

Unaudited Interim Period Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Earnings	48
Condensed Consolidated Statements of Comprehensive Income	48
Condensed Consolidated Balance Sheets	49
Condensed Consolidated Statements of Changes in Equity	50
Condensed Consolidated Statements of Cash Flows	51
Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements	52
Note 1. Nature and Description of the Reporting Entity	52
Note 2. Significant Accounting Policies and Critical Accounting Estimates and Judgments	52
Note 3. Business Acquisitions	59
Note 4. Net Interest Expense and Other Financing Charges	61
Note 5. Income Taxes	62
Note 6. Basic and Diluted Net Earnings per Common Share	62
Note 7. Cash and Cash Equivalents, Short Term Investments and Security Deposits	63
Note 8. Credit Card Receivables	64
Note 9. Inventories	64
Note 10. Assets Held for Sale	65
Note 11. Other Assets	65
Note 12. Short Term Debt	65
Note 13. Long Term Debt	66
Note 14. Other Liabilities	69
Note 15. Share Capital	70
Note 16. Loblaw Capital Transactions	71
Note 17. Post-Employment and Other Long Term Employee Benefits	72
Note 18. Share-Based Compensation	73
Note 19. Financial Instruments	76
Note 20. Contingent Liabilities	79
Note 21. Segment Information	81

Condensed Consolidated Statements of Earnings

(unaudited) (millions of Canadian dollars except where otherwise indicated)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾
Revenue	\$ 11,245	\$ 11,436	\$ 21,989	\$ 22,239
Operating Expenses				
Cost of inventories sold (note 9)	7,683	8,052	15,111	15,629
Selling, general and administrative expenses	2,973	2,744	5,787	5,457
	10,656	10,796	20,898	21,086
Operating Income	589	640	1,091	1,153
Net Interest Expense and Other Financing Charges (note 4)	385	135	403	305
Earnings Before Income Taxes	204	505	688	848
Income Tax (note 5)	126	140	232	241
Net Earnings	78	365	456	607
Attributable to:				
Shareholders of the Company	38	170	228	288
Non-Controlling Interests	40	195	228	319
Net Earnings	\$ 78	\$ 365	\$ 456	\$ 607
Net Earnings per Common Share (\$) (note 6)				
Basic	\$ 0.22	\$ 1.25	\$ 1.63	\$ 2.10
Diluted	\$ 0.21	\$ 1.23	\$ 1.61	\$ 2.08

(i) Certain comparative figures have been restated (see 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾
Net earnings	\$ 78	\$ 365	\$ 456	\$ 607
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation adjustment (note 19)	28	(12)	50	(16)
Unrealized gains on cash flow hedges (note 19)	1	1	1	1
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 17)	32	(19)	13	(45)
Other comprehensive income (loss), net of taxes	61	(30)	64	(60)
Comprehensive Income	139	335	520	547
Attributable to:				
Shareholders of the Company	81	151	284	251
Non-Controlling Interests	58	184	236	296
Comprehensive Income	\$ 139	\$ 335	\$ 520	\$ 547

(i) Certain comparative figures have been restated (see 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		
	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾	Dec. 31, 2017 ⁽ⁱ⁾
ASSETS			
Current Assets			
Cash and cash equivalents (note 7)	\$ 1,487	\$ 1,526	\$ 2,034
Short term investments (note 7)	839	1,038	1,113
Accounts receivable	1,203	1,143	1,324
Credit card receivables (note 8)	3,029	2,908	3,100
Inventories (note 9)	4,558	4,392	4,623
Income taxes recoverable	45	—	—
Prepaid expenses and other assets	350	289	236
Assets held for sale (note 10)	68	119	33
Total Current Assets	11,579	11,415	12,463
Fixed Assets	11,632	11,407	11,689
Equity Accounted Joint Ventures (note 3)	717	7	19
Investment Properties (note 3)	4,998	272	276
Intangible Assets	8,204	8,662	8,368
Goodwill (note 3)	4,773	4,379	4,377
Deferred Income Taxes	259	226	247
Security Deposits (note 7)	84	87	86
Franchise Loans Receivable (note 19)	119	176	166
Other Assets (note 11)	1,116	821	849
Total Assets	\$ 43,481	\$ 37,452	\$ 38,540
LIABILITIES			
Current Liabilities			
Bank indebtedness	\$ 248	\$ 320	\$ 110
Trade payables and other liabilities	5,203	4,687	5,451
Loyalty liability (note 2)	279	245	349
Provisions	242	137	325
Income taxes payable	—	152	148
Short term debt (note 12)	1,230	1,156	1,258
Long term debt due within one year (note 13)	2,623	581	1,635
Associate interest	235	229	263
Liabilities held for sale (note 10)	—	54	—
Total Current Liabilities	10,060	7,561	9,539
Provisions	172	143	190
Long Term Debt (note 13)	12,918	11,253	10,457
Trust Unit Liability (note 19)	2,790	661	634
Deferred Income Taxes	2,612	2,309	2,163
Other Liabilities (note 14)	728	824	762
Total Liabilities	29,280	22,751	23,745
EQUITY			
Share Capital (note 15)	1,047	1,013	1,038
Retained Earnings	7,253	6,873	7,188
Contributed Surplus (notes 16 & 18)	(648)	(286)	(432)
Accumulated Other Comprehensive Income	190	189	140
Total Equity Attributable to Shareholders of the Company	7,842	7,789	7,934
Non-Controlling Interests	6,359	6,912	6,861
Total Equity	14,201	14,701	14,795
Total Liabilities and Equity	\$ 43,481	\$ 37,452	\$ 38,540

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

Contingent liabilities (see note 20).

