

Unaudited Interim Period Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Earnings

(unaudited) (millions of Canadian dollars except where otherwise indicated)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾
Revenue	\$ 14,862	\$ 14,648	\$ 36,851	\$ 36,887
Operating Expenses				
Cost of inventories sold (note 9)	10,270	10,332	25,381	25,961
Selling, general and administrative expenses	3,788	3,072	9,575	8,529
	14,058	13,404	34,956	34,490
Operating Income	804	1,244	1,895	2,397
Net Interest Expense and Other Financing Charges (note 4)	327	103	730	408
Earnings Before Income Taxes	477	1,141	1,165	1,989
Income Tax (note 5)	347	237	579	478
Net Earnings	130	904	586	1,511
Attributable to:				
Shareholders of the Company (note 6)	65	434	293	722
Non-Controlling Interests	65	470	293	789
Net Earnings	\$ 130	\$ 904	\$ 586	\$ 1,511
Net Earnings per Common Share (\$) (note 6)				
Basic	\$ 0.40	\$ 3.29	\$ 2.03	\$ 5.39
Diluted	\$ 0.40	\$ 3.25	\$ 2.01	\$ 5.32

(i) Certain comparative figures have been restated (note 2).

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

Condensed Consolidated Statements of Comprehensive Income

(unaudited) (millions of Canadian dollars)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾
Net earnings	\$ 130	\$ 904	\$ 586	\$ 1,511
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation adjustment (note 19)	(22)	(53)	28	(69)
Gains on cash flow hedges (note 19)	3	1	4	2
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 17)	64	23	77	(22)
Other comprehensive income (loss), net of taxes	45	(29)	109	(89)
Comprehensive Income	175	875	695	1,422
Attributable to:				
Shareholders of the Company	80	392	364	643
Non-Controlling Interests	95	483	331	779
Comprehensive Income	\$ 175	\$ 875	\$ 695	\$ 1,422

(i) Certain comparative figures have been restated (note 2).

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

Condensed Consolidated Balance Sheets

(unaudited) (millions of Canadian dollars)		As at	
	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾	Dec. 31, 2017 ⁽ⁱ⁾
ASSETS			
Current Assets			
Cash and cash equivalents (note 7)	\$ 1,853	\$ 1,838	\$ 2,034
Short term investments (note 7)	240	792	1,113
Security deposits (note 7)	402	—	—
Accounts receivable	1,205	1,197	1,324
Credit card receivables (note 8)	3,102	2,918	3,100
Inventories (note 9)	4,836	4,576	4,623
Prepaid expenses and other assets	345	284	236
Assets held for sale (note 10)	34	30	33
Total Current Assets	12,017	11,635	12,463
Fixed Assets	11,671	11,477	11,689
Equity Accounted Joint Ventures (note 3)	735	10	19
Investment Properties (note 3)	4,998	269	276
Intangible Assets	8,057	8,497	8,368
Goodwill (note 3)	4,775	4,375	4,377
Deferred Income Taxes	289	244	247
Security Deposits (note 7)	82	81	86
Franchise Loans Receivable (note 19)	108	147	166
Other Assets (note 11)	1,052	841	849
Total Assets	\$ 43,784	\$ 37,576	\$ 38,540
LIABILITIES			
Current Liabilities			
Bank indebtedness	\$ 266	\$ 279	\$ 110
Trade payables and other liabilities	5,428	4,743	5,451
Loyalty liability (note 2)	267	224	349
Provisions	200	128	325
Income taxes payable	82	144	148
Short term debt (note 12)	1,342	1,217	1,258
Long term debt due within one year (note 13)	2,375	1,027	1,635
Associate interest	238	245	263
Total Current Liabilities	10,198	8,007	9,539
Provisions	169	126	190
Long Term Debt (note 13)	13,204	10,750	10,457
Trust Unit Liability (note 19)	2,738	640	634
Deferred Income Taxes	2,598	2,319	2,163
Other Liabilities (note 14)	696	764	762
Total Liabilities	29,603	22,606	23,745
EQUITY			
Share Capital	1,045	1,013	1,038
Retained Earnings	7,184	7,242	7,188
Contributed Surplus (notes 16 & 18)	(642)	(394)	(432)
Accumulated Other Comprehensive Income	171	135	140
Total Equity Attributable to Shareholders of the Company	7,758	7,996	7,934
Non-Controlling Interests	6,423	6,974	6,861
Total Equity	14,181	14,970	14,795
Total Liabilities and Equity	\$ 43,784	\$ 37,576	\$ 38,540

(i) Certain comparative figures have been restated (note 2).

Contingent liabilities (note 20). Loblaw's Spin-out of Choice Properties Real Estate Investment Trust (note 22).

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

Condensed Consolidated Statements of Changes in Equity

(unaudited) (millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Income	Non- Controlling Interests	Total Equity
Balance as at Dec. 31, 2017⁽ⁱ⁾	\$ 221	\$ 817	\$ 1,038	\$ 7,188	\$ (432)	\$ 139	\$ 1	\$ 140	\$ 6,861	\$ 14,795
Impact of adopting IFRS 9 ⁽ⁱ⁾	—	—	—	(36)	—	—	—	—	(36)	(72)
Restated balance as at Jan. 1, 2018	\$ 221	\$ 817	\$ 1,038	\$ 7,152	\$ (432)	\$ 139	\$ 1	\$ 140	\$ 6,825	\$ 14,723
Net earnings	—	—	—	293	—	—	—	—	293	586
Other comprehensive income ⁽ⁱⁱ⁾	—	—	—	40	—	29	2	31	38	109
Comprehensive income	\$ —	\$ —	\$ —	\$ 333	\$ —	\$ 29	\$ 2	\$ 31	\$ 331	\$ 695
Effect of share-based compensation (notes 15 & 18)	9	—	9	—	(11)	—	—	—	(4)	(6)
Shares purchased and cancelled (note 15)	(2)	—	(2)	(96)	—	—	—	—	—	(98)
Net effect of shares held in trusts (notes 15 & 18)	—	—	—	10	—	—	—	—	—	10
Loblaw capital transactions and dividends (notes 3, 16 & 18)	—	—	—	—	(199)	—	—	—	(729)	(928)
Dividends declared										
Per common share (\$)										
– \$1.435	—	—	—	(183)	—	—	—	—	—	(183)
Per preferred share (\$)										
– Series I – \$1.0875	—	—	—	(10)	—	—	—	—	—	(10)
– Series III – \$0.9750	—	—	—	(8)	—	—	—	—	—	(8)
– Series IV – \$0.9750	—	—	—	(7)	—	—	—	—	—	(7)
– Series V – \$0.890625	—	—	—	(7)	—	—	—	—	—	(7)
	\$ 7	\$ —	\$ 7	\$ (301)	\$ (210)	\$ —	\$ —	\$ —	\$ (733)	\$ (1,237)
Balance as at Oct. 6, 2018	\$ 228	\$ 817	\$ 1,045	\$ 7,184	\$ (642)	\$ 168	\$ 3	\$ 171	\$ 6,423	\$ 14,181

(unaudited) (millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Income	Non- Controlling Interests	Total Equity
Balance as at Dec. 31, 2016⁽ⁱ⁾	\$ 195	\$ 817	\$ 1,012	\$ 6,722	\$ (156)	\$ 204	\$ —	\$ 204	\$ 7,044	\$ 14,826
Impact of adopting IFRS 15 ⁽ⁱ⁾	—	—	—	15	—	—	—	—	16	31
Restated balance as at Jan. 1, 2017	\$ 195	\$ 817	\$ 1,012	\$ 6,737	\$ (156)	\$ 204	\$ —	\$ 204	\$ 7,060	\$ 14,857
Net earnings	—	—	—	722	—	—	—	—	789	1,511
Other comprehensive (loss) income ⁽ⁱⁱ⁾	—	—	—	(10)	—	(70)	1	(69)	(10)	(89)
Comprehensive income (loss)	\$ —	\$ —	\$ —	\$ 712	\$ —	\$ (70)	\$ 1	\$ (69)	\$ 779	\$ 1,422
Effect of share-based compensation (notes 15 & 18)	1	—	1	—	1	—	—	—	(6)	(4)
Shares purchased and cancelled (note 15)	—	—	—	(3)	—	—	—	—	—	(3)
Net effect of shares held in trusts (notes 15 & 18)	—	—	—	2	—	—	—	—	—	2
Loblaw capital transactions and dividends (notes 16 & 18)	—	—	—	—	(239)	—	—	—	(859)	(1,098)
Dividends declared										
Per common share (\$)										
– \$1.350	—	—	—	(174)	—	—	—	—	—	(174)
Per preferred share (\$)										
– Series I – \$1.0875	—	—	—	(10)	—	—	—	—	—	(10)
– Series III – \$0.9750	—	—	—	(8)	—	—	—	—	—	(8)
– Series IV – \$0.9750	—	—	—	(7)	—	—	—	—	—	(7)
– Series V – \$0.890625	—	—	—	(7)	—	—	—	—	—	(7)
	\$ 1	\$ —	\$ 1	\$ (207)	\$ (238)	\$ —	\$ —	\$ —	\$ (865)	\$ (1,309)
Balance as at Oct. 7, 2017	\$ 196	\$ 817	\$ 1,013	\$ 7,242	\$ (394)	\$ 134	\$ 1	\$ 135	\$ 6,974	\$ 14,970

(i) Certain opening retained earnings and non-controlling interests adjustments have been made to reflect the implementation of IFRS 9 and 15 and a change in accounting policy (note 2).

