

Management's Discussion and Analysis

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Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL" or the "Company") should be read in conjunction with the Company's third quarter 2019 unaudited interim period condensed consolidated financial statements and the accompanying notes on pages 51 to 91 of this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2018 and the related annual MD&A included in the Company's 2018 Annual Report. In addition, the following MD&A should be read in conjunction with the Company's "Forward-Looking Statements" beginning on page 3 of this Quarterly Report.

The Company's third quarter 2019 unaudited interim period condensed consolidated financial statements and the accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"). These unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except where otherwise noted.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See the "Non-GAAP Financial Measures" section of this MD&A for more information on the Company's non-GAAP financial measures.

A glossary of terms and ratios used throughout this Quarterly Report can be found beginning on page 174 of the Company's 2018 Annual Report.

On January 1, 2019, the Company implemented IFRS 16, "Leases" ("IFRS 16"), replacing International Accounting Standard 17, "Leases" ("IAS 17") and related interpretations. The standard introduced a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard using the modified retrospective approach. As a result, the Company's 2019 results incorporate lease accounting under IFRS 16. Under IFRS 16, the depreciation expense on right-of-use assets and interest expense on lease liabilities replaces rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease. Prior year results have not been restated. See the "Consolidated Other Business Matters" section of this MD&A for more information on the implementation of IFRS 16.

On November 1, 2018, the Company and Loblaw Companies Limited ("Loblaw") completed a reorganization under which Loblaw spun out its approximate 61.6% effective interest in Choice Properties Real Estate Investment Trust ("Choice Properties") to the Company (the "reorganization" or the "spin-out"). In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw shareholders other than the Company and its subsidiaries ("Loblaw minority shareholders"). Following the reorganization, the Company owned an approximate 65.4% effective interest in Choice Properties directly (which includes the approximate 3.8% interest in Choice Properties directly owned by GWL prior to the reorganization) and Choice Properties became a reportable operating segment of the Company. During the second quarter of 2019, Choice Properties completed an equity offering. As at the end of the third quarter of 2019, the Company's ownership interest in Choice Properties was 62.9%.

The Company operates through its three reportable operating segments, Weston Foods, Loblaw, and Choice Properties. Other and Intersegment includes eliminations, intersegment adjustments related to the consolidation of Choice Properties and cash and short term investments held by the Company. Effective in the first quarter of 2019, all other company level activities that are not allocated to the reportable operating segments, such as interest expense, corporate activities and administrative costs are included in Other and Intersegment. Weston Foods and Other and Intersegment comparative figures have been restated to conform to the current year presentation.

The Weston Foods operating segment includes 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.

Loblaw has two reportable operating segments, Retail and Financial Services. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services and wireless mobile products and services.

Choice Properties owns, manages and develops a high quality portfolio of commercial retail, industrial, office and residential properties across Canada.

The information in this MD&A is current to November 18, 2019, unless otherwise noted.

FORWARD-LOOKING STATEMENTS

This Quarterly Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in the "Liquidity and Capital Resources", "Outlook" and "Non-GAAP Financial Measures" sections of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "maintain", "achieve", "grow", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2019 is based on certain assumptions including assumptions about sales and volume growth, anticipated cost savings, operating efficiencies, anticipated benefits from strategic initiatives and restructuring, healthcare reform impacts, future liquidity, planned capital investments, and the status and impact of IT systems implementations. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the "Enterprise Risks and Risk Management" section of the Company's 2018 Annual Report and the Company's Annual Information Form ("AIF") for the year ended December 31, 2018. Such risks and uncertainties include:

- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings, operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- failure to execute Loblaw's e-commerce initiative or to adapt its business model to the shifts in the retail landscape caused by digital advances;
- public health events including those related to food and drug safety;

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- errors made through medication dispensing or errors related to patient services or consultation;
- adverse outcomes of legal and regulatory proceedings and related matters;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- the inability of the Company to effectively develop and execute its strategy; and
- the inability of the Company to anticipate, identify and react to consumer and retail trends.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including without limitation, the section entitled "Operating and Financial Risks and Risk Management" in the Company's AIF for the year ended December 31, 2018. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Quarterly Report. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

KEY FINANCIAL PERFORMANCE INDICATORS

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

(\$ millions except where otherwise indicated)

As at or for the periods ended as indicated	16 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018
Sales	\$ 15,226	\$ 14,862
Operating income	\$ 884	\$ 804
Adjusted EBITDA ⁽¹⁾	1,661	1,391
Adjusted EBITDA margin ⁽¹⁾	10.9%	9.4%
Net earnings attributable to shareholders of the Company	\$ 83	\$ 65
Net earnings available to common shareholders of the Company	69	51
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	391	288
Diluted net earnings per common share (\$)	\$ 0.44	\$ 0.40
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 2.54	\$ 2.25
Cash and cash equivalents, short term investments and security deposits	\$ 1,776	\$ 2,577
Cash flows from operating activities	1,053	1,205
Free cash flow ⁽¹⁾	115	275
Total debt excluding lease liabilities	\$ 15,973	\$ 16,720
Rolling year adjusted return on average equity attributable to common shareholders of the Company ⁽¹⁾	16.8%	12.8%
Rolling year adjusted return on capital ⁽¹⁾	10.4%	11.7%

CONSOLIDATED RESULTS OF OPERATIONS

Unless otherwise indicated, the Company's results include:

- the impact of the implementation of IFRS 16 as set out in the "Consolidated Other Business Matters" section below;
- the impact of the acquisition of Canadian Real Estate Investment Trust ("CREIT") by Choice Properties in the second quarter of 2018;
- the year-over-year impact of the fair value adjustment of the Trust Unit liability as a result of the significant changes in Choice Properties' unit price, recorded in net interest expense and other financing charges, further described below and as set out in the "Non-GAAP Financial Measures" section of this MD&A; and
- the dilutive impact on both the Company's diluted net earnings per common share and adjusted diluted net earnings per common share⁽¹⁾ as a result of the issuance of approximately 26.6 million common shares in connection with a reorganization in November 2018, as set out in the "Consolidated Other Business Matters" section below.