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 ⁽ⁱⁱ⁾	—	—	—	(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	—	—	—	228	—	—	—	—	228	456
Other comprehensive income ⁽ⁱⁱ⁾	—	—	—	6	—	50	—	50	8	64
Comprehensive income	\$ —	\$ —	\$ —	\$ 234	\$ —	\$ 50	\$ —	\$ 50	\$ 236	\$ 520
Effect of share-based compensation (notes 15 & 18)	9	—	9	—	(16)	—	—	—	(7)	(14)
Net effect of shares held in trusts (notes 15 & 18)	—	—	—	9	—	—	—	—	—	9
Loblaw capital transactions and dividends (notes 3, 16 & 18)	—	—	—	—	(200)	—	—	—	(695)	(895)
Dividends declared										
Per common share (\$)										
– \$0.945	—	—	—	(120)	—	—	—	—	—	(120)
Per preferred share (\$)										
– Series I – \$0.7250	—	—	—	(7)	—	—	—	—	—	(7)
– Series III – \$0.6500	—	—	—	(5)	—	—	—	—	—	(5)
– Series IV – \$0.6500	—	—	—	(5)	—	—	—	—	—	(5)
– Series V – \$0.593750	—	—	—	(5)	—	—	—	—	—	(5)
	\$ 9	\$ —	\$ 9	\$ (133)	\$ (216)	\$ —	\$ —	\$ —	\$ (702)	\$ (1,042)
Balance as at Jun. 16, 2018	\$ 230	\$ 817	\$ 1,047	\$ 7,253	\$ (648)	\$ 189	\$ 1	\$ 190	\$ 6,359	\$ 14,201

(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 ⁽ⁱⁱ⁾	—	—	—	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	—	—	—	288	—	—	—	—	319	607
Other comprehensive (loss) income ⁽ⁱⁱ⁾	—	—	—	(22)	—	(16)	1	(15)	(23)	(60)
Comprehensive income (loss)	\$ —	\$ —	\$ —	\$ 266	\$ —	\$ (16)	\$ 1	\$ (15)	\$ 296	\$ 547
Effect of share-based compensation (notes 15 & 18)	1	—	1	—	(6)	—	—	—	(14)	(19)
Net effect of shares held in trusts (notes 15 & 18)	—	—	—	7	—	—	—	—	—	7
Loblaw capital transactions and dividends (notes 16 & 18)	—	—	—	—	(124)	—	—	—	(430)	(554)
Dividends declared										
Per common share (\$)										
– \$0.895	—	—	—	(115)	—	—	—	—	—	(115)
Per preferred share (\$)										
– Series I – \$0.7250	—	—	—	(7)	—	—	—	—	—	(7)
– Series III – \$0.6500	—	—	—	(5)	—	—	—	—	—	(5)
– Series IV – \$0.6500	—	—	—	(5)	—	—	—	—	—	(5)
– Series V – \$0.593750	—	—	—	(5)	—	—	—	—	—	(5)
	\$ 1	\$ —	\$ 1	\$ (130)	\$ (130)	\$ —	\$ —	\$ —	\$ (444)	\$ (703)
Balance as at Jun. 17, 2017	\$ 196	\$ 817	\$ 1,013	\$ 6,873	\$ (286)	\$ 188	\$ 1	\$ 189	\$ 6,912	\$ 14,701

(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 (see note 2).

(ii) Other comprehensive income (loss) includes actuarial gains of \$13 million (2017 – losses of \$45 million), gains of \$6 million (2017 – losses of \$22 million) of which is presented above in retained earnings and gains of \$7 million (2017 – losses of \$23 million) in non-controlling interests. Also included in non-controlling interests is an unrealized gain on cash flow hedges of \$1 million (2017 – nil).

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

Condensed Consolidated Statements of Cash Flows

(unaudited)	12 Weeks Ended		24 Weeks Ended	
(millions of Canadian dollars)	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾
Operating Activities				
Net earnings	\$ 78	\$ 365	\$ 456	\$ 607
Add:				
Net interest expense and other financing charges (note 4)	385	135	403	305
Income taxes (note 5)	126	140	232	241
Depreciation and amortization	400	385	800	769
Fixed asset and other related impairments	1	5	2	10
Adjustment to fair value of investment properties	10	—	10	—
Foreign currency translation (gain) loss (note 19)	(9)	6	(23)	9
	\$ 991	\$ 1,036	\$ 1,880	\$ 1,941
Change in:				
Non-cash working capital	145	252	(333)	(169)
Credit card receivables (note 8) ⁽ⁱⁱ⁾	(226)	(219)	(27)	18
Provisions	(86)	3	(103)	(1)
Other	(38)	1	(25)	21
	786	1,073	1,392	1,810
Income taxes paid	(194)	(161)	(351)	(518)
Interest received	9	4	18	8
Cash Flows from Operating Activities	\$ 601	\$ 916	\$ 1,059	\$ 1,300
Investing Activities				
Fixed asset purchases	\$ (210)	\$ (207)	\$ (368)	\$ (340)
Intangible asset additions	(74)	(80)	(160)	(134)
Acquisition of CREIT, net of cash acquired (note 3)	(1,624)	—	(1,624)	—
Cash assumed on initial consolidation of franchises (note 3)	1	2	9	12
Proceeds from disposal of assets	17	2	17	6
Change in short term investments	109	(66)	293	(36)
Change in security deposits	1,295	—	—	—
Other	(46)	(25)	(70)	(19)
Cash Flows used in Investing Activities	\$ (532)	\$ (374)	\$ (1,903)	\$ (511)
Financing Activities				
Change in bank indebtedness	\$ (22)	\$ 66	\$ 138	\$ 205
Change in short term debt (note 12)	161	105	(28)	(85)
Interest paid	(104)	(86)	(283)	(257)
Long term debt – Issued (note 13)	894	(18)	2,905	267
– Retired (note 13)	(630)	(29)	(1,314)	(257)
Share capital – Issued (notes 15 & 18)	4	1	8	1
Loblaw common share capital				
– Issued (notes 16 & 18)	4	12	38	21
– Purchased and held in trusts (note 16)	—	—	—	(48)
– Purchased and cancelled (note 16)	(300)	(260)	(844)	(452)
Dividends – To common shareholders	(58)	(57)	(116)	(113)
– To preferred shareholders	(11)	(11)	(22)	(22)
– To minority shareholders	(55)	(56)	(112)	(59)
Other	(42)	(4)	(76)	(22)
Cash Flows (used in) from Financing Activities	\$ (159)	\$ (337)	\$ 294	\$ (821)
Effect of foreign currency exchange rate changes on cash and cash equivalents	2	(3)	3	(2)
Change in Cash and Cash Equivalents	\$ (88)	\$ 202	\$ (547)	\$ (34)
Cash and Cash Equivalents, Beginning of Period	1,575	1,324	2,034	1,560
Cash and Cash Equivalents, End of Period	\$ 1,487	\$ 1,526	\$ 1,487	\$ 1,526

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

(ii) Change in credit card receivables includes impact of IFRS 9 implementation (see 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”).

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 – 6.0%). 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 61.7% (2017 – 82.5%) effective interest in Choice Properties, which owns, manages and develops a high quality portfolio of commercial retail, industrial, office and residential properties across Canada. During the second quarter of 2018, Choice Properties completed the acquisition of Canadian Real Estate Investment Trust (“CREIT”), as described in Note 3 “Business Acquisitions”. The Company’s effective interest reflects the issuance of 182,836,481 new Trust Units to Trust Unitholders other than the Company in connection with the acquisition of CREIT.

