0.770	\$ 0.670
Second Preferred Share, Series B	\$ 0.33125	\$ 0.33125	\$ 0.66250	\$ 0.66250

(i) The Common Share dividends declared in the second quarter of 2022 of \$0.405 per share had a payment date of July 1, 2022. The Second Preferred Shares, Series B dividends declared in the second quarter of 2022 of \$0.33125 per share had a payment date of June 30, 2022.

(millions of Canadian dollars)	June 18, 2022 (12 weeks)	June 19, 2021 (12 weeks)	June 18, 2022 (24 weeks)	June 19, 2021 (24 weeks)
Dividends declared				
Common Share	\$ 133	\$ 112	\$ 255	\$ 230
Second Preferred Share, Series B	3	3	6	6
Total dividends declared	\$ 136	\$ 115	\$ 261	\$ 236

Subsequent to the end of the second quarter of 2022, the Board of Directors declared a quarterly dividend of \$0.405 per common share, payable on October 1, 2022 to shareholders of record on September 15, 2022 and a quarterly dividend of \$0.33125 per share on the Second Preferred Shares, Series B payable on September 30, 2022 to shareholders of record on September 15, 2022.

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 18, 2022 (12 weeks)	June 19, 2021 (12 weeks)	June 18, 2022 (24 weeks)	June 19, 2021 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares) ⁽ⁱ⁾	5,369,375	4,806,098	6,708,626	10,177,962
Cash consideration paid ⁽ⁱⁱ⁾	\$ 603	\$ 379	\$ 728	\$ 700
Premium charged to retained earnings ⁽ⁱⁱⁱ⁾	434	255	678	499
Reduction in common share capital ^(iv)	94	95	148	201
Common shares repurchased under the NCIB and held in trust (number of shares)	305,000	—	557,000	—
Cash consideration paid	\$ 35	\$ —	\$ 63	\$ —
Premium charged to retained earnings	29	—	52	—
Reduction in common share capital	6	—	11	—

(i) Common shares repurchased and cancelled as at June 18, 2022 do not include the shares that may be repurchased subsequent to the end of the quarter under the automatic share repurchase plan, as described below.

(ii) \$27 million of cash consideration related to common shares repurchased under the NCIB for cancellation in the second quarter of 2022 was paid in the third quarter of 2022.

(iii) Includes \$58 million related to the automatic share purchase plan, as described below.

(iv) Includes \$13 million related to the automatic share purchase plan, as described below.

In the second quarter of 2022, the Company renewed its NCIB to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 16,647,384 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 18, 2022, the Company had purchased 5,369,375 common shares for cancellation under its current NCIB.

During 2020, the 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. 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 second quarter of 2022, 5,369,375 common shares (2021 – 4,806,098) were purchased under the NCIB program for cancellation, for aggregate consideration of \$607 million (2021 – \$350 million), including 2,749,914 common shares (2021 – 2,159,071) purchased from Weston, for aggregate consideration of \$310 million (2021 – \$157 million). On a year-to-date basis, 6,708,626 common shares (2021 – 10,177,962) were purchased under the NCIB for cancellation, for aggregate consideration of \$755 million (2021 – \$700 million), including 2,951,765 common shares (2021 – 4,937,148) purchased from Weston, for aggregate consideration of \$332 million (2021 – \$338 million).

The Company participates in an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its NCIB. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market.

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 second quarter of 2022. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2021 Annual Report.

6. Financial Derivative Instruments

The Company uses derivative instruments to offset certain of its financial risks. The Company uses bond forwards, interest rate swaps and foreign exchange forwards to mitigate the impact of increases in interest rates and manage its anticipated exposure to exchange rates on its underlying operations and anticipated fixed asset purchases. These derivative instruments are designated as cash flow hedges.