(\$ millions except where otherwise indicated) For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018	\$ Change	% Change
Sales	\$ 15,226	\$ 14,862	\$ 364	2.4 %	\$ 38,002	\$ 36,851	\$ 1,151	3.1 %
Operating income	\$ 884	\$ 804	\$ 80	10.0 %	\$ 2,240	\$ 1,895	\$ 345	18.2 %
Adjusted EBITDA ⁽¹⁾	1,661	1,391	270	19.4 %	4,132	3,382	750	22.2 %
Adjusted EBITDA margin ⁽¹⁾	10.9%	9.4%			10.9%	9.2%		
Depreciation and amortization⁽ⁱ⁾	\$ 701	\$ 530	\$ 171	32.3 %	\$ 1,770	\$ 1,330	\$ 440	33.1 %
Net interest expense and other financing charges	517	327	190	58.1 %	1,697	730	967	132.5 %
Adjusted net interest expense and other financing charges ⁽¹⁾	296	231	65	28.1 %	794	554	240	43.3 %
Income taxes	\$ 103	\$ 347	\$ (244)	(70.3)%	\$ 298	\$ 579	\$ (281)	(48.5)%
Adjusted income taxes ⁽¹⁾	177	203	(26)	(12.8)%	482	502	(20)	(4.0)%
Adjusted income tax rate ⁽¹⁾	21.5%	25.5%			24.5%	26.3%		
Net earnings (loss) attributable to shareholders of the Company	\$ 83	\$ 65	\$ 18	27.7 %	\$ (201)	\$ 293	\$ (494)	(168.6)%
Net earnings (loss) available to common shareholders of the Company	69	51	18	35.3 %	(235)	259	(494)	(190.7)%
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	391	288	103	35.8 %	855	676	179	26.5 %
Diluted net earnings (loss) per common share (\$)	\$ 0.44	\$ 0.40	\$ 0.04	10.0 %	\$ (1.55)	\$ 2.01	\$ (3.56)	(177.1)%
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 2.54	\$ 2.25	\$ 0.29	12.9 %	\$ 5.54	\$ 5.26	\$ 0.28	5.3 %

- (i) Depreciation and amortization includes \$157 million (2018 – \$161 million) in the third quarter of 2019 and \$392 million (2018 – \$401 million) year-to-date of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation, recorded by Loblaw and \$4 million (2018 – \$5 million) in the third quarter of 2019 and \$6 million (2018 – \$9 million) year-to-date of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

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Net Earnings Available to Common Shareholders of the Company

In the third quarter of 2019, the Company recorded net earnings available to common shareholders of the Company of \$69 million, an increase of \$18 million, or 35.3%, compared to the same period in 2018. The increase was mainly attributable to the improvement in the underlying operating performance of \$103 million, partially offset by the unfavourable year-over-year net impact of adjusting items totaling \$85 million described below:

- The improvement in underlying operating performance of \$103 million included the favourable impact of IFRS 16 of approximately \$19 million. Normalized for this impact, the underlying operating performance improved by \$84 million, primarily due to:
 - the positive contribution from the Company's direct ownership interest in Choice Properties, as a result of the reorganization in November 2018;
 - the decrease in income tax expense primarily due to the favourable impact of Choice Properties' portfolio transaction described in the "Consolidated Other Business Matters" section below;
 - the favourable underlying operating performance of Loblaw; and
 - the positive contribution from the increase in the Company's ownership interest in Loblaw, as a result of Loblaw share repurchases;partially offset by,
 - the unfavourable underlying operating performance of Weston Foods due to the prior year impact of a net gain related to the sale leaseback of a property;
 - an increase in adjusted net interest expense and other financing charges⁽¹⁾ described below; and
 - an increase in depreciation and amortization expense described below.
- The unfavourable year-over-year net impact of adjusting items totaling \$85 million was primarily due to:
 - the unfavourable year-over-year impact of the fair value adjustment of the Trust Unit liability of \$193 million as a result of the increase in Choice Properties' unit price during the third quarter of 2019;
 - the unfavourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$63 million; and
 - the unfavourable year-over-year impact of the fair value adjustment of investment properties of \$19 million;partially offset by,
 - the favourable year-over-year impact of the prior year charge related to Glenhuron Bank Limited ("Glenhuron") at Loblaw of \$184 million.

Adjusted net earnings available to common shareholders of the Company⁽¹⁾ were \$391 million in the third quarter of 2019. When compared to the same period in 2018, this represented an increase of \$103 million, or 35.8%. Normalized for the favourable impact of IFRS 16 of approximately \$19 million, adjusted net earnings available to common shareholders of the Company⁽¹⁾ increased by \$84 million, or 29.2%, due to the improvement in underlying operating performance described above.

In the third quarter of 2019, the Company recorded diluted net earnings per common share of \$0.44, an increase of \$0.04 per common share compared to the same period in 2018. The increase was mainly due to:

- the improvement in the underlying operating performance of \$0.29 per common share;
- the unfavourable year-over-year net impact of adjusting items totaling \$0.25 per common share, primarily due to the following:
 - the unfavourable year-over-year impact of \$1.30 per common share related to the fair value adjustment of the Trust Unit liability; and
 - the unfavourable year-over-year impact of \$0.43 per common share resulting from the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares;partially offset by,
 - the favourable year-over-year impact of \$1.44 per common share resulting from a prior year charge related to Glenhuron at Loblaw.

Adjusted diluted net earnings per common share⁽¹⁾ in the third quarter of 2019 increased by \$0.29 per common share, or 12.9%, to \$2.54 per common share compared to the same period in 2018. Normalized for the favourable impact of IFRS 16 of approximately \$0.12 per common share, adjusted diluted net earnings per common share⁽¹⁾ increased by \$0.17 per common share. The increase was due to the improvement in the underlying operating performance described above, partially offset by the dilutive impact of the Company's issuance of common shares in connection with the reorganization.

Year-to-date net loss available to common shareholders of the Company was \$235 million compared to net earnings available to common shareholders of the Company of \$259 million in the same period in 2018. The decline was primarily due to the unfavourable year-over-year impact of adjusting items totaling \$673 million, including the negative impact of the fair value adjustment of the Trust Unit liability, partially offset by the improvement in the underlying operating performance of \$179 million described below:

- The unfavourable year-over-year net impact of adjusting items totaling \$673 million was primarily due to:
 - the unfavourable year-over-year impact of the fair value adjustment of the Trust Unit liability of \$711 million as a result of the significant increase in Choice Properties' unit price during 2019;
 - the unfavourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$150 million; and
 - the unfavourable year-over-year impact of the fair value adjustment of investment properties of \$31 million;partially offset by,
 - the favourable year-over-year impact of the prior year charge related to Glenhuron at Loblaw of \$184 million; and
 - the favourable year-over-year impact of acquisition and other costs of \$52 million related to Choice Properties' acquisition of CREIT.
- The improvement in underlying operating performance of \$179 million included the favourable impact of IFRS 16 of approximately \$17 million. Normalized for this impact, the underlying operating performance improved by \$162 million, primarily due to:
 - the positive contribution from the Company's direct ownership interest in Choice Properties, as a result of the reorganization in November 2018;
 - the favourable underlying operating performance of Choice Properties, driven by the acquisition of CREIT;
 - the favourable underlying operating performance of Loblaw;
 - the decrease in income tax expense primarily due to the favourable impact of Choice Properties' portfolio transaction described below; and
 - the positive contribution from the increase in the Company's ownership interest in Loblaw, as a result of Loblaw share repurchases;partially offset by,
 - an increase in adjusted net interest expense and other financing charges⁽¹⁾ described below;
 - an increase in depreciation and amortization expense described below; and
 - the unfavourable underlying operating performance of Weston Foods.