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 second quarter of 2018, GWL’s ownership interest in Loblaw was approximately 50.1% (2017 – 47.5%). 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 July 30, 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 are completed on 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 provision 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 franchises. Revenue also includes service fees from non-consolidated franchises 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.

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

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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 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 decreases 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 period as at June 17, 2017, and for 12 weeks and 24 weeks ended June 17, 2017 is as follows:

Condensed Consolidated Balance Sheets

Increase (Decrease) (\$ millions)	As at June 17, 2017
Loyalty liability	\$ (47)
Income taxes payable	13
Equity	34

Condensed Consolidated Statement of Earnings

Increase (Decrease) (\$ millions)	12 Weeks Ended June 17, 2017	24 Weeks Ended June 17, 2017
Revenue	\$ 1	\$ 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.

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 PC Bank, recognizes loss allowances based on ECL on credit card receivables, which are measured at amortized costs. 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.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

- 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 in the first quarter of 2018. 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 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. Land and buildings leased to franchisees are not accounted for as investment properties as these properties are related to the Company's operating activities.

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

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

The Company implemented the change retrospectively in the second quarter of 2018, and the impacts to comparative periods are as follow:

Consolidated Balance Sheets			
Increase (Decrease) (\$ millions)	As at June 17, 2017	As at December 31, 2017	As at January 1, 2017
Investment Properties	\$ 41	\$ 41	\$ 41
Deferred income tax liabilities	5	5	5
Equity	36	36	36

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

Joint Arrangements The Company, through Choice Properties, owned 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.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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 consolidated statements of income and other comprehensive income.

The financial statements of the equity-accounted investment are prepared for the same reporting period as the Company's. 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 the Company's. 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 joint operations.

Cash-Settled Share-Based Compensation Plans Transferred Restricted Units ("TRUs") issued by Choice Properties represent the unvested restricted unit plan acquired in connection with the acquisition of CREIT and are accounted for as cash-settled awards. The TRUs entitle certain employees of Choice Properties to receive the value of the TRU award in Trust Units at the end of the applicable vesting period, which is usually three years in length. The TRUs are subject to vesting conditions and disposition restrictions. The TRUs remain subject to forfeiture until the employee has remained employed with Choice Properties for a specified period of time. Depending on the nature of the grant, the TRUs are subject to a six- or seven-year holding period during which the TRUs cannot be disposed.

The fair value of each unvested TRU is measured based on the market value of a Trust Unit, less a discount to account for the vesting and holding period restriction placed on the TRUs, while taking into account expected forfeitures.

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.

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.

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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Net assets acquired:				
Cash and cash equivalents	\$ 1	\$ 2	\$ 9	\$ 12
Inventories	16	11	33	31
Fixed assets	15	11	41	33
Trade payables and other liabilities ⁽ⁱ⁾	(8)	(4)	(16)	(18)
Other liabilities ⁽ⁱ⁾	(21)	(18)	(60)	(53)
Non-controlling interests	(3)	(2)	(7)	(5)
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 Canadian Real Estate Investment Trust 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 Trust Units.

In anticipation of the acquisition, Choice Properties arranged a new \$1,500 million committed revolving credit facility. Concurrent with the closing of the acquisition of CREIT, Choice Properties repaid and cancelled its existing credit facilities prior to the acquisition and those acquired from CREIT (see 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 (see note 13); and
- \$800 million unsecured term loan facilities (see note 13).

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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.

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 June 16, 2018, on a year-to-date basis, Loblaw, through Choice Properties incurred costs totaling to \$120 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.

Included in the unaudited interim period condensed consolidated financial statements for the second quarter of 2018 are approximately \$69 million in revenue and \$48 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 the first half of 2018 would have amounted to approximately \$207 million and \$5 million, respectively, excluding the impact in the quarter of acquisition transaction costs and any adjustment to the fair value of the investment properties acquired. This pro forma information incorporates the effect of the preliminary purchase equation as if the acquisition had been effective 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. During the second quarter of 2018, Loblaw recognized a fair value loss of \$9 million, related to these investment properties.

Joint Ventures Choice Properties accounts for its investments in joint ventures using the equity method. These 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Interest expense:				
Long term debt ⁽ⁱ⁾	\$ 153	\$ 121	\$ 284	\$ 240
Borrowings related to credit card receivables	9	7	18	15
Trust Unit distributions ⁽ⁱⁱ⁾	32	8	40	17
Independent funding trusts	4	3	8	7
Post-employment and other long term employee benefits (note 17)	4	3	6	5
Bank indebtedness	3	2	4	3
Capitalized interest	(2)	—	(2)	(2)
	\$ 203	\$ 144	\$ 358	\$ 285
Interest income:				
Accretion income	\$ (2)	\$ (2)	(3)	(5)
Short term interest income	(12)	(3)	(20)	(6)
	\$ (14)	\$ (5)	\$ (23)	\$ (11)
Forward sale agreement ⁽ⁱⁱⁱ⁾	\$ 16	\$ (3)	\$ (31)	\$ 8
Fair value adjustment of the Trust Unit liability (note 19)	\$ 180	\$ (1)	99	23
Net interest expense and other financing charges	\$ 385	\$ 135	\$ 403	\$ 305

(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 (see notes 3 and 19).

(iii) Included in the second quarter of 2018 and year-to-date is a non-cash charge of \$23 million (2017 – \$2 million) and a non-cash income of \$19 million (2017 – a charge of \$19 million), respectively, related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (see 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 second quarter of 2018 and year-to-date is forward accretion income of \$11 million (2017 – \$10 million) and \$21 million (2017 – \$19 million), respectively, and the forward fee of \$4 million (2017 – \$5 million) and \$9 million (2017 – \$8 million), respectively, associated with the forward sale agreement.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

Note 5. Income Taxes

In the second quarter of 2018, income tax expense was \$126 million (2017 – \$140 million) and the effective income tax rate was 61.8% (2017 – 27.7%). The increase in the effective income tax rate was primarily attributable to the impact of non-deductible items including costs related to the acquisition of CREIT and an increase in the non-deductible fair value adjustment to the Trust Unit liability.

On a year-to-date basis, income tax expense was \$232 million (2017 – \$241 million) and the effective tax rate was 33.7% (2017 – 28.4%). The increase in the effective income tax rate was primarily attributable to the impact of non-deductible items including costs related to the acquisition of CREIT and an increase in the non-deductible fair value adjustment to the Trust Unit liability.