(ii) Other comprehensive income (loss) includes actuarial gains of \$77 million (2017 – losses of \$22 million), gains of \$40 million (2017 – losses of \$10 million) of which is presented above in retained earnings and gains of \$37 million (2017 – losses of \$12 million) in non-controlling interests. Also included in non-controlling interests is an unrealized gain on cash flow hedges of \$2 million (2017 – \$1 million) and foreign currency translation loss of \$1 million (2017 – gain of \$1 million).

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

Condensed Consolidated Statements of Cash Flows

(unaudited) (millions of Canadian dollars)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾
Operating Activities				
Net earnings	\$ 130	\$ 904	\$ 586	\$ 1,511
Add:				
Net interest expense and other financing charges (note 4)	327	103	730	408
Income taxes (note 5)	347	237	579	478
Depreciation and amortization	530	509	1,330	1,278
Fixed asset and other related impairments	15	1	17	8
Adjustment to fair value of investment properties	34	—	44	—
Foreign currency translation loss (gain) (note 19)	7	26	(16)	35
Gain on disposition of Loblaw's gas bar operations	—	(501)	—	(501)
	\$ 1,390	\$ 1,279	\$ 3,270	\$ 3,217
Change in:				
Non-cash working capital	50	(63)	(283)	(232)
Credit card receivables (note 8) ⁽ⁱⁱ⁾	(73)	(10)	(100)	8
Provisions	(46)	(22)	(149)	(23)
Other	30	(16)	5	8
	1,351	1,168	2,743	2,978
Income taxes paid	(161)	(264)	(512)	(782)
Interest received	15	8	33	16
Cash Flows from Operating Activities	\$ 1,205	\$ 912	\$ 2,264	\$ 2,212
Investing Activities				
Fixed asset purchases	\$ (336)	\$ (351)	\$ (704)	\$ (691)
Intangible asset additions	(109)	(74)	(269)	(208)
Acquisition of CREIT, net of cash acquired (note 3)	—	—	(1,624)	—
Cash assumed on initial consolidation of franchises (note 3)	5	6	14	18
Proceeds from disposal of assets	48	7	65	13
Change in short term investments	597	226	890	190
Change in security deposits	(403)	4	(398)	4
Proceeds from disposition of Loblaw's gas bar operations	—	540	—	540
Other	(38)	28	(113)	9
Cash Flows (used in) from Investing Activities	\$ (236)	\$ 386	\$ (2,139)	\$ (125)
Financing Activities				
Change in bank indebtedness	\$ 18	\$ (41)	\$ 156	\$ 164
Change in short term debt (note 12)	112	61	84	(24)
Interest paid	(485)	(195)	(768)	(452)
Long term debt – Issued (note 13)	955	53	3,860	320
– Retired (note 13)	(927)	(121)	(2,241)	(378)
Share capital – Issued (notes 15 & 18)	—	—	8	1
– Purchased and held in trusts (note 15)	—	(7)	—	(7)
– Purchased and cancelled (note 15)	(56)	(3)	(56)	(3)
Loblaw common share capital				
– Issued (notes 16 & 18)	24	3	62	24
– Purchased and held in trusts (note 16)	—	—	—	(48)
– Purchased and cancelled (note 16)	—	(485)	(844)	(937)
Dividends – To common shareholders	(125)	(116)	(241)	(229)
– To preferred shareholders	(19)	(19)	(41)	(41)
– To minority shareholders	(116)	(116)	(228)	(175)
Other	16	11	(60)	(11)
Cash Flows used in Financing Activities	\$ (603)	\$ (975)	\$ (309)	\$ (1,796)
Effect of foreign currency exchange rate changes on cash and cash equivalents	—	(11)	3	(13)
Change in Cash and Cash Equivalents	\$ 366	\$ 312	\$ (181)	\$ 278
Cash and Cash Equivalents, Beginning of Period	1,487	1,526	2,034	1,560
Cash and Cash Equivalents, End of Period	\$ 1,853	\$ 1,838	\$ 1,853	\$ 1,838

(i) Certain comparative figures have been restated (note 2).

(ii) Change in credit card receivables includes impact of IFRS 9 implementation (note 2).

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

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

Note 1. Nature and Description of the Reporting Entity

George Weston Limited (“GWL” or the “Company”) is a Canadian public company incorporated in 1928, with its registered office located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. The Company’s parent is Wittington Investments, Limited (“Wittington”).

As at the end of the third quarter of 2018, the Company has two reportable operating segments, Loblaw Companies Limited (“Loblaw”) and Weston Foods. The Company also holds cash, short term investments and a direct interest in Choice Properties Real Estate Investment Trust (“Choice Properties”) of approximately 3.8% (2017 – 6.1%). Loblaw has three reportable operating segments: Retail, Financial Services and Choice Properties. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services, and wireless mobile products and services. Loblaw also holds approximately 61.6% (2017 – 82.4%) effective interest in Choice Properties, which owns, manages and develops a high quality portfolio of commercial retail, industrial, office and residential properties across Canada.

On November 1, 2018, the Company and Loblaw completed a reorganization under which Loblaw spun out its approximate 61.6% effective interest in Choice Properties (the “reorganization”), as described in Note 22 “Loblaw’s Spin-out of Choice Properties Real Estate Investment Trust”. In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw shareholders other than the Company and its subsidiaries (“Loblaw minority shareholders”). Following the reorganization, the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by GWL prior to the reorganization) and Choice Properties became a reportable operating segment of the Company.

Weston Foods is a leading North American bakery that offers packaged bread and rolls in Canada as well as frozen and artisan bread and rolls, cakes, donuts, pies, biscuits and alternatives throughout Canada and the U.S.

As at the end of the third quarter of 2018, GWL’s ownership interest in Loblaw was approximately 50.1% (2017 – 48.5%). The Company has the ability to direct the activities of Loblaw and consequently consolidates Loblaw.

Quarterly net earnings are affected by foreign currency exchange rates, seasonality and the timing of holidays. Weston Foods seasonality is greatest in the third and fourth quarters and least in the first quarter. Loblaw seasonality is greatest in the fourth quarter and least in the first quarter.

Note 2. Significant Accounting Policies and Critical Accounting Estimates and Judgments

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company’s 2017 audited annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements, with the exception of the accounting standards implemented in 2018 and other changes to significant accounting policies described below. The unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

Statement of Compliance These unaudited interim period condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”). These unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company’s 2017 audited annual consolidated financial statements and the accompanying notes.

These unaudited interim period condensed consolidated financial statements were approved for issuance by the Company’s Board of Directors on November 19, 2018.

Accounting Standards Implemented in 2018

On January 1, 2018, the Company implemented IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”) and IFRS 9, “Financial Instruments” (“IFRS 9”), in accordance with IAS 8, “Accounting Policies, Changes in Accounting Estimates and Errors”. The impacts on implementation of IFRS 15 and IFRS 9 on the Company’s condensed consolidated financial statements are described below.

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

The Company adopted the standard on January 1, 2018 and applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings on January 1, 2017 and with the restatement of comparative periods. IFRS 15 permits the use of exemptions and practical expedients. The Company applied the practical expedient in which contracts that began and were completed within the same annual reporting period before December 31, 2017 or were completed on or before January 1, 2017 do not require restatement.

Under IFRS 15, the Company recognizes revenue when control of the goods or services has been transferred. Revenue is measured at the amount of consideration to which the Company expects to be entitled to, including variable consideration to the extent that it is highly probable that a significant reversal will not occur.

Weston Foods recognizes sales upon delivery of its products to customers and acceptance of its products by customers net of provisions for returns, discounts and allowances.

Loblaw Retail revenue includes the sale of goods and services to customers through corporate stores and consolidated franchise stores and Shoppers Drug Mart licensees (“Associates”), and sales to non-consolidated franchise stores and independent wholesale account customers. Revenue is measured at the amount of consideration to which Loblaw expects to be entitled to, net of estimated returns and sales incentives. Loblaw recognizes revenue at the time the sale is made or service is delivered to its customers and at the time of delivery of inventory to non-consolidated franchisees. Revenue also includes service fees from non-consolidated franchisees and independent wholesale account customers, which are recognized when services are rendered.

On the initial sale of franchising arrangements, Loblaw offered products and services as part of an arrangement with multiple performance obligations. Prior to the implementation of the new simplified franchise agreement (“Franchise Agreement”) implemented in 2015, the initial sale to non-consolidated franchise stores were recorded using a relative fair value approach.

For certain sale of goods in which Loblaw earns commissions, Loblaw records net revenue as an agent on the basis that the Company does not control pricing or bear inventory risk.

Financial Services revenue includes interest income on credit card loans, service fees, commissions, and other revenue related to financial services. Interest income is recognized using the effective interest method. Service fees are recognized when services are rendered. Commission revenue is recorded on a net basis. Other revenue is recognized periodically or according to contractual provisions.