Year-to-date adjusted net earnings available to common shareholders of the Company⁽¹⁾ increased by \$179 million, or 26.5%, to \$855 million compared to the same period in 2018. Normalized for the favourable impact of IFRS 16 of approximately \$17 million, adjusted net earnings available to common shareholders of the Company⁽¹⁾ increased by \$162 million, or 24.0%, due to the improvement in underlying operating performance described above.

Year-to-date diluted net loss per common share was \$1.55, a decrease of \$3.56 per common share compared to the same period in 2018. The decrease was mainly due to:

- the unfavourable year-over-year net impact of adjusting items totaling \$3.84 per common share, primarily due to the following:
 - the unfavourable year-over-year impact of the fair value adjustment of the Trust Unit liability of \$4.58 per common share; and

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- the unfavourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$1.02 per common share; partially offset by,
- the favourable year-over-year impact of \$1.44 per common share resulting from a prior year charge related to Glenhuron at Loblaw; and
- the favourable year-over-year impact of acquisition and other costs related to Choice Properties' acquisition of CREIT in the second quarter of 2018 of \$0.41 per common share.
- the improvement in the underlying operating performance of \$0.28 per common share.

Year-to-date adjusted diluted net earnings per common share⁽¹⁾ increased by \$0.28 when compared to the same period in 2018. Normalized for the favourable impact of IFRS 16 of approximately \$0.11 per common share, adjusted diluted net earnings per common share⁽¹⁾ increased by \$0.17 per common share due to the improvement in the underlying operating performance described above, partially offset by the dilutive impact of the Company's issuance of common shares in connection with the reorganization.

Sales

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change
Weston Foods	\$ 638	\$ 630	\$ 8	1.3 %	\$ 1,633	\$ 1,615	\$ 18	1.1%
Loblaw	\$ 14,655	\$ 14,319	\$ 336	2.3 %	\$ 36,447	\$ 35,475	\$ 972	2.7%
Choice Properties	\$ 324	\$ 315	\$ 9	2.9 %	\$ 971	\$ 825	\$ 146	17.7%
Other and Intersegment	\$ (391)	\$ (402)			\$ (1,049)	\$ (1,064)		
Consolidated	\$ 15,226	\$ 14,862	\$ 364	2.4 %	\$ 38,002	\$ 36,851	\$ 1,151	3.1%

Sales in the third quarter of 2019 were \$15,226 million, an increase of \$364 million, or 2.4% compared to the same period in 2018. The increase in sales was impacted by each of the Company's reportable operating segments as follows:

- Positively by 0.1% due to growth in sales of 1.3% at Weston Foods. Sales included the positive impact of foreign currency translation of approximately 0.7%. Excluding the favourable impact of foreign currency translation, sales increased by 0.6%. Sales were impacted by growth in key categories and the combined positive impact of pricing and changes in sales mix, partially offset by the unfavourable impact of product rationalization.
- Positively by 2.3% due to sales growth of 2.3% at Loblaw, primarily driven by an increase in Loblaw's Retail segment. Retail sales increased by \$315 million, or 2.2%, compared to the same period in 2018. Excluding the consolidation of franchises, Retail sales increased by \$226 million, or 1.6% due to positive same-store sales growth. Food retail same-store sales growth was 0.1% for the quarter. After excluding the unfavourable impact of the timing of Thanksgiving, food retail same-store sales growth was approximately 1.0%. Food retail basket size increased and traffic decreased in the quarter. Loblaw's food retail average quarterly internal food price index was moderately lower than (2018 – marginally lower than) the average quarterly national food price inflation of 4.1% (2018 – inflation of 0.3%), as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores. Drug retail same-store sales growth was 4.1%.
- Positively by 0.1% due to sales growth of 2.9% at Choice Properties. The improvement of \$9 million was mainly due to additional revenue generated from properties acquired in 2018 and 2019 and from tenant openings in newly developed leasable space as well as an increase in base rent and operating cost recoveries from existing properties.

Year-to-date sales were \$38,002 million, an increase of \$1,151 million, or 3.1% compared to the same period in 2018. The increase in sales was impacted by each of the Company's reportable operating segments as follows:

- Positively by a nominal amount due to growth in sales of 1.1% at Weston Foods. Sales included the positive impact of foreign currency translation of approximately 1.9%. Excluding the favourable impact of foreign currency translation, sales decreased by 0.8% mainly due to the impact of product rationalization and the lapping of sales lost from key customers in 2018, partially offset by growth in key categories and the combined positive impact of pricing and changes in sales mix.
- Positively by 2.6% due to sales growth of 2.7% at Loblaw, primarily driven by an increase in Loblaw's Retail segment. Retail sales increased by \$918 million, or 2.6%, compared to the same period in 2018. Excluding the consolidation of franchises, Retail sales increased by \$682 million, or 2.0% due to positive same-store sales growth. Food retail same-store sales growth was 0.8%. After excluding the unfavourable impact of the timing of Thanksgiving, food retail year-to-date same-store sales growth was approximately 1.2% in 2019. Drug retail same-store sales growth was 3.5%.
- Positively by 0.4% due to sales growth of 17.7% at Choice Properties. The improvement of \$146 million was mainly due to additional revenue generated from the investment properties included in the acquisition of CREIT of \$132 million, an increase in base rent and operating cost recoveries from existing properties; and additional revenue generated from properties acquired in 2018 and 2019 and from tenant openings in newly developed leasable space, partially offset by a decrease in lease surrender payments from Loblaw.

Operating Income

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change
Weston Foods	\$ 23	\$ 31	\$ (8)	(25.8)%	\$ 45	\$ 62	\$ (17)	(27.4)%
Loblaw	\$ 688	\$ 590	\$ 98	16.6 %	\$ 1,723	\$ 1,472	\$ 251	17.1 %
Choice Properties	\$ 221	\$ 179	\$ 42	23.5 %	\$ 670	\$ 391	\$ 279	71.4 %
Other and Intersegment	\$ (48)	\$ 4			\$ (198)	\$ (30)		
Consolidated	\$ 884	\$ 804	\$ 80	10.0 %	\$ 2,240	\$ 1,895	\$ 345	18.2 %

Operating income in the third quarter of 2019 was \$884 million, an increase of \$80 million, or 10.0% compared to the same period in 2018 and included the year-over-year favourable impact of IFRS 16 of approximately \$79 million. Normalized for this amount, operating income increased by \$1 million. The increase was mainly attributable to an improvement in the underlying operating performance of \$15 million, partially offset by the unfavourable year-over-year net impact of adjusting items totaling \$14 million described below:

- the improvement in underlying operating performance of \$15 million was primarily due to:
 - the underlying operating performance of Loblaw's Retail segment, including the favourable year-over-year contribution from the consolidation of Loblaw franchises in the quarter, partially offset by a decline in the underlying operating performance of Loblaw's Financial Services segment and an increase in depreciation and amortization; partially offset by,
 - the unfavourable underlying operating performance of Weston Foods including the prior year impact of a net gain related to the sale leaseback of a property.
- the unfavourable year-over-year net impact of adjusting items totaling \$14 million was primarily due to the unfavourable year-over-year impact of restructuring and other related costs of \$14 million.