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

Note 6. Basic and Diluted Net Earnings per Common Share

(\$ millions except where otherwise indicated)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾	Jun. 16, 2018	Jun. 17, 2017 ⁽ⁱ⁾
Net earnings attributable to shareholders of the Company	\$ 38	\$ 170	\$ 228	\$ 288
Prescribed dividends on preferred shares in share capital	(10)	(10)	(20)	(20)
Net earnings available to common shareholders of the Company	\$ 28	\$ 160	\$ 208	\$ 268
Reduction in net earnings due to dilutive instruments at Loblaw	(1)	(2)	(2)	(2)
Net earnings available to common shareholders for diluted earnings per share	\$ 27	\$ 158	\$ 206	\$ 266
Weighted average common shares outstanding (in millions) (note 15)	127.8	127.7	127.8	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)	128.2	128.3	128.2	128.3
Basic net earnings per common share (\$)	\$ 0.22	\$ 1.25	\$ 1.63	\$ 2.10
Diluted net earnings per common share (\$)	\$ 0.21	\$ 1.23	\$ 1.61	\$ 2.08

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

(ii) In the second quarter of 2018 and year-to-date, 572,613 (2017 – 173,101) and 663,574 (2017 – 447,391) potentially dilutive instruments, respectively, were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

(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)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Cash	\$ 652	\$ 632	\$ 655
Cash equivalents:			
Bankers' acceptances	336	430	685
Government treasury bills	311	274	237
Corporate commercial paper	188	185	457
Government agency securities	—	5	—
Cash and cash equivalents	\$ 1,487	\$ 1,526	\$ 2,034

Short Term Investments

(\$ millions)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Bankers' acceptances	\$ 279	\$ 273	\$ 341
Government treasury bills	284	336	297
Corporate commercial paper	276	386	442
Government agency securities	—	40	31
Other	—	3	2
Short term investments	\$ 839	\$ 1,038	\$ 1,113

Security Deposits

(\$ millions)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Cash	\$ 50	\$ 47	\$ 48
Government treasury bills	32	40	38
Government agency securities	2	—	—
Security deposits	\$ 84	\$ 87	\$ 86

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(\$ millions)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Gross credit card receivables	\$ 3,182	\$ 2,956	\$ 3,147
Allowance on credit card receivables ⁽ⁱ⁾	(153)	(48)	(47)
Credit card receivables	\$ 3,029	\$ 2,908	\$ 3,100
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> [®] (note 13)	\$ 900	\$ 650	\$ 900
Securitized to Other Independent Securitization Trusts (note 12)	590	560	640
Total securitized to independent securitization trusts	\$ 1,490	\$ 1,210	\$ 1,540

(i) Allowance on credit card receivables as at June 16, 2018 includes the impact of the implementation of IFRS 9 (see 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.

Loblaw has arranged letters of credit on behalf of PC Bank for the benefit of the Independent Securitization Trusts.

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 second quarter of 2018 and throughout the first half of 2018.

Note 9. Inventories

The components of inventories were as follows:

(\$ millions)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Raw materials and supplies	\$ 72	\$ 71	\$ 72
Finished goods	4,486	4,321	4,551
Inventories	\$ 4,558	\$ 4,392	\$ 4,623

As at the end of the second quarter of 2018, Loblaw recorded an inventory provision of \$33 million (June 17, 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 June 16, 2018 and June 17, 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 second 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 second quarter of 2018 (2017 – nil).

As at the end of the second quarter of 2017, Loblaw had included \$78 million of fixed assets and \$10 million of inventory, related to the gas bar operations, as assets held for sale. In addition, \$54 million of related accounts payable and accrued liabilities were classified as liabilities held for sale. No impairment or other charges were recognized on the net assets of the gas bar operations. The sale of the gas bar operations was completed in the third quarter of 2017.

Note 11. Other Assets

The components of other assets were as follows:

(\$ millions)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Fair value of equity forward (note 19)	\$ 475	\$ 368	\$ 435
Sundry investments and other receivables	62	70	56
Net accrued benefit plan asset (note 17)	166	172	154
Mortgages, loans and notes receivable ⁽ⁱ⁾	236	28	29
Other	246	209	201
Total Other Assets	\$ 1,185	\$ 847	\$ 875
Current portion of mortgages, loans and notes receivable ⁽ⁱⁱ⁾	69	26	26
Other Assets	\$ 1,116	\$ 821	\$ 849

(i) In connection with the acquisition of CREIT, the Company assumed mortgages, loans and notes receivable of \$204 million (see 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)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Other Independent Securitization Trusts (note 8)	\$ 590	\$ 560	\$ 640
Series B Debentures ⁽ⁱ⁾	640	596	618
Short term debt	\$ 1,230	\$ 1,156	\$ 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 The outstanding short term debt balances relate to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 8).

As at the end of the second quarter of 2018, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was \$53 million (June 17, 2017 – \$62 million; December 31, 2017 – \$62 million), which represented 9% (June 17, 2017 – 11% and December 31, 2017 – 10%) of the securitized credit card receivables amount.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

Note 13. Long Term Debt

The components of long term debt were as follows:

(\$ millions)	Jun. 16, 2018	As at	
		Jun. 17, 2017	Dec. 31, 2017
Debentures and Medium Term Notes ⁽ⁱ⁾	\$ 10,036	\$ 8,296	\$ 8,303
Loblaw unsecured term loan facilities	1,098	298	298
Long term debt secured by mortgage ⁽ⁱ⁾	1,300	76	81
Construction loans ⁽ⁱ⁾	13	—	—
Guaranteed Investment Certificates	950	923	852
Independent Securitization Trust (note 8)	900	650	900
Independent funding trusts	549	555	551
Finance lease obligations	552	593	568
Committed credit facilities ⁽ⁱ⁾	182	464	561
Transaction costs and other	(39)	(21)	(22)
Total long term debt	\$ 15,541	\$ 11,834	\$ 12,092
Long term debt due within one year	(2,623)	(581)	(1,635)
Long term debt	\$ 12,918	\$ 11,253	\$ 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 (see 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 second quarter of 2018 and throughout the first half of 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	12 Weeks Ended	24 Weeks Ended
			Jun. 16, 2018	Jun. 16, 2018
			Principal Amount	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	125
– Series B-C ⁽ⁱⁱⁱ⁾	4.32%	January 15, 2021	100	100
– Series C-C ⁽ⁱⁱⁱ⁾	2.56%	November 30, 2019	100	100
– Series D-C ⁽ⁱⁱⁱ⁾	2.95%	January 18, 2023	125	125
Total debentures and MTNs issued			\$ 450	\$ 2,400

- (i) Offerings were made under the Choice Properties’ Short Form Base Shelf Prospectus filed in the first quarter of 2018.
(ii) 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 (see note 3).
(iii) Assumed by Loblaw in connection with the acquisition of CREIT (see note 3).