Choice Properties revenue includes rental revenue on base rents earned from tenants under lease agreements, realty tax and operating cost recoveries and other incidental income, including intersegment revenue earned from Loblaw’s Retail segment. The rental revenue is recognized on a straight-line basis over the terms of the respective leases. Property tax and operating cost recoveries are recognized in the period that recoverable costs are chargeable to tenants. Percentage participation rents are recognized when tenants’ specified sales targets have been met as set out in the lease agreements.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

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

The impact of the above changes on equity as at January 1, 2017 and December 31, 2017 is as follows:

Consolidated Balance Sheets

Increase (Decrease) (\$ millions)	As at January 1, 2017	As at December 31, 2017
Loyalty liability	\$ (43)	\$ (64)
Income taxes payable	12	11
Deferred income tax liabilities	—	7
Equity	31	46

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

Condensed Consolidated Balance Sheets

Increase (Decrease) (\$ millions)	As at October 7, 2017
Loyalty liability	\$ (47)
Income taxes payable	13
Equity	34

Condensed Consolidated Statements of Earnings

Increase (Decrease) (\$ millions)	16 Weeks Ended October 7, 2017	40 Weeks Ended October 7, 2017
Revenue	\$ —	\$ 4
Income taxes	—	1

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

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

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

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

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

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

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

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

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

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

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

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

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

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

The ECL model had a significant impact on PC Bank's impairment of credit card receivables. The Company revised certain inputs of the ECL model since the implementation of IFRS 9 in the first quarter of 2018 and has retrospectively applied the impact of these revisions with no impact to earnings. As a result of the refinements, the cumulative impact arising from the ECL model on the impairment of credit card receivables as at January 1, 2018 was as follows:

Condensed Consolidated Balance Sheets

Increase (Decrease) (\$ millions)	As at January 1, 2018
Credit card receivables	\$ (98)
Deferred income tax assets	26
Income taxes payable	4
Deferred income tax liabilities	(4)
Equity	(72)

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

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

General hedging IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Company’s risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company’s risk management strategy and hedging activities are disclosed in the Company’s 2017 Annual Report, Note 32 Financial Risk Management and in this Quarterly Report, Note 19 Financial Instruments.

Changes to Significant Accounting Policies

The following significant accounting policies reflect certain impacts to the presentation of the Company’s unaudited interim period condensed consolidated financial statements, resulting from the acquisition of Canadian Real Estate Investment Trust (“CREIT”). Upon closing of the acquisition, the significant accounting policies of CREIT were aligned to those of the Company.

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

In conjunction with the acquisition of CREIT, the Company elected to change the measurement of investment properties from the cost model to the fair value model retrospectively with restatement. Prior to the second quarter of 2018, the Company recognized investment property assets at cost less accumulated depreciation and any accumulated impairment losses.

Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Under the discounted cash flow methodology, discount rates are applied to the projected annual operating cash flows, generally over a minimum term of ten years, including a terminal value of the investment properties based on a capitalization rate applied to the estimated net operating income, a non-GAAP measure, in the terminal year. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

Consolidated Balance Sheets	As at		As at	
Increase (Decrease)	October 7, 2017	December 31, 2017	January 1, 2017	As at
(\$ millions)				
Investment Properties	\$ 41	\$ 41	\$ 41	41
Deferred income tax liabilities	5	5		5
Equity	36	36		36

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

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

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

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

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

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

Joint Operations A joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement.

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

The Company recognizes its proportionate share of assets, liabilities, revenues and expenses of the joint operations.

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

Critical Accounting Estimates and Judgments

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

Investment Properties

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

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

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

Future Accounting Standard

IFRS 16 In 2016, the IASB issued IFRS 16, "Leases" ("IFRS 16"), replacing IAS 17, "Leases" ("IAS 17") and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance or operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it has the option of adopting a full retrospective approach or a modified retrospective approach on transition to IFRS 16. While early adoption is permitted if IFRS 15 has been adopted, the Company does not intend to early adopt IFRS 16.

The Company intends to adopt the standard on January 1, 2019 by applying the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at January 1, 2019 using a modified retrospective approach with no restatement of the comparative period. IFRS 16 permits the use of exemptions and practical expedients. The Company intends to measure the cumulative effect of initial application by applying the use of hindsight in the determination of the lease term if the contract contains options to extend or terminate a lease, and continues to evaluate the election of other available practical expedients.

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

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

Note 3. Business Acquisitions

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

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

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Net assets acquired:				
Cash and cash equivalents	\$ 5	\$ 6	\$ 14	\$ 18
Inventories	20	20	53	51
Fixed assets	26	22	67	55
Trade payables and other liabilities ⁽ⁱ⁾	(12)	(12)	(28)	(30)
Other liabilities ⁽ⁱ⁾	(37)	(40)	(97)	(93)
Non-controlling interests	(2)	4	(9)	(1)
Total net assets acquired	\$ —	\$ —	\$ —	\$ —

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

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

In connection with the acquisition, Choice Properties arranged a new \$1,500 million committed revolving credit facility. Concurrent with the closing of the acquisition, Choice Properties repaid and cancelled its existing credit facilities and those acquired from CREIT (note 13).

Also, concurrent with the closing of the acquisition, Loblaw, Choice Properties' controlling unitholder, converted all of its outstanding Class C LP Units with the face value of \$925 million into Class B LP Units of Choice Properties Limited Partnership. Choice Properties issued to Loblaw 70,881,226 Class B LP Units upon the conversion and the shortfall in value of approximately \$99 million was paid in cash. In connection with this conversion, the Company recognized capital gains income tax expense of approximately \$4 million in contributed surplus and \$4 million in non-controlling interest.

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

- \$1,300 million of proceeds from the issuance of senior unsecured debentures Series K and L (note 13); and
- \$800 million unsecured term loan facilities (note 13).

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

(\$ millions)	As at May 4, 2018
Net Assets Acquired:	
Cash and cash equivalents	\$ 28
Accounts receivable and other assets	45
Mortgages, loans and notes receivable ⁽ⁱ⁾	204
Equity accounted joint ventures	683
Investment properties	4,730
Intangible assets	30
Goodwill	381
Trade payables and other liabilities	(171)
Long term debt	(1,841)
Deferred income tax liabilities	(381)
Total Net Assets Acquired	\$ 3,708

(i) Included in other assets on the unaudited interim period condensed consolidated balance sheets.

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

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

As at October 6, 2018, on a year-to-date basis, Loblaw, through Choice Properties incurred costs totaling to \$130 million related to the acquisition of CREIT which were recorded in SG&A. Of this amount, \$108 million was recognized during the second quarter of 2018 and \$10 million was recognized during the third quarter of 2018.

Included in the unaudited interim period condensed consolidated financial statements, on a year-to-date basis, is approximately \$170 million in revenue and \$121 million of operating income related to CREIT since the date of acquisition, excluding the impact of acquisition transaction costs and any adjustment to the fair value of the investment properties acquired.

On a year-to-date pro forma basis, the impact of the CREIT acquisition on the Company's revenue and net income attributable to shareholders of the Company in 2018 would have amounted to approximately \$306 million and \$3 million, respectively, excluding the impact of acquisition transaction costs and other related expenses and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective January 1, 2018.

Investment Properties As part of the acquisition of CREIT, Loblaw acquired investment properties of \$4.7 billion, of which a sample of 78 investment properties and equity accounted investments, representing \$2.7 billion of the value, were independently appraised. In addition, Choice Properties has engaged independent nationally-recognized valuation firms to appraise the investment properties such that substantially all of the portfolio will be independently appraised at least once over a five-year period. As at the end of the third quarter of 2018, Loblaw recognized a fair value loss before income taxes of \$43 million, of which \$34 million was recorded in the third quarter of 2018, related to these investment properties.

Joint Ventures Choice Properties accounts for its investments in joint ventures using the equity method. These

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

investments hold development properties and some income-producing properties. As part of the acquisition of CREIT, Choice Properties acquired 23 equity accounted joint ventures.

Co-Ownership Property Interests Choice Properties acquired 45 co-owned property interests, joint operations, as part of the acquisition of CREIT. Choice Properties' proportionate share of the related assets, liabilities, revenue and expenses of these properties are included in the unaudited interim period condensed consolidated financial statements.

Note 4. Net Interest Expense and Other Financing Charges

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

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Interest expense:				
Long term debt ⁽ⁱ⁾	\$ 188	\$ 155	\$ 472	\$ 395
Borrowings related to credit card receivables	12	6	30	21
Trust Unit distributions ⁽ⁱⁱ⁾	43	9	83	26
Independent funding trusts	6	5	14	12
Post-employment and other long term employee benefits (note 17)	3	3	9	8
Bank indebtedness	2	2	6	5
Capitalized interest	(1)	—	(3)	(2)
	\$ 253	\$ 180	\$ 611	\$ 465
Interest income:				
Accretion income	\$ (1)	\$ (3)	(4)	(8)
Short term interest income	(13)	(11)	(33)	(17)
	\$ (14)	\$ (14)	\$ (37)	\$ (25)
Forward sale agreement ⁽ⁱⁱⁱ⁾	\$ (33)	\$ (41)	\$ (64)	\$ (33)
Fair value adjustment of the Trust Unit liability (note 19)	(55)	(22)	44	1
Charge related to Glenhuron Bank Limited	176	—	176	—
Net interest expense and other financing charges	\$ 327	\$ 103	\$ 730	\$ 408

(i) Includes interest on debt assumed from the acquisition of CREIT.

(ii) Choice Properties issued 182,836,481 new Trust Units to Trust Unitholders other than the Company and Loblaw in connection with the acquisition of CREIT (notes 3).

(iii) Included in the third quarter of 2018 and year-to-date is a non-cash income of \$25 million (2017 – \$34 million) and \$44 million (2017 – \$15 million), respectively, related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (note 19). The fair value adjustment of the forward sale agreement is non-cash and results from changes in the value of the underlying Loblaw common shares. At maturity, any cash paid under the forward sale agreement could be offset by the sale of the underlying Loblaw common shares. Also included in the third quarter of 2018 and year-to-date is forward accretion income of \$15 million (2017 – \$13 million) and \$36 million (2017 – \$32 million), respectively, and the forward fee of \$7 million (2017 – \$6 million) and \$16 million (2017 – \$14 million), respectively, associated with the forward sale agreement.