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Year-to-date operating income was \$2,240 million, an increase of \$345 million, or 18.2% compared to the same period in 2018 and included the year-over-year favourable impact of IFRS 16 of approximately \$157 million. Normalized for this amount, operating income increased by \$188 million. The increase was mainly attributable to the underlying operating performance of \$141 million and the favourable year-over-year net impact of adjusting items totaling \$47 million described below:

- the improvement in underlying operating performance of \$141 million was primarily due to:
 - the underlying operating performance of Choice Properties, driven by the acquisition of CREIT; and
 - the underlying operating performance of Loblaw's Retail segment, including the favourable year-over-year contribution from the consolidation of Loblaw franchises, partially offset by a decline in the underlying operating performance of Loblaw's Financial Services segment and an increase in depreciation and amortization;
 partially offset by,
 - the unfavourable underlying operating performance of Weston Foods, mainly due to the prior year impact of a net gain related to the sale leaseback of a property and an increase in depreciation and amortization.
- the favourable year-over-year net impact of adjusting items totaling \$47 million was primarily due to:
 - the favourable impact of acquisition and other costs related to Choice Properties' acquisition of CREIT in the second quarter of 2018 of \$122 million;
 partially offset by,
 - the unfavourable impact of restructuring and other related charges of \$37 million;
 - the unfavourable impact of the fair value adjustment of derivatives of \$29 million; and
 - the unfavourable impact of the fair value adjustment of investment properties of \$14 million.

Adjusted EBITDA⁽¹⁾

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change
Weston Foods	\$ 72	\$ 82	\$ (10)	(12.2)%	\$ 167	\$ 174	\$ (7)	(4.0)%
Loblaw	\$ 1,490	\$ 1,058	\$ 432	40.8 %	\$ 3,701	\$ 2,627	\$ 1,074	40.9 %
Choice Properties	\$ 226	\$ 223	\$ 3	1.3 %	\$ 689	\$ 591	\$ 98	16.6 %
Other and Intersegment	\$ (127)	\$ 28			\$ (425)	\$ (10)		
Consolidated	\$ 1,661	\$ 1,391	\$ 270	19.4 %	\$ 4,132	\$ 3,382	\$ 750	22.2 %

Adjusted EBITDA⁽¹⁾ in the third quarter of 2019 was \$1,661 million, an increase of \$270 million, or 19.4% compared to the same period in 2018 and included the favourable impact of IFRS 16 of approximately \$240 million. Normalized for this impact, adjusted EBITDA⁽¹⁾ increased by \$30 million, or 2.2%, and was impacted by each of the Company's reportable operating segments as follows:

- Negatively by 1.0% due to a decrease of 17.1% in adjusted EBITDA⁽¹⁾ at Weston Foods. Excluding the prior year impact of a net gain of \$14 million related to the sale leaseback of a property, adjusted EBITDA⁽¹⁾ was flat. Productivity improvements and the net benefits realized from Weston Foods' transformation program were offset by higher input and distribution costs and an increase in performance related compensation accruals.
- Positively by 3.6% due to an increase of 4.7% in adjusted EBITDA⁽¹⁾ at Loblaw, primarily driven by improvement in Loblaw's Retail segment, partially offset by Loblaw's Financial Services segment. The improvement in Loblaw's Retail segment adjusted EBITDA⁽¹⁾ was primarily driven by an increase in Retail gross profit, partially offset by an increase in Retail selling, general and administrative expenses ("SG&A").
- Positively by 0.2% due to an increase of 1.3% in adjusted EBITDA⁽¹⁾ at Choice Properties, primarily driven by an increase in net operating income attributable to completed development projects.

Year-to-date adjusted EBITDA⁽¹⁾ increased by \$750 million, or 22.2%, to \$4,132 million, compared to the same period in 2018 and included the favourable impact of IFRS 16 of approximately \$555 million. Normalized for this impact, adjusted EBITDA⁽¹⁾ increased by \$195 million, or 5.8%, and was impacted by each of the Company's reportable operating segments as follows:

- Negatively by 0.5% due to a decrease of 9.8% in adjusted EBITDA⁽¹⁾ at Weston Foods. Excluding the prior year impact of a net gain of \$14 million related to the sale leaseback of a property, the decrease was due to higher input and distribution costs, an increase in performance related compensation accruals and the decline in sales, partially offset by productivity improvements and the net benefits realized from Weston Foods' transformation program.
- Positively by 3.5% due to an increase of 4.6% in adjusted EBITDA⁽¹⁾ at Loblaw, primarily driven by improvements in Loblaw's Retail segment, partially offset by Loblaw's Financial Services segment. The improvement in Loblaw's Retail segment adjusted EBITDA⁽¹⁾ was primarily driven by an increase in Retail gross profit, partially offset by an increase in Retail SG&A.
- Positively by 2.9% due to an increase of 16.6% in adjusted EBITDA⁽¹⁾ at Choice Properties, primarily driven by the acquisition of CREIT and growth in net operating income attributable to completed development projects.

Depreciation and Amortization

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change
Weston Foods	\$ 44	\$ 43	\$ 1	2.3%	\$ 111	\$ 102	\$ 9	8.8%
Loblaw	\$ 775	\$ 459	\$ 316	68.8%	\$ 1,935	\$ 1,141	\$ 794	69.6%
Choice Properties	\$ —	\$ —	\$ —	—%	\$ 1	\$ —	\$ 1	—%
Other and Intersegment	\$ (118)	\$ 28			\$ (277)	\$ 87		
Consolidated	\$ 701	\$ 530	\$ 171	32.3%	\$ 1,770	\$ 1,330	\$ 440	33.1%

Depreciation and amortization in the third quarter of 2019 was \$701 million, an increase of \$171 million compared to the same period in 2018 and included the unfavourable impact of IFRS 16 of approximately \$161 million. Normalized for this impact, depreciation and amortization increased by \$10 million. Year-to-date depreciation and amortization was \$1,770 million, an increase of \$440 million compared to the same period in 2018 and included the unfavourable impact of IFRS 16 of approximately \$398 million. Normalized for this impact, depreciation and amortization increased by \$42 million.

Depreciation and amortization in the third quarter and year-to-date included \$157 million (2018 – \$161 million) and \$392 million (2018 – \$401 million), respectively, of amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart"), and \$4 million (2018 – \$5 million) and \$6 million (2018 – \$9 million), respectively, of accelerated depreciation incurred by Weston Foods. Excluding these amounts and the impact of IFRS 16, depreciation and amortization increased in the third quarter and year-to-date by \$15 million and \$54 million, respectively, driven by:

- an increase in depreciation from the consolidation of Loblaw franchises;
- an increase in Loblaw's IT assets; and
- an increase in year-to-date depreciation due to capital investments at Weston Foods.