Bond Forwards During the second quarter of 2022, PC Bank entered into a bond forward agreement with a notional value of \$15 million and settled a bond forward agreement with a notional value of \$15 million. On a year-to-date basis, PC Bank entered into bond forward agreements with a net notional value of \$65 million. In the second quarter of 2021, PC Bank did not enter into any bond forward agreements and on a year-to-date basis entered into bond forward agreements with a net notional value of \$75 million. PC Bank uses these forwards 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.

During the second quarter of 2021, PC Bank settled a \$175 million bond forward. The purpose of the forward was to hedge the interest rate risk for the \$300 million *Eagle* notes issued subsequent to the end of the second quarter of 2021. The Company had concluded that the hedge was effective as at the settlement date which results in the nominal fair value loss being reclassified to the statement of earnings over the life of the *Eagle* notes.

Foreign Exchange Forwards During the second quarter of 2022, the Company did not enter into foreign exchange forwards. On a year-to-date basis, the Company entered into foreign exchange forwards. The purpose of these forward exchange forwards was to hedge the risk that the future cash flows of an anticipated fixed asset purchase transaction will fluctuate because of changes in foreign exchange rates. The Company concluded that these hedges were effective and accordingly, the gains or losses on these foreign exchange forwards are recognized in other comprehensive income. Upon settlement of these foreign exchange forwards, the accumulated other comprehensive income will be included in the initial cost of the fixed asset.

The Company also uses futures, options and forward contracts to manage its anticipated exposure to fluctuations in commodity prices and exchange rates on its underlying operations. These derivative instruments are not designated in a formal hedging relationship. For further details on the impact of these instruments during the second quarter of 2022 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 2021 was 52 weeks and fiscal year 2020 was 53 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:

(millions of Canadian dollars except where otherwise indicated)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2022 (12 weeks)	2021 (12 weeks)	2022 (12 weeks)	2021 (12 weeks)	2021 (12 weeks)	2020 (13 weeks)	2021 (16 weeks)	2020 (16 weeks)
Revenue	\$12,847	\$12,491	\$12,262	\$ 11,872	\$12,757	\$13,286	\$16,050	\$15,671
Adjusted EBITDA⁽²⁾	1,499	1,371	1,343	1,218	1,324	1,313	1,674	1,518
Net earnings available to common shareholders of the Company	387	375	437	313	744	345	431	342
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	566	464	459	392	515	431	540	459
Net earnings per common share:								
Basic (\$)	\$ 1.17	\$ 1.10	\$ 1.31	\$ 0.91	\$ 2.23	\$ 0.98	\$ 1.28	\$ 0.96
Diluted (\$)	\$ 1.16	\$ 1.09	\$ 1.30	\$ 0.90	\$ 2.20	\$ 0.98	\$ 1.27	\$ 0.96
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.69	\$ 1.35	\$ 1.36	\$ 1.13	\$ 1.52	\$ 1.22	\$ 1.59	\$ 1.28
Food retail same- store sales growth/ (decline)	0.9 %	(0.1)%	2.1%	0.1%	1.1%	8.6%	0.2%	6.9%
Drug retail same- store sales growth/ (decline)	5.6 %	9.6 %	5.2%	(1.7)%	7.9%	3.7%	4.4%	6.1%

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;
- the impact of the 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 0.5 million square feet to 71.2 million square feet.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share

Net earnings available to common shareholders of the Company and diluted net earnings per common share for the last eight quarters were impacted by the following items:

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter;
- the impact of the 53rd week in the fourth quarter of fiscal year 2020;
- the timing of holidays;
- cost savings from operating efficiencies and benefits from strategic initiatives; and
- the impact of adjusting items, as set out in Section 11 “Non-GAAP Financial Measures”, including:
 - charge related to PC Bank commodity tax matter;
 - Lifemark transaction costs;
 - restructuring and other related charges;
 - the recovery relating to Glenhuron;
 - fair value adjustment on non-operating properties;
 - fair value adjustment on fuel and foreign currency; and
 - the gain and loss on sale of non-operating properties.

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 (“IFRS” or “GAAP”).