Note 5. Income Taxes

In the third quarter of 2018, income tax expense was \$347 million (2017 – \$237 million) and the effective income tax rate was 72.7% (2017 – 20.8%). The increase in the effective income tax rate was primarily attributable a charge of \$191 million related to Glenhuron Bank Limited (“Glenhuron”) and the impact of certain non-deductible items.

On a year-to-date basis, income tax expense was \$579 million (2017 – \$478 million) and the effective tax rate was 49.7% (2017 – 24.0%). The increase in the effective income tax rate was primarily attributable to a charge of \$191 million related to Glenhuron and the impact of certain non-deductible items.

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

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

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

In the first quarter of 2018, voting control of Loblaw was acquired by a related group, which included Weston and Wittington, which resulted in certain adjustments for tax purposes during the first quarter of 2018.

Note 6. Basic and Diluted Net Earnings per Common Share

(\$ millions except where otherwise indicated)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾	Oct. 6, 2018	Oct. 7, 2017 ⁽ⁱ⁾
Net earnings attributable to shareholders of the Company	\$ 65	\$ 434	\$ 293	\$ 722
Prescribed dividends on preferred shares in share capital	(14)	(14)	(34)	(34)
Net earnings available to common shareholders of the Company	\$ 51	\$ 420	\$ 259	\$ 688
Reduction in net earnings due to dilutive instruments at Loblaw	—	(3)	(2)	(6)
Net earnings available to common shareholders for diluted earnings per share	\$ 51	\$ 417	\$ 257	\$ 682
Weighted average common shares outstanding (in millions) (note 15)	127.7	127.7	127.7	127.7
Dilutive effect of share-based compensation ⁽ⁱⁱ⁾ (in millions)	0.4	0.6	0.4	0.6
Weighted average common shares outstanding ⁽ⁱⁱⁱ⁾ (in millions)	128.1	128.3	128.1	128.3
Basic net earnings per common share (\$)	\$ 0.40	\$ 3.29	\$ 2.03	\$ 5.39
Diluted net earnings per common share (\$)	\$ 0.40	\$ 3.25	\$ 2.01	\$ 5.32

(i) Certain comparative figures have been restated (note 2).

(ii) In the third quarter of 2018 and year-to-date, 576,944 (2017 – 379,808) and 663,477 (2017 – 447,338) potentially dilutive instruments, respectively, were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

(iii) Includes impact of dilutive instruments for purposes of calculating diluted net earnings per common share.

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

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

Cash and Cash Equivalents

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Cash	\$ 774	\$ 558	\$ 655
Cash equivalents:			
Bankers' acceptances	393	477	685
Government treasury bills	568	572	237
Corporate commercial paper	118	231	457
Cash and cash equivalents	\$ 1,853	\$ 1,838	\$ 2,034

Short Term Investments

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Bankers' acceptances	\$ 110	\$ 290	\$ 341
Government treasury bills	83	220	297
Corporate commercial paper	47	249	442
Government agency securities	—	31	31
Other	—	2	2
Short term investments	\$ 240	\$ 792	\$ 1,113

Security Deposits

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Cash	\$ 47	\$ 47	\$ 48
Government treasury bills ⁽ⁱ⁾	168	32	38
Bankers' acceptances ⁽ⁱ⁾	269	2	—
Security deposits	\$ 484	\$ 81	\$ 86

(i) Security deposits include government treasury bills of \$133 million and bankers' acceptances of \$269 million related to PC bank for repayment of Eagle notes repaid on October 17, 2018 (note 13).

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Gross credit card receivables	\$ 3,265	\$ 2,964	\$ 3,147
Allowance on credit card receivables ⁽ⁱ⁾	(163)	(46)	(47)
Credit card receivables	\$ 3,102	\$ 2,918	\$ 3,100
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> [®] (note 13)	\$ 1,150	\$ 650	\$ 900
Securitized to Other Independent Securitization Trusts (note 12)	690	610	640
Total securitized to independent securitization trusts	\$ 1,840	\$ 1,260	\$ 1,540

(i) Allowance on credit card receivables as at October 6, 2018 includes the impact of the implementation of IFRS 9 (note 2).

Loblaw, through PC Bank, participates in various securitization programs that provide a source of funds for the operation of its credit card business. PC Bank maintains and monitors the co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle Credit Card Trust*[®] ("Eagle") and Other Independent Securitization Trusts, in accordance with its financing requirements.

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 the end of the third quarter of 2018 and throughout year-to-date of 2018.

Note 9. Inventories

The components of inventories were as follows:

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Raw materials and supplies	\$ 70	\$ 71	\$ 72
Finished goods	4,766	4,505	4,551
Inventories	\$ 4,836	\$ 4,576	\$ 4,623

As at the end of the third quarter of 2018, Loblaw recorded an inventory provision of \$35 million (October 7, 2017 – \$27 million; December 31, 2017 – \$39 million), for the write-down of inventories below cost to net realizable value. The write-down was included in cost of inventories sold in the condensed consolidated statements of earnings. There were no reversals of previously recorded write-downs of inventories during the quarter and year-to-date ended October 6, 2018 and October 7, 2017.

Note 10. Assets Held for Sale

Loblaw classifies certain assets, primarily land and buildings, that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in Loblaw's retail business segment. In the third quarter of 2018, Loblaw recorded a nominal loss (2017 – nil) from the sale of these assets. Nominal impairment charges were recognized on these assets during the third quarter of 2018 (2017 – nil).

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

Note 11. Other Assets

The components of other assets were as follows:

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Fair value of equity forward (note 19)	\$ 515	\$ 415	\$ 435
Sundry investments and other receivables	65	68	56
Net accrued benefit plan asset (note 17)	215	157	154
Mortgages, loans and notes receivable ⁽ⁱ⁾	197	30	29
Other	119	198	201
Total Other Assets	\$ 1,111	\$ 868	\$ 875
Current portion of mortgages, loans and notes receivable ⁽ⁱⁱ⁾	59	27	26
Other Assets	\$ 1,052	\$ 841	\$ 849

- (i) In connection with the acquisition of CREIT, the Company assumed mortgages, loans and notes receivable of \$204 million (note 3).
(ii) Current portion of mortgages, loans and notes receivable are included in prepaid expenses and other assets in the unaudited interim period condensed consolidated balance sheets.

Note 12. Short Term Debt

The components of short term debt were as follows:

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Other Independent Securitization Trusts (note 8)	\$ 690	\$ 610	\$ 640
Series B Debentures ⁽ⁱ⁾	652	607	618
Short term debt	\$ 1,342	\$ 1,217	\$ 1,258

- (i) Series B Debentures issued by GWL are due on demand and are secured by a pledge of 9.6 million Loblaw common shares.

Other Independent Securitization Trusts As at the end of the third quarter of 2018, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was \$62 million (October 7, 2017 – \$66 million; December 31, 2017 – \$62 million), which represented 9% (October 7, 2017 – 11% and December 31, 2017 – 10%) of the securitized credit card receivables amount.

Note 13. Long Term Debt

The components of long term debt were as follows:

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Debentures and Medium Term Notes ⁽ⁱ⁾	\$ 9,908	\$ 8,293	\$ 8,303
Loblaw unsecured term loan facilities	800	298	298
Long term debt secured by mortgage ⁽ⁱ⁾	1,329	75	81
Construction loans ⁽ⁱ⁾	18	—	—
Guaranteed Investment Certificates	981	889	852
Independent Securitization Trust (note 8)	1,150	650	900
Independent funding trusts	545	551	551
Finance lease obligations	546	577	568
Committed credit facilities ⁽ⁱ⁾	340	465	561
Transaction costs and other	(38)	(21)	(22)
Total long term debt	\$ 15,579	\$ 11,777	\$ 12,092
Long term debt due within one year	(2,375)	(1,027)	(1,635)
Long term debt	\$ 13,204	\$ 10,750	\$ 10,457

- (i) In connection with the acquisition of CREIT, on May 4, 2018 Loblaw assumed mortgages of \$1.3 billion, medium term notes of \$450 million and construction loans of \$10 million. Loblaw also assumed a credit facility of \$70 million, which was repaid in the second quarter of 2018 (note 3).

The Company, Loblaw and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at the end of the third quarter of 2018 and throughout year-to-date 2018, the Company, Loblaw and Choice Properties were in compliance with their respective covenants.

Debentures and Medium Term Notes (“MTNs”) The following table summarizes the debentures and MTNs issued or assumed in the periods ended as indicated:

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

- (i) Offerings were made under the Choice Properties’ Short Form Base Shelf Prospectus filed in the first quarter of 2018.
- (ii) In the first quarter of 2018, the net proceeds from the issuance of Series K and L were held in escrow as a part of the financing for the acquisition of CREIT. During the second quarter of 2018, the Company completed the acquisition of CREIT and the proceeds were released from escrow (note 3).
- (iii) Assumed by Loblaw in connection with the acquisition of CREIT (note 3).

There were no MTNs issued in the third quarter of 2018 and in the comparative periods in 2017.

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

(\$ millions)	Interest Rate	Maturity Date	16 Weeks Ended		40 Weeks Ended	
			Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
			Principal Amount	Principal Amount	Principal Amount	Principal Amount
Shoppers Drug Mart Corporation Notes	2.36%	May 24, 2018	\$ —	\$ —	\$ 275	\$ —
Loblaw Companies Limited - Term Loan ⁽ⁱ⁾	Variable	March 28, 2019	48	—	48	—
Loblaw Companies Limited - Term Loan ⁽ⁱⁱ⁾	Variable	March 28, 2019	250	—	250	—
Choice Properties senior unsecured debentures						
– Series A-C	3.68%	July 24, 2018	125	—	125	—
– Series A	3.55%	July 5, 2018 ⁽ⁱⁱⁱ⁾	—	—	400	—
– Series 6	3.00%	April 20, 2017 ^(iv)	—	—	—	200
Total debentures, unsecured term loan facilities and MTNs repaid			\$ 423	\$ —	\$ 1,098	\$ 200

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

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

(iii) Redeemed on February 12, 2018.