Management's Discussion and Analysis

Net Interest Expense and Other Financing Charges

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018	\$ Change	% Change
Net interest expense and other financing charges	\$ 517	\$ 327	\$ 190	58.1 %	\$ 1,697	\$ 730	\$ 967	132.5 %
Add: Fair value adjustment of the Trust Unit liability	(169)	55	(224)	(407.3)%	(753)	(44)	(709)	(1,611.4)%
Choice Properties issuance costs	—	—	—	— %	(14)	—	(14)	— %
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(52)	25	(77)	(308.0)%	(136)	44	(180)	(409.1)%
Loblaw's charge related to Glenhuron Bank Limited	—	(176)	176	— %	—	(176)	176	— %
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 296	\$ 231	\$ 65	28.1 %	\$ 794	\$ 554	\$ 240	43.3 %

Net interest expense and other financing charges in the third quarter of 2019 were \$517 million, an increase of \$190 million compared to the same period in 2018. The increase was mainly due to the year-over-year impact of adjusting items totaling \$125 million itemized in the table above and higher adjusted net interest expense and other financing charges⁽¹⁾ of \$65 million. Normalized for the unfavourable impact of IFRS 16 of approximately \$53 million, adjusted net interest expense and other financing charges⁽¹⁾ increased by \$12 million. The increase was primarily due to higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to the accelerated amortization of the debt placement costs as a result of the repayment of the term loan during the third quarter of 2019 and higher distributions from newly issued Trust Units as part of the offering of Trust Units in the second quarter of 2019.

Year-to-date net interest expense and other financing charges were \$1,697 million, an increase of \$967 million compared to the same period in 2018. The increase was mainly due to the unfavourable year-over-year impact of adjusting items totaling \$727 million including the fair value adjustment of the Trust Unit liability of \$709 million, as a result of the significant increase in Choice Properties' unit price in the year. The Company is exposed to market price fluctuations as a result of units held by unitholders other than the Company which are redeemable for cash at the option of the holder and are presented as a liability on the Company's consolidated balance sheet.

Year-to-date adjusted net interest expense and other financing charges⁽¹⁾ increased by \$240 million, and included the unfavourable impact of IFRS 16 of approximately \$136 million. Normalized for this impact, adjusted net interest expense and other financing charges⁽¹⁾ increased by \$104 million. The increase was primarily due to:

- higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions from newly issued Trust Units to former CREIT unitholders as part of the acquisition consideration and as part of the offering of Trust Units in the second quarter of 2019, higher interest expense resulting from the issuance of new senior unsecured debentures and debt assumed on the acquisition of CREIT, partially offset by the repayment of senior unsecured debentures and interest income on the joint ventures assumed on the acquisition of CREIT; and
- higher interest expense in Loblaw's Financial Services segment.

Income Taxes

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018	\$ Change	% Change
Income taxes	\$ 103	\$ 347	\$ (244)	(70.3)%	\$ 298	\$ 579	\$ (281)	(48.5)%
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽¹⁾⁽ⁱ⁾	66	47	19	40.4 %	151	114	37	32.5 %
Reserve release related to 2014 tax audit	8	—	8	— %	8	—	8	— %
Remeasurement of deferred tax balances	—	—	—	— %	15	—	15	— %
Statutory corporate income tax rate change	—	—	—	— %	10	—	10	— %
Loblaw's charge related to Glenhuron Bank Limited	—	(191)	191	— %	—	(191)	191	— %
Adjusted income taxes ⁽¹⁾	\$ 177	\$ 203	\$ (26)	(12.8)%	\$ 482	\$ 502	\$ (20)	(4.0)%
Effective income tax rate applicable to earnings before taxes	28.1%	72.7%			54.9%	49.7%		
Adjusted income tax rate applicable to adjusted earnings before taxes ⁽¹⁾	21.5%	25.5%			24.5%	26.3%		

(i) See the adjusted EBITDA⁽¹⁾ table and the adjusted net interest expense and other financing charges⁽¹⁾ table included in the "Non-GAAP Financial Measures" section of this MD&A for a complete list of items excluded from adjusted earnings before taxes⁽¹⁾.

The effective income tax rate in the third quarter of 2019 was 28.1%, compared to 72.7% in the same period in 2018. The decrease was primarily attributable to a charge of \$191 million in the third quarter of 2018 related to Glenhuron, the impact of the non-taxable portion of the gain from the sale of a portfolio of properties by Choice Properties (described in the "Consolidated Other Business Matters" section below), the reversal of certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart acquisition costs incurred in 2014, and a decrease in certain other non-deductible items; partially offset by an increase in the non-deductible fair value adjustment of the Trust Unit liability.

The adjusted income tax rate⁽¹⁾ for the third quarter of 2019 was 21.5%, compared to 25.5% in the same period in 2018. The decrease was primarily attributable to the impact of the non-taxable portion of the gain from the sale of a portfolio of properties by Choice Properties and a decrease in certain non-deductible items.

The year-to-date effective income tax rate was 54.9%, compared to 49.7% in the same period in 2018. The increase was primarily attributable to an increase in the non-deductible fair value adjustment of the Trust Unit liability; partially offset by a charge of \$191 million in the third quarter of 2018 related to Glenhuron, the impact of the non-taxable portion of the gain from the sale of a portfolio of properties by Choice Properties, the reversal of certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart acquisition costs incurred in 2014, and a decrease in certain non-deductible items.

The year-to-date adjusted income tax rate⁽¹⁾ was 24.5%, compared to 26.3% in the same period in 2018. The decrease was primarily attributable to the impact of the non-taxable portion of the gain from the sale of a portfolio of properties by Choice Properties and a decrease in certain non-deductible items.

Management's Discussion and Analysis

CONSOLIDATED OTHER BUSINESS MATTERS

IFRS 16 Implementation In 2016, the IASB issued IFRS 16, replacing IAS 17, and related interpretations. The standard introduced a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. The Company implemented the standard on January 1, 2019 using the modified retrospective approach. As a result, the Company's 2019 results incorporate lease accounting under IFRS 16. Prior year results have not been restated. See the "Accounting Standards" section of this MD&A for more information on the implementation of IFRS 16.

The implementation of IFRS 16 significantly increased the assets and liabilities on the Company's Condensed Consolidated Balance Sheet and changed the timing and presentation of lease-related expenses in the Company's results. The Company recorded a right-of-use asset of \$4.1 billion and a lease liability of \$5.1 billion under the new standard. Under IFRS 16, the depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis in operating income under IAS 17 over the term of a lease.