There were no MTNs issued in the comparative periods in 2017.

The following table summarizes the debentures and MTNs repaid in the periods ended as indicated:

(\$ millions)	Interest Rate	Maturity Date	12 Weeks Ended		24 Weeks Ended	
			Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
			Principal Amount	Principal Amount	Principal Amount	Principal Amount
Shoppers Drug Mart Notes	2.36%	May 24, 2018	\$ 275	\$ —	\$ 275	\$ —
Choice Properties senior unsecured debentures						
– Series A	3.55%	July 5, 2018 ⁽ⁱ⁾	—	—	400	—
– Series 6	3.00%	April 20, 2017 ⁽ⁱⁱ⁾	—	—	—	200
Total debentures and MTNs repaid			\$ 275	\$ —	\$ 675	\$ 200

(i) Redeemed on February 12, 2018.

(ii) 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Balance, beginning of period	\$ 840	\$ 923	\$ 852	\$ 928
GICs issued	151	6	152	7
GICs matured	(41)	(6)	(54)	(12)
Balance, end of period	\$ 950	\$ 923	\$ 950	\$ 923

Independent Securitization Trust The notes issued by *Eagle* are MTNs, which are collateralized by PC Bank's credit card receivables (see note 8). As at the end of the second quarter of 2018, the aggregate gross potential liability under letters of credit for the benefit of *Eagle* was \$36 million (June 17, 2017 and December 31, 2017 – \$36 million), which represented 9% (June 17, 2017 and December 31, 2017 – 9%) of the outstanding *Eagle* notes issued prior to 2015.

Subsequent to the second 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 after the quarter, resulting in a realized fair value loss of \$1 million and a net effective interest rate of 3.15% on the *Eagle* note issued.

Independent Funding Trusts Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts in the amount of \$64 million (June 17, 2017 and December 31, 2017 – \$64 million), representing not less than 10% (June 17, 2017 and December 31, 2017 – not less than 10%) of the principal amount of loans outstanding.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

(\$ millions)	Maturity Date	Jun. 16, 2018		As at			
		Available Credit	Drawn	Jun. 17, 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	214	500	311
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	182	—	—	—	—
Total committed lines of credit		\$ 2,500	\$ 182	\$ 1,750	\$ 464	\$ 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		
	Jun. 16, 2018	Jun. 17, 2017	Dec. 31, 2017
Debentures and MTNs	\$ 925	\$ 275	\$ 675
Loblaw unsecured term loan facilities	298	—	—
GICs	242	182	193
Independent Securitization Trust	400	—	400
Independent funding trusts	549	—	—
Finance lease obligations	39	49	44
Long term debt secured by mortgage	170	75	73
Choice Properties Credit Facility	—	—	250
Long term debt due within one year	\$ 2,623	\$ 581	\$ 1,635

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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Total long term debt, beginning of period	\$ 13,418	\$ 11,856	\$ 12,092	\$ 11,785
Long term debt assumed on acquisition of CREIT (note 3)	1,840	—	1,840	—
Long term debt issuances ⁽ⁱ⁾	894	(18)	2,905	267
Long term debt repayments ⁽ⁱⁱ⁾	(630)	(29)	(1,314)	(257)
Total cash flow from long term debt financing activities	264	(47)	1,591	10
Finance lease additions	7	5	7	12
Other non-cash changes	12	20	11	27
Total non-cash long term debt activity	19	25	18	39
Total long term debt, end of period	\$ 15,541	\$ 11,834	\$ 15,541	\$ 11,834

(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 \$19 million in the second quarter of 2018 (2017 – \$23 million) and \$39 million year-to-date (2017 – \$44 million).

Note 14. Other Liabilities

The components of other liabilities were as follows:

(\$ millions)	As at		
	Jun. 16, 2018	Jun. 17, 2017	Dec. 31, 2017
Net defined benefit plan obligation (note 17)	\$ 376	\$ 427	\$ 380
Other long term employee benefit obligation	113	112	115
Deferred lease obligation	144	131	140
Fair value of acquired leases	60	72	65
Share-based compensation liability (note 18)	5	4	4
Other	30	78	58
Other liabilities	\$ 728	\$ 824	\$ 762

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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:

	12 Weeks Ended				24 Weeks Ended			
	Jun. 16, 2018		Jun. 17, 2017		Jun. 16, 2018		Jun. 17, 2017	
(\$ millions except where otherwise indicated)	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	127,956,198	\$ 226	127,903,707	\$ 195	127,905,581	\$ 221	127,898,582	\$ 195
Issued for settlement of stock options (note 18)	48,053	4	15,125	1	100,298	9	20,250	1
Purchased and cancelled	—	—	—	—	(1,628)	—	—	—
Issued and outstanding, end of period	128,004,251	\$ 230	127,918,832	\$ 196	128,004,251	\$ 230	127,918,832	\$ 196
Shares held in trusts, beginning of period	(134,128)	—	(264,296)	—	(228,803)	—	(266,999)	—
Released for settlement of RSUs and PSUs (note 18)	4,332	—	95,530	—	99,007	—	98,233	—
Shares held in trusts, end of period	(129,796)	—	(168,766)	—	(129,796)	—	(168,766)	—
Issued and outstanding net of shares held in trusts, end of period	127,874,455	\$ 230	127,750,066	\$ 196	127,874,455	\$ 230	127,750,066	\$ 196
Weighted average outstanding, net of shares held in trusts (note 6)	127,838,376		127,732,859		127,776,173		127,683,476	

Normal Course Issuer Bid ("NCIB") Program There was no NCIB activity under its NCIB program in the second quarter of 2018 and 2017.

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. As of June 16, 2018, the Company did not purchase any common shares under its current NCIB program.