(iv) Redeemed on January 23, 2017.

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

Guaranteed Investment Certificates ("GICs") The following table summarizes PC Bank's GICs activity, before commissions, for the periods ended as indicated:

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Balance, beginning of period	\$ 950	\$ 923	\$ 852	\$ 928
GICs issued	117	1	269	8
GICs matured	(86)	(35)	(140)	(47)
Balance, end of period	\$ 981	\$ 889	\$ 981	\$ 889

Independent Securitization Trust The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (note 8). As at the end of the third quarter of 2018, the aggregate gross potential liability under letters of credit for the benefit of *Eagle* was \$36 million (October 7, 2017 and December 31, 2017 – \$36 million), which represented 9% (October 7, 2017 and December 31, 2017 – 9%) of the outstanding *Eagle* notes issued prior to 2015.

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

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

Independent Funding Trusts Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at the end of the third quarter of 2018, Loblaw has agreed to provide a credit enhancement of \$64 million (October 7, 2017 and December 31, 2017 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (October 7, 2017 and December 31, 2017 – not less than 10%) of the principal amount of loans outstanding.

Committed Credit Facilities The components of the committed lines of credit available were as follows:

(\$ millions)	Maturity Date	Oct. 6, 2018		As at			
		Available Credit	Drawn	Oct. 7, 2017		Dec. 31, 2017	
				Available Credit	Drawn	Available Credit	Drawn
Loblaw committed credit facility	June 10, 2021	\$ 1,000	\$ —	\$ 1,000	\$ —	\$ 1,000	\$ —
Choice Properties committed bi-lateral credit facility	December 21, 2018	—	—	250	250	250	250
Choice Properties committed syndicated credit facility	July 5, 2022	—	—	500	215	500	311
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	340	—	—	—	—
Total committed lines of credit		\$ 2,500	\$ 340	\$ 1,750	\$ 465	\$ 1,750	\$ 561

In the first half of 2018, Choice Properties repaid and cancelled the \$250 million committed bi-lateral credit facility and the \$500 million committed syndicated credit facility.

During the second quarter of 2018, Choice Properties entered into a new syndicated \$1.5 billion senior unsecured committed revolving credit facility maturing May 4, 2023. The credit facility bears interest at variable rates of either: Prime plus 0.45% or bankers' acceptance rate plus 1.45%. The pricing of this credit facility is contingent on Choice Properties' credit ratings from DBRS and S&P remaining at "BBB".

Long Term Debt Due within One Year The components of long term debt due within one year were as follows:

(\$ millions)	As at		
	Oct. 6, 2018	Oct. 7, 2017	Dec. 31, 2017
Debentures and MTNs	\$ 1,000	\$ 675	\$ 675
GICs	209	232	193
Independent Securitization Trust	400	—	400
Independent funding trusts	545	—	—
Finance lease obligations	41	46	44
Long term debt secured by mortgage	180	74	73
Choice Properties Credit Facility	—	—	250
Long term debt due within one year	\$ 2,375	\$ 1,027	\$ 1,635

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Reconciliation of Long Term Debt The following table reconciles the changes in cash flows from financing activities for long term debt in the periods ended as indicated:

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Total long term debt, beginning of period	\$ 15,541	\$ 11,834	\$ 12,092	\$ 11,785
Long term debt assumed on acquisition of CREIT (note 3)	—	—	1,840	—
Long term debt issuances ⁽ⁱ⁾	955	53	3,860	320
Long term debt repayments ⁽ⁱⁱ⁾	(927)	(121)	(2,241)	(378)
Total cash flow from long term debt financing activities	28	(68)	1,619	(58)
Finance lease additions	6	1	13	13
Other non-cash changes	4	10	15	37
Total non-cash long term debt activity	10	11	28	50
Total long term debt, end of period	\$ 15,579	\$ 11,777	\$ 15,579	\$ 11,777

(i) Includes net issuances from Choice Properties' credit facilities and the Independent Funding Trust, which are revolving debt instruments.

(ii) Includes repayments on finance lease obligations of \$25 million in the third quarter of 2018 (2017 – \$29 million) and \$64 million year-to-date (2017 – \$73 million).

Note 14. Other Liabilities

The components of other liabilities were as follows:

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017	Dec. 31, 2017
Net defined benefit plan obligation (note 17)	\$ 344	\$ 381	\$ 380
Other long term employee benefit obligation	108	106	115
Deferred lease obligation	144	135	140
Fair value of acquired leases	57	68	65
Share-based compensation liability (note 18)	5	4	4
Other	38	70	58
Other liabilities	\$ 696	\$ 764	\$ 762

Note 15. Share Capital

Common Share Capital The following table summarizes the activity in the Company's common shares issued and outstanding for the periods ended as indicated:

(\$ millions except where otherwise indicated)	16 Weeks Ended				40 Weeks Ended			
	Oct. 6, 2018		Oct. 7, 2017		Oct. 6, 2018		Oct. 7, 2017	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	128,004,251	\$ 230	127,918,832	\$ 196	127,905,581	\$ 221	127,898,582	\$ 195
Issued for settlement of stock options (note 18)	—	—	—	—	100,298	9	20,250	1
Purchased and cancelled	(566,962)	(2)	(25,000)	—	(568,590)	(2)	(25,000)	—
Issued and outstanding, end of period	127,437,289	\$ 228	127,893,832	\$ 196	127,437,289	\$ 228	127,893,832	\$ 196
Shares held in trusts, beginning of period	(129,796)	—	(168,766)	—	(228,803)	—	(266,999)	—
Purchased for future settlement of RSUs and PSUs	—	—	(70,198)	—	—	—	(70,198)	—
Released for settlement of RSUs and PSUs (note 18)	9,221	—	10,009	—	108,228	—	108,242	—
Shares held in trusts, end of period	(120,575)	—	(228,955)	—	(120,575)	—	(228,955)	—
Issued and outstanding net of shares held in trusts, end of period	127,316,714	\$ 228	127,664,877	\$ 196	127,316,714	\$ 228	127,664,877	\$ 196
Weighted average outstanding, net of shares held in trusts (note 6)	127,702,237		127,727,218		127,746,599		127,700,973	

Normal Course Issuer Bid ("NCIB") Program

(\$ millions except where otherwise indicated)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Purchased for future settlement of RSUs and PSUs (number of shares)	—	70,198	—	70,198
Purchased and cancelled (number of shares)	566,962	25,000	568,590	25,000
Cash consideration paid				
Purchased and held in trusts	\$ —	\$ (7)	\$ —	\$ (7)
Purchased and cancelled	(56)	(3)	(56)	(3)
Premium charged to retained earnings	\$ 96	\$ 10	\$ 96	\$ 10
Reduction in share capital	\$ 2	\$ —	\$ 2	\$ —

In the second quarter of 2018, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 6,398,134 of its common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and regulations of the TSX, any purchases must be at the then market price of such shares.

In the third quarter of 2018, GWL was granted an exemption from TSX in connection with GWL's NCIB, which commenced in the second quarter of 2018, subject to certain conditions. Pursuant to the exemption, GWL was permitted to purchase up to 1,900,000 of its common shares during the five trading days immediately following the announcement of the reorganization, up to a daily maximum limit of 25% of the actual aggregate trading volume of its common shares across all Canadian published markets on each such day.

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As of October 6, 2018, the Company purchased 566,962 common shares under its NCIB program, of which 538,400 common shares were purchased under the exemption.

In the third quarter of 2018, the Company entered into an automatic share purchase plan (“ASPP”) with a broker in order to facilitate the repurchase of the Company’s common shares under its current NCIB, contingent on the closing of the reorganization. Under the Company’s ASPP, the Company’s broker may purchase common shares at times when the Company ordinarily would not be active in the market. As at the end of the third quarter of 2018, an obligation of repurchase of shares of approximately \$42 million (2017 – nil) was recognized under the ASPP in trade payable and other liabilities. As at November 19, 2018, the Company has repurchased 177,500 shares, or approximately \$17 million, under the ASPP.

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

(\$)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Dividends declared per share ⁽ⁱ⁾ :				
Common share	\$ 0.490	\$ 0.455	\$ 1.435	\$ 1.350
Preferred share:				
Series I	\$ 0.3625	\$ 0.3625	\$ 1.0875	\$ 1.0875
Series III	\$ 0.3250	\$ 0.3250	\$ 0.9750	\$ 0.9750
Series IV	\$ 0.3250	\$ 0.3250	\$ 0.9750	\$ 0.9750
Series V	\$ 0.296875	\$ 0.296875	\$ 0.890625	\$ 0.890625

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were paid on October 1, 2018. Dividends declared on Preferred Shares, Series I were paid on September 15, 2018.

Subsequent to the end of the third quarter of 2018, the Company’s Board of Directors raised the quarterly common share dividend by \$0.025 per common share to \$0.515 per common share as a result of the completion of the reorganization.

Note 16. Loblaw Capital Transactions

Loblaw Preferred Shares As at the end of the third quarter of 2018, the Second Preferred Shares, Series B in the amount of \$221 million net of \$4 million of after-tax issuance costs, and related cash dividends, were presented as a component of non-controlling interests in the Company's condensed consolidated balance sheet. In the third quarter of 2018 and year-to-date, Loblaw declared dividends of \$3 million (2017 – \$3 million) and \$9 million (2017 – \$9 million), respectively, related to the Second Preferred Shares, Series B.