The following table provides the year-over-year impacts of the implementation of IFRS 16 on the consolidated results of the Company in the third quarter of 2019 and year-to-date:

(\$ millions except where otherwise indicated) Favourable/(unfavourable)	16 Weeks \$ Change				40 Weeks \$ Change			
	Weston Foods	Loblaw	Other and Intersegment	Total ⁽ⁱ⁾	Weston Foods	Loblaw	Other and Intersegment	Total ⁽ⁱ⁾
Operating income	\$ 2	\$ 104	\$ (27)	\$ 79	\$ 4	\$ 261	\$ (108)	\$ 157
Adjusted EBITDA ⁽¹⁾	4	382	(146)	240	10	954	(409)	555
Net interest expense and other financing charges	—	(106)	53	(53)	(2)	(270)	136	(136)
Depreciation and amortization	(2)	(278)	119	(161)	(6)	(693)	301	(398)
Net earnings available to common shareholders of the Company	1	(1)	19	19	1	(4)	20	17
Diluted net earnings per common share (\$)	0.01	(0.01)	0.12	0.12	0.01	(0.03)	0.13	0.11

(i) Includes nominal year-over-year impact in the third quarter of 2019 and year-to-date from Choice Properties.

Choice Properties' Portfolio Transaction On September 30, 2019, Choice Properties sold a portfolio of 30 properties across Canada to a third party for aggregate consideration of \$426 million. The portfolio consisted of 27 Loblaw stand-alone retail properties and 3 Loblaw distribution centres. On consolidation, the transaction was not recognized as a sale of assets as under the terms of the leases, Loblaw did not relinquish control of the properties for purposes of IFRS 16 and IFRS 15. Instead, the proceeds were recognized as a financial liability on the Company's consolidated balance sheet as at the end of the third quarter of 2019. For tax purposes, this transaction was treated as a sale and income tax expense reflects the benefit from the non-taxable portion of the gain from the sale of the portfolio of properties by Choice Properties.

Loblaw's spin-out of Choice Properties Real Estate Investment Trust On November 1, 2018, the Company and Loblaw completed a reorganization under which Loblaw distributed its approximate 61.6% effective interest in Choice Properties to the Company on a tax-free basis to Loblaw and its Canadian shareholders. In connection with the reorganization, Loblaw minority shareholders received 0.135 of a common share of the Company for each common share of Loblaw held, which was equivalent to the market value of their pro rata interest in Choice Properties as at the announcement date of the spin-out, and as part of the reorganization the Company received Loblaw's approximate 61.6% effective interest in Choice Properties. Following the reorganization, Loblaw no longer retained its interest in Choice Properties and as a result, Loblaw ceased to consolidate its equity interest in Choice Properties. Choice Properties became a separate reportable operating segment of the Company. In connection with the reorganization, the Company issued approximately 26.6 million common shares to Loblaw minority shareholders.

The issuance of approximately 26.6 million common shares in connection with the reorganization has a dilutive impact on both the Company's diluted net earnings per common share and adjusted diluted net earnings per common share⁽¹⁾.

The Company continues to be controlled by Mr. W. Galen Weston who, directly and indirectly through entities which he controls, owns approximately 52.9% of the outstanding common shares of the Company.

Offering of Trust Units In the second quarter of 2019, Choice Properties completed a bought deal equity offering of 30,042,250 trust units (the "Units") at a price of \$13.15 per Unit, for aggregate gross proceeds of approximately \$395 million, and net proceeds of approximately \$381 million (the "Offering"). The Offering consisted of 26,237,250 Units sold on a bought deal basis to a syndicate of underwriters and 3,805,000 Units purchased by the Company for approximately \$50 million.

REPORTABLE OPERATING SEGMENTS

WESTON FOODS SEGMENT RESULTS

Unless otherwise indicated, Weston Foods results include the impact of the implementation of IFRS 16.

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change
Sales	\$ 638	\$ 630	\$ 8	1.3 %	\$ 1,633	\$ 1,615	\$ 18	1.1 %
Operating income	\$ 23	\$ 31	\$ (8)	(25.8)%	\$ 45	\$ 62	\$ (17)	(27.4)%
Adjusted EBITDA ⁽¹⁾	\$ 72	\$ 82	\$ (10)	(12.2)%	\$ 167	\$ 174	\$ (7)	(4.0)%
Adjusted EBITDA margin ⁽¹⁾	11.3%	13.0%			10.2%	10.8%		
Depreciation and amortization ⁽ⁱ⁾	\$ 44	\$ 43	\$ 1	2.3 %	\$ 111	\$ 102	\$ 9	8.8 %

(i) Depreciation and amortization in the third quarter of 2019 includes \$4 million (2018 – \$5 million) and \$6 million (2018 – \$9 million) year-to-date of accelerated depreciation related to restructuring and other related costs.

Sales Weston Foods sales in the third quarter of 2019 were \$638 million, an increase of \$8 million, or 1.3%, compared to the same period in 2018. Sales included the positive impact of foreign currency translation of approximately 0.7%. Excluding the favourable impact of foreign currency translation, sales increased by 0.6%. Sales were impacted by growth in key categories and the combined positive impact of pricing and changes in sales mix, partially offset by the unfavourable impact of product rationalization.

On a year-to-date basis, sales were \$1,633 million, an increase of \$18 million, or 1.1%, compared to the same period in 2018. Sales included the positive impact of foreign currency translation of approximately 1.9%. Excluding the favourable impact of foreign currency translation, sales decreased by 0.8% mainly due to the impact of product rationalization and the lapping of sales lost from key customers in 2018, partially offset by growth in key categories and the combined positive impact of pricing and changes in sales mix.

Management's Discussion and Analysis

Operating Income Weston Foods operating income in the third quarter of 2019 was \$23 million, a decrease of \$8 million, or 25.8%, compared to the same period in 2018. Normalized for the favourable impact of IFRS 16 of approximately \$2 million and the prior year impact of a net gain of \$14 million related to the sale leaseback of a property, operating income increased by \$4 million. The increase was due to the favourable year-over-year net impact of adjusting items totaling \$4 million, driven by:

- the favourable impact of restructuring and other related costs of \$3 million; and
- the favourable impact of insurance proceeds on a prior year inventory loss of \$2 million;

partially offset by,

- the unfavourable impact of the fair value adjustment of derivatives of \$1 million.

Year-to-date operating income in 2019 was \$45 million, a decrease of \$17 million, or 27.4%, compared to the same period in 2018. Normalized for the favourable impact of IFRS 16 of approximately \$4 million and the prior year impact of a net gain of \$14 million related to the sale leaseback of a property, operating income decreased by \$7 million. The decrease was primarily due to the decline in underlying operating performance of \$9 million, partially offset by the favourable year-over-year net impact of adjusting items totaling \$2 million, driven by:

- the favourable impact of restructuring and other related costs of \$14 million; and
- the favourable impact of insurance proceeds on a prior year inventory loss of \$1 million;

partially offset by,

- the unfavourable impact of the fair value adjustment of derivatives of \$13 million.