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

(\$)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Dividends declared per share ⁽ⁱ⁾ :				
Common share	\$ 0.490	\$ 0.455	\$ 0.945	\$ 0.895
Preferred share:				
Series I	\$ 0.3625	\$ 0.3625	\$ 0.7250	\$ 0.7250
Series III	\$ 0.3250	\$ 0.3250	\$ 0.6500	\$ 0.6500
Series IV	\$ 0.3250	\$ 0.3250	\$ 0.6500	\$ 0.6500
Series V	\$ 0.296875	\$ 0.296875	\$ 0.593750	\$ 0.593750

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

Note 16. Loblaw Capital Transactions

Loblaw Preferred Shares As at the end of the second 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 second quarter of 2018 and year-to-date, Loblaw declared dividends of \$3 million (2017 – \$3 million) and \$6 million (2017 – \$6 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Issued (number of shares)	137,804	1,203,380	1,464,079	1,434,744
Purchased and held in trusts (number of shares)	—	—	—	(686,000)
Purchased and cancelled (number of shares)	(4,559,682)	(3,379,400)	(12,666,709)	(6,082,893)
	(4,421,878)	(2,176,020)	(11,202,630)	(5,334,149)
Cash consideration received (paid)				
Share-based compensation	\$ 4	\$ 12	\$ 38	\$ 21
Purchased and held in trusts	—	—	—	(48)
Purchased and cancelled	(300)	(260)	(844)	(452)
	\$ (296)	\$ (248)	\$ (806)	\$ (479)
Increase (decrease) in contributed surplus				
Share-based compensation	\$ 2	\$ 9	\$ 14	\$ 10
Purchased and held in trusts	—	—	—	(12)
Purchased and cancelled	(74)	(72)	(210)	(122)
	\$ (72)	\$ (63)	\$ (196)	\$ (124)

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Post-employment benefit costs recognized in operating income ⁽ⁱ⁾	\$ 37	\$ 35	\$ 78	\$ 84
Other long term employee benefit costs recognized in operating income ⁽ⁱⁱ⁾	8	4	12	8
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	4	3	6	5
Actuarial gains (losses) before income taxes recognized in other comprehensive income	44	(27)	18	(62)

(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 second quarter of 2018 of \$1 million (2017 – nil) and year-to-date of 2018 of \$1 million (2017 – \$7 million).

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

The actuarial gains recognized in the second quarter of 2018 and year-to-date were primarily driven by higher than expected returns on assets. The actuarial losses recognized in the second quarter of 2017 and year-to-date 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 and recorded settlement charges of \$1 million in SG&A.

In the first quarter of 2017, Loblaw completed an annuity purchase and paid \$110 million from the impacted plans' assets to settle \$103 million of pension obligations and recorded settlement charges of \$7 million in SG&A.

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 second quarter of 2018 and year-to-date were \$16 million (2017 – \$16 million) and \$26 million (2017 – \$39 million), respectively.

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

(\$ millions)	As at		
	Jun. 16, 2018	Jun. 17, 2017	Dec. 31, 2017
Trade payables and other liabilities	\$ 9	\$ 11	\$ 11
Other liabilities (note 14)	5	4	4
Contributed surplus	116	127	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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Outstanding options, beginning of period	1,643,846	1,808,818	1,527,125	1,662,855
Granted	—	1,687	234,517	160,587
Exercised	(48,053)	(15,125)	(100,298)	(20,250)
Forfeited/cancelled	(2,327)	—	(67,878)	(7,812)
Expired	(644)	—	(644)	—
Outstanding options, end of period	1,592,822	1,795,380	1,592,822	1,795,380

In the second quarter of 2018, GWL issued common shares on the exercise of stock options with a weighted average share price of \$104.20 (2017 – \$124.26), and received \$4 million (2017 – \$1 million) of cash consideration. 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 second quarter of 2018. In the second quarter of 2017, GWL granted stock options with a weighted average exercise price of \$123.73 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:

	12 Weeks Ended Jun. 17, 2017
Expected dividend yield	1.5%
Expected share price volatility	16.1% - 17.3%
Risk-free interest rate	1.0% - 1.2%
Expected life of options	4.7 - 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 second quarter of 2018 was 0.7% (2017 – 1.3%).

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

(number of options)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Outstanding options, beginning of period	8,118,042	8,535,854	7,487,774	7,322,358
Granted	11,658	8,325	1,635,793	1,453,657
Exercised	(93,896)	(277,055)	(954,918)	(501,930)
Forfeited/cancelled	(117,955)	(135,198)	(250,800)	(142,159)
Outstanding options, end of period	7,917,849	8,131,926	7,917,849	8,131,926

In the second quarter of 2018, Loblaw issued common shares on the exercise of stock options with a weighted average share price of \$65.91 (2017 – \$76.27) per common share and received cash consideration of \$4 million (2017 – \$12 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 \$66.20 (2017 – \$73.75) per common share and received cash consideration of \$38 million (2017 – \$21 million).

In the second quarter of 2018, Loblaw granted stock options with a weighted average exercise price of \$65.59 (2017 – \$77.81) per common share and a nominal fair value (2017 – nominal). 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:

	12 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017
Expected dividend yield	1.8%	1.4%
Expected share price volatility	15.3% - 17.2%	16.2% - 18.1%
Risk-free interest rate	2.1% - 2.2%	0.9% - 1.2%
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 second quarter of 2018 was 8.0% (2017 – 10.0%).

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

(number of awards)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Outstanding RSUs, beginning of period	187,554	261,777	183,960	213,084
Granted	798	3,576	61,152	56,149
Reinvested	499	199	737	199
Settled	(5,893)	(56,426)	(56,145)	(58,397)
Forfeited	(449)	(1,397)	(7,195)	(3,306)
Outstanding RSUs, end of period	182,509	207,729	182,509	207,729

In the second 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Outstanding RSUs, beginning of period	890,926	1,095,989	824,705	858,106
Granted	23,517	18,676	300,086	265,851
Reinvested	2,488	886	2,488	886
Settled	(20,291)	(266,540)	(219,768)	(270,374)
Forfeited	(8,936)	(19,937)	(19,807)	(25,395)
Outstanding RSUs, end of period	887,704	829,074	887,704	829,074

In the second quarter of 2018, the fair value of Loblaw's granted RSUs was \$2 million (2017 – \$2 million). In the year-to-date of 2018, the fair value of Loblaw's granted RSUs was \$20 million (2017 – \$19 million).