Loblaw Common Shares The following table summarizes Loblaw's common share activity under its share-based compensation arrangements and NCIB program, and includes the impact on the Company's condensed consolidated financial statements for the periods ended as indicated:

(\$ millions except where otherwise indicated)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Issued (number of shares)	699,897	103,253	2,163,976	1,537,997
Purchased and held in trusts (number of shares)	—	—	—	(686,000)
Purchased and cancelled (number of shares)	—	(7,193,156)	(12,666,709)	(13,276,049)
	699,897	(7,089,903)	(10,502,733)	(12,424,052)
Cash consideration received (paid)				
Share-based compensation	\$ 24	\$ 3	\$ 62	\$ 24
Purchased and held in trusts	—	—	—	(48)
Purchased and cancelled	—	(485)	(844)	(937)
	\$ 24	\$ (482)	\$ (782)	\$ (961)
Increase (decrease) in contributed surplus				
Share-based compensation	\$ 1	\$ 2	\$ 15	\$ 12
Purchased and held in trusts	—	—	—	(12)
Purchased and cancelled	—	(117)	(210)	(239)
	\$ 1	\$ (115)	\$ (195)	\$ (239)

Note 17. Post-Employment and Other Long Term Employee Benefits

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

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Post-employment benefit costs recognized in operating income ⁽ⁱ⁾	\$ 46	\$ 56	\$ 124	\$ 140
Other long term employee benefit costs recognized in operating income ⁽ⁱⁱ⁾	9	6	21	16
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	3	3	9	8
Actuarial gains (losses) before income taxes recognized in other comprehensive income	88	32	106	(30)

(i) Includes costs related to the Company's defined benefit plans, defined contribution pension plans and the multi-employer pension plans in which it participates. Also includes settlement charges in the third quarter of 2017 of \$7 million and year-to-date of 2018 of \$1 million (2017 – \$14 million).

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

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The actuarial gains recognized in the third quarter of 2018 and year-to-date were primarily driven by increases in discount rates, partially offset by lower than expected returns on assets. The actuarial gains recognized in the third quarter of 2017 were primarily driven by higher than expected returns on assets, while year-to-date losses were primarily driven by declines in discount rates, partially offset by higher than expected returns on assets.

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

In the second quarter of 2018, Loblaw completed an annuity purchase and paid \$228 million from the impacted plans' assets to settle \$227 million of pension obligations.

In the first three quarters of 2017, the Company completed several annuity purchases with respect to former employees. In the third quarter of 2017 and year-to-date, the Company paid \$175 million and \$285 million, respectively, from the impacted plans' assets to settle \$168 million and \$271 million, respectively, of pension obligations.

Note 18. Share-Based Compensation

The Company's share-based compensation arrangements include stock option plans, restricted share unit ("RSU") plans, performance share unit ("PSU") plans, director deferred share unit plans, executive deferred share unit plans and Choice Properties' unit-based compensation plans. The Company's costs recognized in SG&A related to its share-based compensation arrangements for the third quarter of 2018 and year-to-date were \$18 million (2017 – \$19 million) and \$44 million (2017 – \$58 million), respectively.

The following is the carrying amount of the Company's share-based compensation arrangements:

(\$ millions)	As at		
	Oct. 6, 2018	Oct. 7, 2017	Dec. 31, 2017
Trade payables and other liabilities	\$ 8	\$ 10	\$ 11
Other liabilities (note 14)	5	4	4
Contributed surplus	121	134	132

Details related to the share-based compensation plans of GWL and Loblaw are as follows:

Stock Option Plans The following is a summary of GWL's stock option plan activity:

(number of options)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Outstanding options, beginning of period	1,592,822	1,795,380	1,527,125	1,662,855
Granted	—	3,425	234,517	164,012
Exercised	—	—	(100,298)	(20,250)
Forfeited/cancelled	—	—	(67,878)	(7,812)
Expired	—	—	(644)	—
Outstanding options, end of period	1,592,822	1,798,805	1,592,822	1,798,805

There were no stock options exercised in the third quarter of 2018 and 2017. In the year-to-date of 2018, GWL issued common shares on the exercise of stock options with a weighted average share price of \$105.55 (2017 – \$121.08), and received \$8 million (2017 – \$1 million) of cash consideration.

There were no stock options granted in the third quarter of 2018. In the third quarter of 2017, GWL granted stock options with a weighted average exercise price of \$109.78 per common share and a nominal fair value. The assumptions used to measure the grant date fair value of the GWL options granted during the period ended as indicated under the Black-Scholes stock option valuation model were as follows:

	16 Weeks Ended Oct. 7, 2017
Expected dividend yield	1.7%
Expected share price volatility	15.6% - 16.8%
Risk-free interest rate	1.5% - 1.7%
Expected life of options	4.6 - 6.6 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at the end of the third quarter of 2018 was 0.7% (2017 – 1.3%).

The following is a summary of Loblaw's stock option plan activity:

(number of options)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Outstanding options, beginning of period	7,917,849	8,131,926	7,487,774	7,322,358
Granted	8,140	116,125	1,643,933	1,569,782
Exercised	(666,171)	(70,094)	(1,621,089)	(572,024)
Forfeited/cancelled	(517,622)	(70,867)	(768,422)	(213,026)
Outstanding options, end of period	6,742,196	8,107,090	6,742,196	8,107,090

In the third quarter of 2018, Loblaw issued common shares on the exercise of stock options with a weighted average share price of \$67.49 (2017 – \$69.14) per common share and received cash consideration of \$24 million (2017 – \$3 million). In the year-to-date of 2018, Loblaw issued common shares on the exercise of stock options with a weighted average share price of \$66.73 (2017 – \$73.18) per common share and received cash consideration of \$62 million (2017 – \$24 million).

In the third quarter of 2018, Loblaw granted stock options with a weighted average exercise price of \$68.43 (2017 – \$67.81) per common share and a nominal fair value (2017 – \$1 million). The assumptions used to measure the grant date fair value of the Loblaw options granted during the periods ended as indicated under the Black-Scholes stock option valuation model were as follows:

	16 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017
Expected dividend yield	1.7%	1.6%
Expected share price volatility	15.2% – 17.1%	16.0% - 17.9%
Risk-free interest rate	2.2% – 2.3%	1.4% - 1.7%
Expected life of options	3.9 – 6.3 years	3.8 - 6.3 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at the end of the third quarter of 2018 was 8.0% (2017 – 10.0%).

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Restricted Share Unit Plans The following is a summary of GWL's RSU plan activity:

(number of awards)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Outstanding RSUs, beginning of period	182,509	207,729	183,960	213,084
Granted	123	1,687	61,275	57,836
Reinvested	1,073	454	1,810	653
Settled	(10,587)	(16,117)	(66,732)	(74,514)
Forfeited	(7,094)	(9,663)	(14,289)	(12,969)
Outstanding RSUs, end of period	166,024	184,090	166,024	184,090

In the third quarter of 2018, the fair value of GWL's granted RSUs was nominal (2017 – nominal). In the year-to-date of 2018, the fair value of GWL's granted RSUs was \$6 million (2017 – \$6 million).

The following is a summary of Loblaw's RSU plan activity:

(number of awards)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Outstanding RSUs, beginning of period	887,704	829,074	824,705	858,106
Granted	38,476	71,995	338,562	337,846
Reinvested	5,466	2,267	7,954	3,153
Settled	(23,449)	(24,320)	(243,217)	(294,694)
Forfeited	(23,907)	(7,387)	(43,714)	(32,782)
Outstanding RSUs, end of period	884,290	871,629	884,290	871,629

In the third quarter of 2018, the fair value of Loblaw's granted RSUs was \$2 million (2017 – \$5 million). In the year-to-date of 2018, the fair value of Loblaw's granted RSUs was \$22 million (2017 – \$24 million).

Performance Share Unit Plans The following is a summary of GWL's PSU plan activity:

(number of awards)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Outstanding PSUs, beginning of period	89,167	100,319	100,263	127,866
Granted	3	478	36,769	24,672
Reinvested	508	198	848	288
Settled	(22)	(984)	(44,695)	(40,820)
Forfeited	—	—	(3,529)	(11,995)
Outstanding PSUs, end of period	89,656	100,011	89,656	100,011

In the third quarter of 2018, the fair value of GWL's granted PSUs was nominal (2017 – nominal). In the year-to-date of 2018, the fair value of GWL's granted PSUs was \$3 million (2017 – \$3 million).

The following is a summary of Loblaw's PSU plan activity:

(number of awards)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Outstanding PSUs, beginning of period	638,403	656,387	631,528	965,863
Granted	2,753	16,416	311,941	404,150
Reinvested	3,630	1,600	5,409	2,339
Settled	(11,151)	(8,839)	(300,544)	(671,279)
Forfeited	(17,203)	(5,071)	(31,902)	(40,580)
Outstanding PSUs, end of period	616,432	660,493	616,432	660,493

In the third quarter of 2018, the fair value of Loblaw's granted PSUs was nominal (2017 – \$2 million). In the year-to-date of 2018, the fair value of Loblaw's granted PSUs was \$14 million (2017 – \$16 million).