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 2022 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 1, 2022 and the Company’s MD&A in the Company’s 2021 Annual Report, which are hereby incorporated by reference. The Company’s 2021 Annual Report and AIF are available online on www.sedar.com. Those risks and risk management strategies remain unchanged.

10. Outlook⁽³⁾

Loblaw will continue to execute on retail excellence in its core grocery and pharmacy businesses while advancing its growth initiatives in 2022. In the third year of the pandemic, the Company’s businesses remain well placed to service the everyday needs of Canadians. However, the Company cannot predict the precise impacts of COVID-19, the related industry volatility and inflationary environment on its 2022 financial results.

On a full year basis, the Company continues to expect:

- its Retail business to grow earnings faster than sales;
- to invest approximately \$1.4 billion in capital expenditures, net of proceeds from property disposals, reflecting incremental store and distribution network investments; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

Based on its year to date operating and financial performance and momentum exiting the second quarter, the Company expects full year adjusted net earnings per common share⁽²⁾ growth in the mid-to-high teens.

11. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures and ratios: 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 retail adjusted EBITDA; adjusted return on equity; and adjusted return on capital. The Company believes these non-GAAP financial measures and ratios 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 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 June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	2022 (12 weeks)				2021 (12 weeks)			
	Retail	Financial Services	Eliminations	Total	Retail	Financial Services	Eliminations	Total
Revenue	\$ 12,623	\$ 297	\$ (73)	\$ 12,847	\$ 12,282	\$ 272	\$ (63)	\$ 12,491
Cost of merchandise inventories sold	8,661	31	—	8,692	8,489	41	—	8,530
Gross profit	\$ 3,962	\$ 266	\$ (73)	\$ 4,155	\$ 3,793	\$ 231	\$ (63)	\$ 3,961
Adjusted gross profit	\$ 3,962	\$ 266	\$ (73)	\$ 4,155	\$ 3,793	\$ 231	\$ (63)	\$ 3,961

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	2022 (24 weeks)				2021 (24 weeks)			
	Retail	Financial Services	Eliminations	Total	Retail	Financial Services	Eliminations	Total
Revenue	\$24,668	\$ 571	\$ (130)	\$ 25,109	\$ 23,952	\$ 525	\$ (114)	\$ 24,363
Cost of merchandise inventories sold	16,963	64	—	17,027	16,626	78	—	16,704
Gross profit	\$ 7,705	\$ 507	\$ (130)	\$ 8,082	\$ 7,326	\$ 447	\$ (114)	\$ 7,659
Adjusted gross profit	\$ 7,705	\$ 507	\$ (130)	\$ 8,082	\$ 7,326	\$ 447	\$ (114)	\$ 7,659

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 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 June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	2022 (12 weeks)			2021 (12 weeks)		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			\$ 390			\$ 378
Add impact of the following:						
Non-controlling interests			38			56
Net interest expense and other financing charges			152			161
Income taxes			162			157
Operating income	\$ 811	\$ (69)	\$ 742	\$ 708	\$ 44	\$ 752
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 111	\$ —	\$ 111	\$ 117	\$ —	\$ 117
Amortization of intangible assets acquired with Lifemark	3	—	3	—	—	—
Charge related to PC Bank commodity tax matter	—	111	111	—	—	—
Lifemark transaction costs	13	—	13	—	—	—
Fair value adjustment on fuel and foreign currency contracts	4	—	4	(3)	—	(3)
Restructuring and other related costs	—	—	—	8	—	8
Gain on sale of non-operating properties	(4)	—	(4)	—	—	—
Adjusting Items	\$ 127	\$ 111	\$ 238	\$ 122	\$ —	\$ 122
Adjusted operating income	\$ 938	\$ 42	\$ 980	\$ 830	\$ 44	\$ 874
Depreciation and amortization	621	12	633	603	11	614
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	(114)	—	(114)	(117)	—	(117)
Adjusted EBITDA	\$ 1,445	\$ 54	\$ 1,499	\$ 1,316	\$ 55	\$ 1,371