Adjusted EBITDA⁽¹⁾ Weston Foods adjusted EBITDA⁽¹⁾ in the third quarter of 2019 was \$72 million, a decrease of \$10 million, or 12.2%, compared to the same period in 2018. Normalized for the favourable impact of IFRS 16 of approximately \$4 million and the prior year impact of a net gain of \$14 million related to the sale leaseback of a property, adjusted EBITDA⁽¹⁾ was flat. Productivity improvements and the net benefits realized from Weston Foods' transformation program were offset by higher input and distribution costs and an increase in performance related compensation accruals.

Weston Foods adjusted EBITDA margin⁽¹⁾ in the third quarter of 2019 decreased to 11.3% compared to 13.0% in the same period in 2018. Normalized for the favourable impact of IFRS 16 and the prior year net gain related to the sale leaseback of a property, adjusted EBITDA margin⁽¹⁾ declined by 10 basis points to 10.7% in the third quarter of 2019 compared to 10.8% in the same period in 2018, driven by the factors described above.

Year-to-date adjusted EBITDA⁽¹⁾ was \$167 million, a decrease of \$7 million, or 4.0%, compared to the same period in 2018. Normalized for the favourable impact of IFRS 16 of approximately \$10 million and the prior year impact of a net gain of \$14 million related to the sale leaseback of a property, adjusted EBITDA⁽¹⁾ decreased by \$3 million driven by higher input and distribution costs, an increase in performance related compensation accruals and the decline in sales, partially offset by productivity improvements and the net benefits realized from Weston Foods' transformation program.

Year-to-date adjusted EBITDA⁽¹⁾ margin decreased to 10.2% compared to 10.8% in the same period in 2018. Normalized for the favourable impact of IFRS 16 and the prior year net gain related to the sale leaseback of a property, adjusted EBITDA margin⁽¹⁾ declined by 30 basis points to 9.6% compared to 9.9% in the same period in 2018, driven by the factors described above.

Depreciation and Amortization Weston Foods depreciation and amortization in the third quarter of 2019 was \$44 million, an increase of \$1 million compared to the same period in 2018. Normalized for the unfavourable impact of IFRS 16 of approximately \$2 million, depreciation and amortization decreased by \$1 million. Depreciation and amortization in the third quarter of 2019 included \$4 million (2018 – \$5 million) of accelerated depreciation related to Weston Foods' transformation program. Excluding this amount and the impact of IFRS 16, depreciation and amortization was flat.

Year-to-date depreciation and amortization in 2019 was \$111 million, an increase of \$9 million, compared to the same period in 2018. Normalized for the unfavourable impact of IFRS 16 of approximately \$6 million, depreciation and amortization increased by \$3 million. Depreciation and amortization included \$6 million (2018 – \$9 million) of accelerated depreciation as described above, and the closure of an unprofitable manufacturing facility in the U.S. in 2018. Excluding these amounts and the impact of IFRS 16, depreciation and amortization increased by \$6 million due to capital investments.

Weston Foods Other Business Matters

Restructuring and other related costs Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. In the third quarter of 2019 and year-to-date, Weston Foods recorded restructuring and other related costs of \$9 million (2018 – \$12 million), and \$15 million (2018 – \$29 million), respectively, which were primarily related to Weston Foods' transformation program.

LOBLAW SEGMENT RESULTS

As a result of the spin-out of Choice Properties, Loblaw's current year financial information represents its results from Continuing Operations and comparative figures have been restated. Unless otherwise indicated, Loblaw's segment results include the impacts of spin-out related incremental depreciation, the implementation of IFRS 16 and the consolidation of franchises.

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change
Sales	\$ 14,655	\$ 14,319	\$ 336	2.3%	\$ 36,447	\$ 35,475	\$ 972	2.7%
Operating income	\$ 688	\$ 590	\$ 98	16.6%	\$ 1,723	\$ 1,472	\$ 251	17.1%
Adjusted EBITDA ⁽¹⁾	\$ 1,490	\$ 1,058	\$ 432	40.8%	\$ 3,701	\$ 2,627	\$ 1,074	40.9%
Adjusted EBITDA margin ⁽¹⁾	10.2%	7.4%			10.2%	7.4%		
Depreciation and amortization ⁽ⁱ⁾	\$ 775	\$ 459	\$ 316	68.8%	\$ 1,935	\$ 1,141	\$ 794	69.6%

(i) Depreciation and amortization in the third quarter of 2019 includes \$157 million (2018 – \$161 million) and \$392 million (2018 – \$401 million) year-to-date of amortization of intangible assets acquired with Shoppers Drug Mart.

Sales Loblaw sales in the third quarter of 2019 were \$14,655 million, an increase of \$336 million, or 2.3%, compared to the same period in 2018, primarily due to an increase in Retail sales of \$315 million. The increase was also due to an improvement in Financial Services sales of \$35 million, due to higher interest and interchange income and higher sales attributable to *The Mobile Shop*.

Retail sales increased by \$315 million, or 2.2%, compared to the same period in 2018 and included food retail sales of \$10,423 million (2018 – \$10,272 million) and drug retail sales of \$3,997 million (2018 – \$3,833 million).

Excluding the consolidation of franchises, Retail sales increased by \$226 million, or 1.6%, primarily driven by the following factors:

- food retail same-store sales growth was 0.1% for the quarter. After excluding the unfavourable impact of the timing of Thanksgiving, food retail same-store sales growth was approximately 1.0%. Food retail basket size increased and traffic decreased in the quarter;
- Loblaw's food retail average quarterly internal food price index was moderately lower than (2018 – marginally lower than) the average quarterly national food price inflation of 4.1% (2018 – inflation of 0.3%), as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and
- drug retail same-store sales growth was 4.1% for the quarter. The timing of Thanksgiving had a nominal impact on the drug retail same-store sales growth in the third quarter of 2019.
 - pharmacy same-store sales growth was 5.3%; and
 - front store same-store sales growth was 3.1%.

Management's Discussion and Analysis

In the last 12 months, 20 food and drug stores were opened, and 9 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.4 million square feet, or 0.6%.

On a year-to-date basis, Loblaw sales were \$36,447 million, an increase of \$972 million, or 2.7%, compared to the same period in 2018, primarily due to Retail. The increase was also due to an improvement in Financial Services sales of \$113 million, due to higher interest and interchange income and higher sales attributable to *The Mobile Shop*.