Settlement of Awards from Shares Held in Trusts The following table summarizes GWL's settlement of RSUs and PSUs from shares held in trusts for the periods ended as indicated:

(number of awards)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Settled	10,609	17,101	111,427	115,334
Released from trusts (note 15)	9,221	10,009	108,228	108,242

The settlement of awards from shares held in trusts in the third quarter of 2018 and year-to-date resulted in \$1 million increase (2017 – \$2 million) and \$10 million increase (2017 – \$9 million) in retained earnings, respectively. There were nominal increases in share capital in the year-to-date 2018 and 2017 related to these settlements.

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Note 19. Financial Instruments

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

(\$ millions)	Oct. 6, 2018				As at Oct. 7, 2017				Dec. 31, 2017			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Amortized cost:												
Franchise loans receivable	\$ —	\$ —	\$ 108	\$ 108	\$ —	\$ —	\$ 147	\$ 147	\$ —	\$ —	\$ 166	\$ 166
Certain other assets ⁽ⁱ⁾	—	—	133	133	—	3	22	25	—	3	23	26
Fair value through other comprehensive income:												
Certain long term investments ⁽ⁱ⁾	50	20	—	70	21	18	—	39	20	21	—	41
Derivatives included in prepaid expenses and other assets	—	2	—	2	—	6	—	6	—	—	—	—
Fair value through profit and loss:												
Security deposits	82	—	—	82	79	2	—	81	86	—	—	86
Certain other assets ⁽ⁱ⁾	—	—	73	73	—	—	—	—	—	—	—	—
Derivatives included in accounts receivable	(1)	3	—	2	—	2	—	2	(2)	(7)	—	(9)
Derivatives included in prepaid expenses and other assets	4	2	—	6	—	—	4	4	3	—	2	5
Derivatives included in other assets	—	515	—	515	—	415	—	415	—	435	—	435
Financial liabilities												
Amortized cost:												
Long term debt	—	16,288	—	16,288	—	12,669	—	12,669	—	13,103	—	13,103
Certain other liabilities ⁽ⁱ⁾	—	—	14	14	—	—	21	21	—	—	18	18
Fair value through other comprehensive income:												
Derivatives included in trade payables and other liabilities	—	1	—	1	—	14	—	14	—	1	—	1
Fair value through profit and loss:												
Trust Unit liability	2,738	—	—	2,738	640	—	—	640	634	—	—	634
Derivatives included in trade payables and other liabilities	—	—	—	—	—	—	—	—	—	10	—	10

(i) Certain other assets, certain other long term investments, and certain other liabilities are included in the condensed consolidated balance sheets in Other Assets and Other Liabilities, respectively.

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

During the third quarter of 2018 and year-to-date, a net gain of \$82 million (2017 – loss of \$6 million) and \$30 million (2017 – loss of \$6 million), respectively, was recognized in earnings before income taxes on financial instruments classified as fair value through profit or loss. This amount was primarily related to the fair value gain of the Trust Unit liability and forward sale agreement for 9.6 million Loblaw common shares.

Cash and Cash Equivalents, Short Term Investments and Security Deposits As at the end of the third quarter of 2018, the Company had cash and cash equivalents, short term investments and security deposits of \$2,577 million (October 7, 2017 – \$2,711 million; December 31, 2017 – \$3,233 million), including U.S. dollars of \$168 million (October 7, 2017 – U.S. \$544 million; December 31, 2017 – U.S. \$573 million) that was held primarily by Dunedin Holdings GmbH, a subsidiary of GWL, and certain of its affiliates (note 7).

In the third quarter of 2018 and year-to-date, a loss of \$22 million (2017 – \$53 million) and a gain of \$28 million (2017 – loss of \$69 million), respectively, was recognized in other comprehensive income related to the effect of foreign currency translation on the Company's U.S. net investment in foreign operations.

In addition, in the third quarter of 2018 and year-to-date, a loss of \$7 million (2017 – \$26 million) and a gain of \$16 million (2017 – loss of \$35 million), respectively, was recorded in operating income related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company. In the third quarter of 2018 and year-to-date, a loss of \$2 million (2017 – loss of \$6 million) and a gain of \$2 million (2017 – loss of \$6 million), respectively, was also recorded in operating income related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents.

Level 3 Financial Instruments

Franchise Loans Receivable and Franchise Investments in Other Assets As at the end of the third quarter of 2018, the value of Loblaw franchise loans receivable of \$108 million (October 7, 2017 – \$147 million; December 31, 2017 – \$166 million) was recorded in the condensed consolidated balance sheets. In the third quarter of 2018 and year-to-date, Loblaw recorded a gain of \$1 million (2017 – nil) and a gain of \$3 million (2017 – nil), respectively, in operating income related to these loans receivable.

As at the end of the third quarter of 2018, the value of Loblaw franchise investments was \$10 million (October 7, 2017 – \$19 million; December 31, 2017 – \$20 million) and was recorded in other assets. In the third quarter of 2018 and year-to-date, Loblaw recorded a gain of \$1 million (2017 – loss of \$1 million) and a gain of \$2 million (2017 – loss of \$3 million), respectively, in operating income related to these investments.

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

In the third quarter of 2018 and year-to-date, a gain of \$2 million (2017 – nominal gain) and a loss of \$2 million (2017 – gain of \$5 million), respectively, was recognized in operating income related to these derivatives. In addition, a corresponding nominal asset was included in prepaid expenses and other assets as at October 6, 2018 (October 7, 2017 – \$4 million asset included in prepaid expenses and other assets; December 31, 2017 – \$2 million asset included in prepaid expenses and other assets). As at October 6, 2018, a 1% increase (decrease) in foreign currency exchange rates would result in an additional gain (loss) of \$1 million in fair value.

Equity Derivative Contracts As at the end of the third quarter of 2018, Weston Holdings Limited, a subsidiary of GWL, held an outstanding equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of \$48.50 per Loblaw common share. As at the end of the third quarter of 2018, the forward price had increased to \$117.23 (October 7, 2017 – \$112.44; December 31, 2017 – \$113.45) per Loblaw common share under the terms of the agreement. In the third quarter of 2018 and year-to-date, a fair value gain of \$25 million (2017 – \$34 million) and a fair value gain of \$44 million (2017 – \$15 million) was recorded in net interest expense and other financing charges related to this agreement (note 4).

Trust Unit Liability In the third quarter of 2018 and year-to-date, a fair value gain of \$55 million (2017 – \$22 million) and a fair value loss of \$44 million (2017 – \$1 million), respectively, was recognized in net interest expense and other financing charges (note 4).

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

Oct. 6, 2018

(\$ millions)	16 Weeks Ended			40 Weeks Ended	
	Net asset fair value	Gain recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain recorded in operating income
Derivatives designated as cash flow hedges⁽ⁱ⁾					
Foreign Exchange Currency Risk - Foreign Exchange Forwards ⁽ⁱⁱ⁾	\$ —	\$ —	\$ —	\$ 2	\$ —
Interest Rate Risk - Bond Forwards ⁽ⁱⁱⁱ⁾	—	—	—	(1)	—
Interest Rate Risk - Interest Rate Swaps ^(iv)	1	3	—	3	—
Total derivatives designated as cash flow hedges	\$ 1	\$ 3	\$ —	\$ 4	\$ —
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	\$ 5	\$ —	\$ (3)	\$ —	\$ 22
Other Non-Financial Derivatives	3	—	2	—	8
Total derivatives not designated in a formal hedging relationship	\$ 8	\$ —	\$ (1)	\$ —	\$ 30
Total derivatives	\$ 9	\$ 3	\$ (1)	\$ 4	\$ 30

- (i) Includes interest rate swap agreements with a notional value of \$100 million that matured during the first quarter of 2018. A nominal unrealized fair value loss was recorded in OCI relating to these agreements.
- (ii) PC Bank uses foreign exchange forwards, with a notional value of \$16 million USD, to manage its foreign exchange currency risk related to certain U.S. payables. The fair value of the derivatives is included in prepaid and other assets.
- (iii) PC Bank uses bond forwards, with a notional value of \$53 million, which were entered into during the first quarter of 2018, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and liabilities.
- (iv) Choice Properties uses interest rate swaps, with a notional value of \$322 million, which were assumed during the second quarter of 2018 in connection with the acquisition of CREIT, to manage its interest rate risk related to variable rate mortgages. The fair value of the derivatives is included in other assets and other liabilities.

Oct. 7, 2017

(\$ millions)	16 Weeks Ended			40 Weeks Ended	
	Net asset/(liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges⁽ⁱ⁾					
Foreign Exchange Currency Risk - Foreign Exchange Forwards ⁽ⁱⁱ⁾	\$ (2)	\$ (1)	\$ —	\$ (2)	\$ 1
Interest Rate Risk - Bond Forwards ⁽ⁱⁱⁱ⁾	6	2	—	4	—
Total derivatives designated as cash flow hedges	\$ 4	\$ 1	\$ —	\$ 2	\$ 1
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	\$ (10)	\$ —	\$ (32)	\$ —	\$ (40)
Other Non-Financial Derivatives	—	—	1	—	(7)
Total derivatives not designated in a formal hedging relationship	\$ (10)	\$ —	\$ (31)	\$ —	\$ (47)
Total derivatives	\$ (6)	\$ 1	\$ (31)	\$ 2	\$ (46)

- (i) Includes interest rate swap agreements with a notional value of \$100 million. During the third quarter of 2017, a nominal unrealized fair value gain was recorded in OCI relating to these agreements.
- (ii) PC Bank uses foreign exchange forwards, with notional value of \$15 million USD, to manage its foreign exchange currency risk related to certain U.S. payables. The fair value of the derivatives is included in prepaid and other assets.
- (iii) PC Bank uses bond forwards, with a notional value of \$200 million, which were entered into during the second quarter of 2017, to manage its interest risk related to future debt issuances. The fair value of derivatives is included in trade payables and liabilities.