Management's Discussion and Analysis

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	2022 (24 weeks)			2021 (24 weeks)		
	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			\$ 830			\$ 694
Add impact of the following:						
Non-controlling interests			71			75
Net interest expense and other financing charges			294			321
Income taxes			285			279
Operating income	\$ 1,501	\$ (21)	\$ 1,480	\$ 1,261	\$ 108	\$ 1,369
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 228	\$ —	\$ 228	\$ 234	\$ —	\$ 234
Amortization of intangible assets acquired with Lifemark	3	—	3	—	—	—
Charge related to PC Bank commodity tax matter	—	111	111	—	—	—
Lifemark transaction costs	16	—	16	—	—	—
Gain on sale of non-operating properties	(4)	—	(4)	(5)	—	(5)
Fair value adjustment on fuel and foreign currency contracts	(10)	—	(10)	(11)	—	(11)
Restructuring and other related costs	(15)	—	(15)	12	—	12
Adjusting Items	\$ 218	\$ 111	\$ 329	\$ 230	\$ —	\$ 230
Adjusted operating income	\$ 1,719	\$ 90	\$ 1,809	\$ 1,491	\$ 108	\$ 1,599
Depreciation and amortization	1,242	22	1,264	1,204	20	1,224
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	(231)	—	(231)	(234)	—	(234)
Adjusted EBITDA	\$ 2,730	\$ 112	\$ 2,842	\$ 2,461	\$ 128	\$ 2,589

In addition to the items described in the Retail segment adjusted gross profit section above, when applicable, 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.

Amortization of intangible assets acquired with Lifemark The acquisition of Lifemark in the second quarter of 2022 included approximately \$299 million of definite life intangible assets, which are being amortized over their estimated useful lives.

Charge related to PC Bank commodity tax matter In the second quarter of 2022, the Company recorded a charge of \$111 million, inclusive of interest. On July 19, 2022, the Tax Court released its decision and ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. PC Bank is planning to appeal the decision.

Lifemark transaction costs In connection with the acquisition of Lifemark, the Company recorded \$13 million of acquisition costs in operating income in the second quarter of 2022 (year-to-date – \$16 million).

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.

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 second quarter of 2022, the Company did not record any restructuring and other related recoveries or charges (2021 – charges of \$8 million). Year-to-date, the Company recorded approximately \$15 million (2021 – charges of \$12 million) of restructuring and other related recoveries mainly in connection to the previously announced closure of two distribution centres in Laval and Ottawa. In the first quarter of 2022, the Company disposed of one of the distribution centres for proceeds of \$26 million and recognized a gain of \$19 million, which was partially offset by \$4 million of restructuring and other related charges. The Company invested to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec and volumes have been transferred.

Gain/loss on sale of non-operating properties In the second quarter of 2022 and year-to-date, the Company disposed of non-operating properties to a third party and recorded a gain of \$4 million (2021 – nil and \$5 million year-to-date).

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 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 18, 2022 and June 19, 2021 (millions of Canadian dollars)	2022 (12 weeks)	2021 (12 weeks)	2022 (24 weeks)	2021 (24 weeks)
Net interest expense and other financing charges	\$ 152	\$ 161	\$ 294	\$ 321
Add (deduct) impact of the following:				
Recovery related to Glenhuron	—	—	11	—
Adjusted net interest expense and other financing charges	\$ 152	\$ 161	\$ 305	\$ 321

Recovery related to Glenhuron The Company reversed \$35 million of previously recorded charges in the year, of which \$33 million was recorded as income tax recovery and \$2 million was recorded as interest income. In addition, interest of \$9 million, before taxes was recorded in respect of interest income earned on expected cash tax refunds.

Adjusted Income Taxes and Adjusted Effective Tax Rate The following table reconciles adjusted income taxes to income taxes as reported in the 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 (recovery)/expense and other financing charges.