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

(number of awards)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Outstanding PSUs, beginning of period	89,319	139,424	100,263	127,866
Granted	45	246	36,766	24,194
Reinvested	236	90	340	90
Settled	(250)	(39,104)	(44,673)	(39,836)
Forfeited	(183)	(337)	(3,529)	(11,995)
Outstanding PSUs, end of period	89,167	100,319	89,167	100,319

In the second 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Outstanding PSUs, beginning of period	661,127	1,165,871	631,528	965,863
Granted	7,384	181,230	309,188	387,734
Reinvested	1,779	739	1,779	739
Settled	(23,617)	(659,785)	(289,393)	(662,440)
Forfeited	(8,270)	(31,668)	(14,699)	(35,509)
Outstanding PSUs, end of period	638,403	656,387	638,403	656,387

In the second quarter of 2018, the fair value of Loblaw's granted PSUs was nominal (2017 – nominal). In the year-to-date of 2018, the fair value of Loblaw's granted PSUs was \$14 million (2017 – \$14 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Settled	6,143	95,530	100,818	98,233
Released from trusts (note 15)	4,332	95,530	99,007	98,233

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

The settlement of awards from shares held in trusts in the second quarter of 2018 and year-to-date resulted in a nominal increase (2017 – \$7 million) and \$9 million (2017 – \$7 million) in retained earnings, respectively. There were nominal increases in share capital in the first half of 2018 and 2017 related to these settlements.

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)	Jun. 16, 2018				As at Jun. 17, 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	\$ —	\$ —	\$ 119	\$ 119	\$ —	\$ —	\$ 176	\$ 176	\$ —	\$ —	\$ 166	\$ 166
Certain other assets ⁽ⁱ⁾	—	—	159	159	—	—	30	30	—	—	23	23
Fair value through other comprehensive income:												
Certain long term investments ⁽ⁱ⁾	60	19	—	79	22	25	—	47	20	24	—	44
Fair value through profit and loss:												
Security deposits	82	2	—	84	87	—	—	87	86	—	—	86
Certain other assets ⁽ⁱ⁾	—	—	93	93	—	—	—	—	—	—	—	—
Derivatives included in accounts receivable	(1)	3	—	2	—	2	—	2	(2)	(7)	—	(9)
Derivatives included in prepaid expenses and other assets	7	7	—	14	2	8	3	13	3	—	2	5
Derivatives included in other assets	—	475	—	475	—	368	—	368	—	435	—	435
Financial liabilities												
Amortized cost:												
Long term debt	—	16,519	—	16,519	—	13,017	—	13,017	—	13,103	—	13,103
Certain other liabilities ⁽ⁱ⁾	—	—	17	17	—	—	20	20	—	—	18	18
Fair value through other comprehensive income:												
Derivatives included in trade payables and other liabilities	—	4	—	4	—	—	—	—	—	1	—	1
Fair value through profit and loss:												
Trust Unit liability	2,790	—	—	2,790	661	—	—	661	634	—	—	634
Derivatives included in trade payables and other liabilities	—	—	2	2	—	—	—	—	—	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 second quarter of 2018 and year-to-date, a net loss of \$189 million (2017 – \$1 million) and \$52 million (2017 – \$53 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 second quarter of 2018, the Company had cash and cash equivalents, short term investments and security deposits of \$2,410 million (June 17, 2017 – \$2,651 million; December 31, 2017 – \$3,233 million), including U.S. dollars of \$472 million (June 17, 2017 – U.S. \$601 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 (see note 7).

In the second quarter of 2018 and year-to-date, a gain of \$28 million (2017 – loss of \$12 million) and a gain of \$50 million (2017 – loss of \$16 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 second quarter of 2018 and year-to-date, a gain of \$9 million (2017 – loss of \$6 million) and a gain of \$23 million (2017 – loss of \$9 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 second quarter of 2018 and year-to-date, a gain of \$2 million (2017 – nominal gain) and a gain of \$4 million (2017 – nominal gain), 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 second quarter of 2018, the value of Loblaw franchise loans receivable of \$119 million (June 17, 2017 – \$176 million; December 31, 2017 – \$166 million) was recorded in the condensed consolidated balance sheets. In the second quarter of 2018 and year-to-date, Loblaw recorded a gain of \$1 million (2017 – nil) and a gain of \$2 million (2017 – nil), respectively, in operating income related to these loans receivable.

As at the end of the second quarter of 2018, the value of Loblaw franchise investments was \$14 million (June 17, 2017 – \$27 million; December 31, 2017 – \$20 million) and was recorded in other assets. In the second quarter of 2018 and year-to-date, Loblaw recorded a nominal gain (2017 – loss of \$1 million) and a gain of \$1 million (2017 – loss of \$2 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 second quarter of 2018 and year-to-date, a gain of \$1 million (2017 – gain of \$4 million) and a loss of \$4 million (2017 – gain of \$5 million), respectively, was recognized in operating income related to these derivatives. 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 second 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 second quarter of 2018, the forward price had increased to \$115.70 (June 17, 2017 – \$111.11; December 31, 2017 – \$113.45) per Loblaw common share under the terms of the agreement. In the second quarter of 2018 and year-to-date, a fair value loss of \$23 million (2017 – loss of \$2 million) and a fair value gain of \$19 million (2017 – loss of \$19 million) was recorded in net interest expense and other financing charges related to this agreement (see note 4).

Trust Unit Liability In the second quarter of 2018 and year-to-date, a fair value loss of \$180 million (2017 – gain of \$1 million) and a fair value loss of \$99 million (2017 – loss of \$23 million), respectively, was recognized in net interest expense and other financing charges (see 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:

	Jun. 16, 2018					
	12 Weeks Ended			24 Weeks Ended		
(\$ millions)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	Gain 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⁾	\$ 1	\$ 1	\$ —	\$ 2	\$ —	
Interest Rate Risk - Bond Forwards ⁽ⁱⁱⁱ⁾	(1)	1	—	(1)	—	
Interest Rate Risk - Interest Rate Swaps ^(iv)	(1)	—	—	—	—	
Total derivatives designated as cash flow hedges	\$ (1)	\$ 2	\$ —	\$ 1	\$ —	
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	\$ 10	\$ —	\$ 10	\$ —	\$ 25	
Other Non-Financial Derivatives	1	—	2	—	6	
Total derivatives not designated in a formal hedging relationship	\$ 11	\$ —	\$ 12	\$ —	\$ 31	
Total derivatives	\$ 10	\$ 2	\$ 12	\$ 1	\$ 31	

- (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 \$22 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 \$328 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.