Note 20. Contingent Liabilities

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

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

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

On August 26, 2015, the Company was served with a proposed class action, which was commenced in the Ontario Superior Court of Justice ("the Court") against the Company, Loblaw and certain of its subsidiaries and others in connection with the collapse of the Rana Plaza complex in Dhaka, Bangladesh in 2013. The claim seeks approximately \$2 billion in damages. The Company believes this proceeding is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the unaudited interim period condensed consolidated financial statements.

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

In 2017, the Company and Loblaw announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis.

Class action lawsuits have been commenced against the Company and Loblaw as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Loblaw believes that the ultimate resolution of such legal proceedings will have a material adverse impact on their financial condition or prospects. The Company and Loblaw's cash balances far exceed any realistic damages scenario and therefore the Company and Loblaw do not anticipate any impacts on the Company and Loblaw's dividend, dividend policy or Loblaw's share buyback plan.

The Company and Loblaw have not recorded any amounts related to the potential civil liability associated with the class action lawsuits in the third quarter of 2018 on the basis that a reliable estimate of the liability cannot be determined at this time. The Company and Loblaw will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

In 2017, the Company and Loblaw acknowledged their involvement in an industry wide price-fixing arrangement. In connection with the arrangement, Loblaw offered customers a \$25 Loblaw Card which can be used to purchase items sold in Loblaw grocery stores across Canada. Loblaw recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017 and in 2018, on a year-to-date basis, Loblaw recorded an additional charge of \$4 million. The Company and Loblaw expect that Loblaw Cards issued to customers will be an offset against civil liability. The charge recorded for the Loblaw Card Program should not be viewed as an estimate of damages.

As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Loblaw will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including Loblaw and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. Loblaw believes this proceeding is without merit and is vigorously defending it. Loblaw does not currently have any significant accruals or provisions for this matter recorded in the unaudited interim period condensed consolidated financial statements.

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

Note 21. Segment Information

The Company has two reportable operating segments: Weston Foods and Loblaw. The accounting policies of the reportable operating segments are the same as those described herein and in the Company's 2017 audited annual consolidated financial statements. The Company measures each reportable operating segment's performance based on adjusted EBITDA⁽ⁱ⁾ and adjusted operating income⁽ⁱ⁾.

(\$ millions)	16 Weeks Ended				16 Weeks Ended			
	Oct. 6, 2018				Oct. 7, 2017			
	Weston Foods	Loblaw	Other and Intersegment ⁽ⁱ⁾	Total	Weston Foods	Loblaw ⁽ⁱⁱ⁾	Other and Intersegment ⁽ⁱ⁾	Total ⁽ⁱⁱ⁾
Revenue	\$ 630	\$ 14,453	\$ (221)	\$ 14,862	\$ 668	\$ 14,192	\$ (212)	\$ 14,648
Operating income	\$ 16	\$ 795	\$ (7)	\$ 804	\$ 36	\$ 1,234	\$ (26)	\$ 1,244
Net interest expense and other financing charges	(13)	339	1	327	(23)	119	7	103
Earnings before income tax	\$ 29	\$ 456	\$ (8)	\$ 477	\$ 59	\$ 1,115	\$ (33)	\$ 1,141
Operating income	\$ 16	\$ 795	\$ (7)	\$ 804	\$ 36	\$ 1,234	\$ (26)	\$ 1,244
Depreciation and amortization	44	486	—	530	33	476	—	509
Adjusting items ⁽ⁱⁱⁱ⁾	12	38	7	57	11	(483)	26	(446)
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	\$ 72	\$ 1,319	\$ —	\$ 1,391	\$ 80	\$ 1,227	\$ —	\$ 1,307
Depreciation and amortization ^(iv)	39	325	—	364	33	315	—	348
Adjusted operating income⁽ⁱⁱⁱ⁾	\$ 33	\$ 994	\$ —	\$ 1,027	\$ 47	\$ 912	\$ —	\$ 959

(i) Other and intersegment includes the following items:

- intercompany revenue elimination;
- Trust Unit distributions from Choice Properties to GWL and the elimination of the fair value adjustment of the Trust Unit liability related to GWL's direct investment in Choice Properties recorded in net interest expense and other financing charges;
- the effect of certain asset impairment related to the carrying value of its fixed asset, intangible and other assets; and
- the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations.

(ii) Certain comparative figures have been restated (note 2).

(iii) Certain items are excluded from operating income to derive adjusted EBITDA⁽¹⁾. Adjusted EBITDA⁽¹⁾ is used internally by management when analyzing segment underlying performance.

(iv) Excludes \$161 million (2017 – \$161 million) of amortization of intangible assets acquired with Shoppers Drug Mart, recorded by Loblaw and \$5 million (2017 - nil) of accelerated depreciation and amortization recorded by Weston Foods, included in restructuring and other related costs in the third quarter of 2018.

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(\$ millions)	40 Weeks Ended				40 Weeks Ended			
	Oct. 6, 2018				Oct. 7, 2017			
	Weston Foods	Loblaw	Other and Intersegment ⁽ⁱ⁾	Total	Weston Foods	Loblaw ⁽ⁱⁱ⁾	Other and Intersegment ⁽ⁱ⁾	Total ⁽ⁱⁱ⁾
Revenue	\$ 1,615	\$ 35,743	\$ (507)	\$ 36,851	\$ 1,716	\$ 35,676	\$ (505)	\$ 36,887
Operating income	\$ 47	\$ 1,832	\$ 16	\$ 1,895	\$ 83	\$ 2,352	\$ (38)	\$ 2,397
Net interest expense and other financing charges	(15)	722	23	730	15	407	(14)	408
Earnings before income tax	\$ 62	\$ 1,110	\$ (7)	\$ 1,165	\$ 68	\$ 1,945	\$ (24)	\$ 1,989
Operating income	\$ 47	\$ 1,832	\$ 16	\$ 1,895	\$ 83	\$ 2,352	\$ (38)	\$ 2,397
Depreciation and amortization	103	1,227	—	1,330	82	1,196	—	1,278
Adjusting items ⁽ⁱⁱⁱ⁾	14	159	(16)	157	30	(471)	38	(403)
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	\$ 164	\$ 3,218	\$ —	\$ 3,382	\$ 195	\$ 3,077	\$ —	\$ 3,272
Depreciation and amortization ^(iv)	94	826	—	920	82	793	—	875
Adjusted operating income⁽ⁱⁱⁱ⁾	\$ 70	\$ 2,392	\$ —	\$ 2,462	\$ 113	\$ 2,284	\$ —	\$ 2,397

- (i) Other and intersegment includes the following items:
- intercompany revenue elimination;
 - Trust Unit distributions from Choice Properties to GWL and the elimination of the fair value adjustment of the Trust Unit liability related to GWL's direct investment in Choice Properties recorded in net interest expense and other financing charges;
 - the effect of certain asset impairment related to the carrying value of its fixed asset, intangible and other assets; and
 - the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short term investments held by foreign operations.
- (ii) Certain comparative figures have been restated (note 2).
- (iii) Certain items are excluded from operating income to derive adjusted EBITDA⁽¹⁾. Adjusted EBITDA⁽¹⁾ is used internally by management when analyzing segment underlying performance.
- (iv) Excludes \$401 million year-to-date (2017 – \$403 million) of amortization of intangible assets acquired with Shoppers Drug Mart, recorded by Loblaw, and \$9 million year-to-date (2017 – nil) of accelerated depreciation and amortization recorded by Weston Foods, included in restructuring and other related costs.

(\$ millions)	Oct. 6, 2018	As at	
		Oct. 7, 2017 ⁽ⁱ⁾	Dec. 31, 2017 ⁽ⁱ⁾
Total Assets			
Weston Foods	\$ 2,864	\$ 2,630	\$ 2,645
Loblaw	40,538	34,400	35,307
Other ⁽ⁱⁱ⁾	683	884	927
Intersegment	(301)	(338)	(339)
Consolidated	\$ 43,784	\$ 37,576	\$ 38,540

- (i) Certain comparative figures have been restated (note 2).
- (ii) Other includes cash and cash equivalents and short term investments held by foreign operations that have the same functional currency as that of the Company and GWL's direct investment in Choice Properties.

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 6, 2018	Oct. 7, 2017	Oct. 6, 2018	Oct. 7, 2017
Additions to Fixed Assets and Intangible Assets				
Weston Foods	\$ 61	\$ 61	\$ 121	\$ 127
Loblaw	384	364	852	772
Consolidated	\$ 445	\$ 425	\$ 973	\$ 899

Note 22. Loblaw's Spin-out of Choice Properties Real Estate Investment Trust

On November 1, 2018, the Company and Loblaw completed the reorganization under which Loblaw distributed its approximate 61.6% effective interest in Choice Properties to the Company on a tax-free basis to Loblaw and its Canadian shareholders. In connection with the reorganization, Loblaw minority shareholders received 0.135 of a common share of the Company for each common share of Loblaw held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and the Company received Loblaw's approximate 61.6% effective interest in Choice Properties. Following the reorganization, Loblaw no longer retains its interest in Choice Properties.

In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw minority shareholders. Choice Properties became a reportable operating segment of the Company following the completion of the reorganization.

Immediately following the completion of the reorganization, the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by the Company prior to the completion of the reorganization), and the Company will continue to be controlled by Mr. W. Galen Weston who, directly and indirectly through entities which he controls, owned approximately 52.7% of the outstanding common shares of the Company.

In the third quarter of 2018, the Company recorded \$10 million in transaction costs and other related costs.