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	2022 (12 weeks)	2021 (12 weeks)	2022 (24 weeks)	2021 (24 weeks)
Adjusted operating income ⁽ⁱ⁾	\$ 980	\$ 874	\$ 1,809	\$ 1,599
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	152	161	305	321
Adjusted earnings before taxes	\$ 828	\$ 713	\$ 1,504	\$ 1,278
Income taxes	\$ 162	\$ 157	\$ 285	\$ 279
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes ⁽ⁱⁱ⁾	59	33	84	62
Recovery related to Glenhuron	—	—	33	—
Adjusted income taxes	\$ 221	\$ 190	\$ 402	\$ 341
Effective tax rate	27.4 %	26.6 %	24.0 %	26.6 %
Adjusted effective tax rate	26.7 %	26.6 %	26.7 %	26.7 %

(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.

Recovery related to Glenhuron The Company reversed \$35 million of previously recorded charges in the year, of which \$33 million was recorded as income tax recovery and \$2 million was recorded as interest income. In addition, interest of \$9 million, before taxes was recorded in respect of interest income earned on expected cash tax refunds.

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 18, 2022 and June 19, 2021 (millions of Canadian dollars except where otherwise indicated)	2022 (12 weeks)	2021 (12 weeks)	2022 (24 weeks)	2021 (24 weeks)
Net earnings attributable to shareholders of the Company	\$ 390	\$ 378	\$ 830	\$ 694
Prescribed dividends on preferred shares in share capital	(3)	(3)	(6)	(6)
Net earnings available to common shareholders of the Company	\$ 387	\$ 375	\$ 824	\$ 688
Net earnings attributable to shareholders of the Company	\$ 390	\$ 378	\$ 830	\$ 694
Adjusting items (refer to the following table)	179	89	201	168
Adjusted net earnings attributable to shareholders of the Company	\$ 569	\$ 467	\$ 1,031	\$ 862
Prescribed dividends on preferred shares in share capital	(3)	(3)	(6)	(6)
Adjusted net earnings attributable to shareholders of the Company	\$ 566	\$ 464	\$ 1,025	\$ 856
Diluted weighted average common shares outstanding (millions)	334.4	342.9	335.5	345.3

Management's Discussion and Analysis

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

	2022 (12 weeks)		2021 (12 weeks)		2022 (24 weeks)		2021 (24 weeks)	
For the periods ended June 18, 2022 and June 19, 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
As reported	\$ 387	\$ 1.16	\$ 375	\$ 1.09	\$ 824	\$ 2.46	\$ 688	\$ 1.99
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 81	\$ 0.24	\$ 86	\$ 0.25	\$ 168	\$ 0.50	\$ 172	\$ 0.50
Amortization of intangible assets acquired with Lifemark	2	0.01	—	—	2	0.01	—	—
Charge related to PC Bank commodity tax matter	86	0.25	—	—	86	0.25	—	—
Lifemark transaction costs	10	0.03	—	—	12	0.04	—	—
Fair value adjustment on fuel and foreign currency contracts	3	0.01	(2)	—	(8)	(0.02)	(8)	(0.02)
Restructuring and other related costs	—	—	5	0.01	(14)	(0.04)	8	0.02
Recovery related to Glenhuron	—	—	—	—	(42)	(0.13)	—	—
Gain on sale of non-operating properties	(3)	(0.01)	—	—	(3)	(0.01)	(4)	(0.01)
Adjusting items	\$ 179	\$ 0.53	\$ 89	\$ 0.26	\$ 201	\$ 0.60	\$ 168	\$ 0.49
Adjusted	\$ 566	\$ 1.69	\$ 464	\$ 1.35	\$ 1,025	\$ 3.06	\$ 856	\$ 2.48

Free Cash Flow The following table reconciles, by reportable operating segments, free cash flow to cash flows from operating activities as reported in the 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 18, 2022 and June 19, 2021 (millions of Canadian dollars)	2022 (12 weeks)				2021 (12 weeks)			
	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Consolidated	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Consolidated
Cash flows from (used in) operating activities	\$ 1,542	\$ (314)	\$ 17	\$ 1,245	\$ 1,666	\$ (50)	\$ 19	\$ 1,635
Less:								
Capital investments	293	9	—	302	252	6	—	258
Interest paid	66	—	17	83	68	—	19	87
Lease payments, net	343	—	—	343	337	—	—	337
Free cash flow ⁽²⁾	\$ 840	\$ (323)	\$ —	\$ 517	\$ 1,009	\$ (56)	\$ —	\$ 953

(i) Interest paid is included in cash flows from operating activities under the Financial Services segment.