	Jun. 17, 2017					
	12 Weeks Ended			24 Weeks Ended		
(\$ millions)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	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⁾	\$ —	\$ (1)	\$ 1	\$ (1)	\$ 1	
Interest Rate Risk - Bond Forwards ⁽ⁱⁱⁱ⁾	3	2	—	2	—	
Total derivatives designated as cash flow hedges	\$ 3	\$ 1	\$ 1	\$ 1	\$ 1	
Derivatives not designated in a formal hedging relationship						
Foreign Exchange and Other Forwards	\$ 7	\$ —	\$ (5)	\$ —	\$ (8)	
Other Non-Financial Derivatives	2	—	—	—	(8)	
Total derivatives not designated in a formal hedging relationship	\$ 9	\$ —	\$ (5)	\$ —	\$ (16)	
Total derivatives	\$ 12	\$ 1	\$ (4)	\$ 1	\$ (15)	

- (i) Includes interest rate swap agreements with a notional value of \$200 million. During the second quarter of 2017, a nominal unrealized fair value loss 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 consolidated financial statements.

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 consolidated financial statements.

Loblaw was reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited, a wholly owned Barbadian subsidiary, should be treated and taxed as income in Canada. The reassessments, which were received between 2015 and 2018, are for the 2000 to 2013 taxation years and total \$441 million of taxes, interest and penalties. Loblaw believes the reassessments are without merit and is vigorously defending them. Loblaw has filed a Notice of Appeal with the Tax Court of Canada for the 2000 to 2010 taxation years and a Notice of Objection for the 2011 and 2012 taxation years and intends to file a Notice of Objection for the 2013 taxation year. The Tax Court of Canada trial concluded in the third quarter of 2018. The decision of the Tax Court is under reserve. Loblaw does not currently have any significant accruals or provisions for this matter recorded in the 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.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

The Company and Loblaw have not recorded any amounts related to the potential civil liability associated with the class action lawsuits in the second 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.

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. In the first quarter of 2018, Loblaw recorded an additional charge of \$19 million, and in the second quarter of 2018, Loblaw recorded a reversal of \$11 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 their admission that they participated in the arrangement and their cooperation in the Competition Bureau's investigation, the Company and Loblaw will not face criminal charges or penalties.

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)	12 Weeks Ended				12 Weeks Ended			
	Jun. 16, 2018				Jun. 17, 2017			
	Weston Foods	Loblaw	Other and Intersegment ⁽ⁱ⁾	Total	Weston Foods	Loblaw ⁽ⁱⁱ⁾	Other and Intersegment ⁽ⁱ⁾	Total ⁽ⁱⁱ⁾
Revenue	\$ 468	\$ 10,923	\$ (146)	\$ 11,245	\$ 509	\$ 11,080	\$ (153)	\$ 11,436
Operating income	\$ 21	\$ 559	\$ 9	\$ 589	\$ 24	\$ 625	\$ (9)	\$ 640
Net interest expense and other financing charges	31	370	(16)	385	13	127	(5)	135
Earnings before income tax	\$ (10)	\$ 189	\$ 25	\$ 204	\$ 11	\$ 498	\$ (4)	\$ 505
Operating income	\$ 21	\$ 559	\$ 9	\$ 589	\$ 24	\$ 625	\$ (9)	\$ 640
Depreciation and amortization	28	372	—	400	25	360	—	385
Adjusting items ⁽ⁱⁱⁱ⁾	(1)	94	(9)	84	5	(1)	9	13
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	\$ 48	\$ 1,025	\$ —	\$ 1,073	\$ 54	\$ 984	\$ —	\$ 1,038
Depreciation and amortization ^(iv)	28	253	—	281	25	239	—	264
Adjusted operating income⁽ⁱⁱⁱ⁾	\$ 20	\$ 772	\$ —	\$ 792	\$ 29	\$ 745	\$ —	\$ 774

(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 (see 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 \$119 million (2017 – \$121 million) of amortization of intangible assets acquired with Shoppers Drug Mart, recorded by Loblaw in the second quarter of 2018.

Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

24 Weeks Ended

(\$ millions)	Jun. 16, 2018				Jun. 17, 2017			
	Weston Foods	Loblaw	Other and Intersegment ⁽ⁱ⁾	Total	Weston Foods	Loblaw ⁽ⁱⁱ⁾	Other and Intersegment ⁽ⁱ⁾	Total ⁽ⁱⁱⁱ⁾
Revenue	\$ 985	\$ 21,290	\$ (286)	\$ 21,989	\$ 1,048	\$ 21,484	\$ (293)	\$ 22,239
Operating income	\$ 31	\$ 1,037	\$ 23	\$ 1,091	\$ 47	\$ 1,118	\$ (12)	\$ 1,153
Net interest expense and other financing charges	(2)	383	22	403	38	288	(21)	305
Earnings before income tax	\$ 33	\$ 654	\$ 1	\$ 688	\$ 9	\$ 830	\$ 9	\$ 848
Operating income	\$ 31	\$ 1,037	\$ 23	\$ 1,091	\$ 47	\$ 1,118	\$ (12)	\$ 1,153
Depreciation and amortization	59	741	—	800	49	720	—	769
Adjusting items ⁽ⁱⁱⁱ⁾	2	121	(23)	100	19	12	12	43
Adjusted EBITDA ⁽ⁱⁱⁱ⁾	\$ 92	\$ 1,899	\$ —	\$ 1,991	\$ 115	\$ 1,850	\$ —	\$ 1,965
Depreciation and amortization ^(iv)	55	501	—	556	49	478	—	527
Adjusted operating income⁽ⁱⁱⁱ⁾	\$ 37	\$ 1,398	\$ —	\$ 1,435	\$ 66	\$ 1,372	\$ —	\$ 1,438

(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 (see 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 \$240 million (2017 – \$242 million) year-to-date of amortization of intangible assets acquired with Shoppers Drug Mart, recorded by Loblaw, and \$4 million year-to-date (2017 – nil) of accelerated depreciation recorded by Weston Foods, included in restructuring and other related costs.

(\$ millions)	Jun. 16, 2018	As at	
		Jun. 17, 2017 ⁽ⁱ⁾	Dec. 31, 2017 ⁽ⁱ⁾
Total Assets			
Weston Foods	\$ 2,758	\$ 2,614	\$ 2,645
Loblaw	40,186	34,227	35,307
Other ⁽ⁱⁱ⁾	844	956	927
Intersegment	(307)	(345)	(339)
Consolidated	\$ 43,481	\$ 37,452	\$ 38,540

(i) Certain comparative figures have been restated (see 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)	12 Weeks Ended		24 Weeks Ended	
	Jun. 16, 2018	Jun. 17, 2017	Jun. 16, 2018	Jun. 17, 2017
Additions to Fixed Assets and Intangible Assets				
Weston Foods	\$ 38	\$ 33	\$ 60	\$ 66
Loblaw	246	254	468	408
Consolidated	\$ 284	\$ 287	\$ 528	\$ 474