For the periods ended June 18, 2022 and June 19, 2021 (millions of Canadian dollars)	2022 (24 weeks)				2021 (24 weeks)			
	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Consolidated	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Consolidated
Cash flows from (used in) operating activities	\$2,290	\$ (211)	\$ 29	\$ 2,108	\$ 2,247	\$ 207	\$ 33	\$ 2,487
Less:								
Capital investments	475	13	—	488	449	12	—	461
Interest paid	136	—	29	165	140	—	33	173
Lease payments, net	625	—	—	625	612	—	—	612
Free cash flow ⁽²⁾	\$ 1,054	\$ (224)	\$ —	\$ 830	\$ 1,046	\$ 195	\$ —	\$ 1,241

(i) Interest paid is included in cash flows from operating activities under 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. Please refer to section “5.2 Liquidity and Capital Structure” of this MD&A.
- **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. Please refer to section “5.4 Financial Condition” of this MD&A.
- **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. Please refer to section “5.4 Financial Condition” of this MD&A.

Non-GAAP Financial Measures - Selected Comparative Reconciliations to GAAP Measures

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following table provides a reconciliation of adjusted EBITDA to operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company reported for the quarters and years ended as indicated.

(millions of Canadian dollars except where otherwise indicated)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2022 (12 weeks)	2021 (12 weeks)	2022 (12 weeks)	2021 (12 weeks)	2021 (12 weeks)	2020 (13 weeks)	2021 (16 weeks)	2020 (16 weeks)
Net earnings attributable to shareholders of the Company	\$ 390	\$ 378	\$ 440	\$ 316	\$ 747	\$ 348	\$ 434	\$ 345
Add (deduct) impact of the following:								
Non-controlling interests	38	56	33	19	(28)	46	54	15
Net interest (recovery)/ expense and other financing charges	152	161	142	160	(29)	166	203	228
Income taxes	162	157	123	122	15	142	172	130
Operating income	\$ 742	\$ 752	\$ 738	\$ 617	\$ 705	\$ 702	\$ 863	\$ 718
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 111	\$ 117	\$ 117	\$ 117	\$ 117	\$ 117	\$ 155	\$ 155
Amortization of intangible assets acquired with Lifemark	3	—	—	—	—	—	—	—
Charge related to PC Bank commodity tax matter	111	—	—	—	—	—	—	—
Lifemark transaction costs	13	—	3	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	4	(3)	(14)	(8)	6	(7)	(8)	—
Restructuring and other related costs	—	8	(15)	4	(8)	8	9	6
Fair value adjustment on non-operating properties	—	—	—	—	(2)	9	—	—
Gain on sale of non-operating properties	(4)	—	—	(5)	—	(8)	(7)	(1)
Adjusting items	\$ 238	\$ 122	\$ 91	\$ 108	\$ 113	\$ 119	\$ 149	\$ 160
Adjusted operating income	\$ 980	\$ 874	\$ 829	\$ 725	\$ 818	\$ 821	\$ 1,012	\$ 878
Depreciation and amortization	633	614	631	610	623	609	817	795
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	(114)	(117)	(117)	(117)	(117)	(117)	(155)	(155)
Adjusted EBITDA ⁽ⁱ⁾	\$ 1,499	\$ 1,371	\$ 1,343	\$ 1,218	\$ 1,324	\$ 1,313	\$ 1,674	\$ 1,518

(i) Depreciation and amortization for the calculation of adjusted EBITDA excludes the amortization of intangible assets, acquired with Shoppers Drug Mart and Lifemark, recorded by Loblaw.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share The following tables reconcile adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to GAAP net earnings available to common shareholders of the Company and diluted net earnings per common share as reported for the quarters and years ended as indicated.

(millions of Canadian dollars except where otherwise indicated)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2022 (12 weeks)	2021 (12 weeks)	2022 (12 weeks)	2021 (12 weeks)	2021 (12 weeks)	2020 (13 weeks)	2021 (16 weeks)	2020 (16 weeks)
As reported	\$ 387	\$ 375	\$ 437	\$ 313	\$ 744	\$ 345	\$ 431	\$ 342
Add (deduct) impact of the following ⁽ⁱ⁾ :								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 81	\$ 86	\$ 87	\$ 86	\$ 87	\$ 86	\$ 113	\$ 113
Amortization of intangible assets acquired with Lifemark	2	—	—	—	—	—	—	—
Charge related to PC Bank commodity tax matter	86	—	—	—	—	—	—	—
Lifemark transaction costs	10	—	2	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	3	(2)	(11)	(6)	4	(5)	(6)	—
Restructuring and other related costs	—	5	(14)	3	(6)	5	8	5
Fair value adjustment on non-operating properties	—	—	—	—	(1)	7	—	—
Recovery related to Glenhuron	—	—	(42)	—	(313)	—	—	—
Gain on sale of non- operating properties	(3)	—	—	(4)	—	(7)	(6)	(1)
Adjusting items	\$ 179	\$ 89	\$ 22	\$ 79	\$ (229)	\$ 86	\$ 109	\$ 117
Adjusted⁽ⁱ⁾	\$ 566	\$ 464	\$ 459	\$ 392	\$ 515	\$ 431	\$ 540	\$ 459

(i) Net of income taxes and non-controlling interests, as applicable.

(millions of Canadian dollars except where otherwise indicated)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2022 (12 weeks)	2021 (12 weeks)	2022 (12 weeks)	2021 (12 weeks)	2021 (12 weeks)	2020 (13 weeks)	2021 (16 weeks)	2020 (16 weeks)
As reported	\$ 1.16	\$ 1.09	\$ 1.30	\$ 0.90	\$ 2.20	\$ 0.98	\$ 1.27	\$ 0.96
Add (deduct) impact of the following ⁽ⁱ⁾ :								
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 0.24	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.23	\$ 0.33	\$ 0.31
Amortization of intangible assets acquired with Lifemark	0.01	—	—	—	—	—	—	—
Charge related to PC Bank commodity tax matter	0.25	—	—	—	—	—	—	—
Lifemark transaction costs	0.03	—	0.01	—	—	—	—	—
Fair value adjustment on fuel and foreign currency contracts	0.01	—	(0.03)	(0.02)	0.01	(0.01)	(0.02)	—
Fair value adjustment on non-operating properties	—	—	—	—	—	0.02	—	—
Restructuring and other related costs	—	0.01	(0.04)	0.01	(0.02)	0.02	0.03	0.01
Recovery related to Glenhuron	—	—	(0.13)	—	(0.92)	—	—	—
Gain on sale of non-operating properties	(0.01)	—	—	(0.01)	—	(0.02)	(0.02)	—
Adjusting items	\$ 0.53	\$ 0.26	\$ 0.06	\$ 0.23	\$ (0.68)	\$ 0.24	\$ 0.32	\$ 0.32
Adjusted⁽ⁱ⁾	\$ 1.69	\$ 1.35	\$ 1.36	\$ 1.13	\$ 1.52	\$ 1.22	\$ 1.59	\$ 1.28
Diluted weighted average common shares outstanding (millions)	334.4	342.9	336.7	348.2	338.1	353.8	340.1	358.0

(i) Net of income taxes and non-controlling interests, as applicable.

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.

July 26, 2022
Toronto, Canada

MD&A Endnotes

- (1) For financial definitions and ratios refer to the Glossary of Terms on page 147 of the Company's 2021 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".