Retail sales were \$35,778 million, an increase of \$918 million, or 2.6%, compared to the same period in 2018. When excluding the consolidation of franchises, Retail sales increased by \$682 million, or 2.0%. Food retail sales were \$25,796 million (2018 – \$25,219 million) and drug retail sales were \$9,982 million (2018 – \$9,641 million). Year-to-date, the increase in food retail was primarily due to positive same-store sales growth of 0.8%. After excluding the unfavourable impact of the timing of Thanksgiving, food retail same-store sales growth was approximately 1.2% in 2019. Year-to-date drug retail same-store sales growth was 3.5%, with pharmacy same-store sales growth of 3.9% which included the negative impact of incremental healthcare reform. Front store same-store sales growth was 3.2%. The timing of Thanksgiving had a nominal impact on the year-to-date drug retail same-store sales growth in 2019.

The redemption of Loblaw Cards resulted in the delivery of approximately \$1 million of free products to customers in the third quarter of 2019 and \$4 million year-to-date, which was provided for in the fourth quarter of 2017. The redemptions did not benefit sales or Loblaw's financial performance and Loblaw's management does not believe it had a significant impact on food retail same-store sales.

Operating Income Loblaw operating income in the third quarter of 2019 was \$688 million, an increase of \$98 million compared to the same period in 2018. The increase included the favourable impact of IFRS 16 of approximately \$104 million and the unfavourable impact of spin-out related incremental depreciation of approximately \$28 million. Normalized for these impacts, operating income increased by \$22 million due to the improvements in underlying operating performance of \$36 million, partially offset by the unfavourable year-over-year net impact of adjusting items totaling \$14 million described below:

- the improvement in underlying operating performance of \$36 million was primarily due to Retail, including the favourable contribution from the consolidation of franchises of \$15 million, partially offset by the decline in the underlying operating performance of Financial Services; and
- the unfavourable year-over-year net impact of adjusting items totaling \$14 million which was primarily due to the following:
 - the year-over-year unfavourable impact of restructuring and other related costs of \$15 million; and
 - the unfavorable impact of a prior year adjustment related to the Loblaw Card Program of \$4 million; partially offset by,
 - the favourable impact of the prior year transaction and other related costs in connection with the spin-out of Choice Properties of \$6 million.

Year-to-date Loblaw operating income was \$1,723 million, an increase of \$251 million compared to the same period in 2018. The increase included the favourable impact of IFRS 16 of approximately \$261 million and the unfavourable impact of spin-out related incremental depreciation of approximately \$70 million. Normalized for these impacts, operating income increased by \$60 million due to the improvements in underlying operating performance of \$80 million, partially offset by the unfavourable year-over-year net impact of adjusting items totaling \$20 million described below:

- the improvement in underlying operating performance of \$80 million was primarily due to Retail, including the favourable contribution from the consolidation of franchises of \$36 million, partially offset by the decline in the underlying operating performance of Financial Services; and
- the unfavourable year-over-year net impact of adjusting items totaling \$20 million which was primarily due to the following:
 - the year-over-year unfavourable impact of restructuring and other related costs of \$36 million; and

- the unfavourable impact of income earned in the prior year from the wind-down of *PC Financial* banking services of \$20 million;
- partially offset by,
- the favourable impact of reversing a prior year inventory provision related to healthcare reform of \$19 million; and
 - the favourable impact associated with a prior period regulatory matter of \$15 million.

Adjusted EBITDA⁽¹⁾ Loblaw adjusted EBITDA⁽¹⁾ in the third quarter of 2019 was \$1,490 million, an increase of \$432 million, or 40.8% compared to the same period in 2018, and included the year-over-year favourable impact of IFRS 16 of approximately \$382 million. Normalized for the impact of IFRS 16, adjusted EBITDA⁽¹⁾ increased by \$50 million, or 4.7%, primarily due to improvements in Retail, partially offset by Financial Services.

Retail adjusted EBITDA⁽¹⁾ in the third quarter of 2019 was \$1,452 million, an increase of \$435 million, compared to the third quarter of 2018 and included the favourable impact of IFRS 16 of approximately \$382 million. Normalized for this impact, Retail adjusted EBITDA⁽¹⁾ in the third quarter of 2019 increased by \$53 million, or 5.2%, including the favourable impact of the consolidation of franchises of \$20 million, and was driven by an increase in Retail gross profit, partially offset by an increase in SG&A.

- Retail gross profit percentage was 29.6%, an increase of 50 basis points compared to the same period in 2018. Excluding the consolidation of franchises, Retail gross profit percentage was 27.4%, flat compared to the third quarter of 2018. Margins were negatively impacted by drug retail, while food retail margins were stable.
- Retail SG&A increased by \$100 million compared to the third quarter of 2018. Normalized for the impact of IFRS 16 and the consolidation of franchises, Retail SG&A increased by \$33 million and SG&A as a percentage of sales was 20.1%, an improvement of 10 basis points compared to the third quarter of 2018, primarily driven by Process and Efficiency initiatives.

Financial Services adjusted EBITDA⁽¹⁾ decreased by \$3 million compared to the same quarter in 2018 primarily driven by higher operating costs including investments in digital strategy, an increase in loyalty program costs driven by the growth in credit card portfolio, partially offset by revenue growth.

In the third quarter of 2019, adjusted EBITDA⁽¹⁾ included a gain of \$2 million (2018 – loss of \$2 million) related to the sale and leaseback of properties to Choice Properties.

Year-to-date Loblaw adjusted EBITDA⁽¹⁾ was \$3,701 million, an increase of \$1,074 million, compared to the same period in 2018, and included the year-over-year favourable impact of IFRS 16 of approximately \$954 million. Normalized for the impact of IFRS 16, adjusted EBITDA⁽¹⁾ increased by \$120 million, primarily due to improvements in Retail, partially offset by Financial Services.

Year-to-date Retail adjusted EBITDA⁽¹⁾ was \$3,565 million, an increase of \$1,088 million and included the favourable impact of IFRS 16 of approximately \$954 million. Normalized for this impact, Retail adjusted EBITDA⁽¹⁾ increased by \$134 million, or 5.4%, including the favourable impact of the consolidation of franchises of \$50 million, and was driven by an increase in Retail gross profit, partially offset by an increase in SG&A.

- Retail gross profit percentage was 29.7%, an increase of 40 basis points compared to the same period in 2018. Excluding the consolidation of franchises, Retail gross profit percentage was 27.6%, a decrease of 10 basis points compared to the same period of 2018. Margins were negatively impacted by drug retail, while food retail margins were stable.

Management's Discussion and Analysis

- Retail SG&A increased by \$257 million compared to the same period in 2018. Normalized for the impact of IFRS 16 and the consolidation of franchises, Retail SG&A increased by \$71 million and SG&A as a percentage of sales was 20.4%, an improvement of 20 basis points compared to 2018, primarily driven by Process and Efficiency initiatives.

Financial Services adjusted EBITDA⁽¹⁾ decreased by \$14 million compared to the same period in 2018 due to an increase in loyalty program costs driven by the growth in credit card portfolio and higher operating costs including investments in digital strategy, partially offset by revenue growth.

Year-to-date adjusted EBITDA⁽¹⁾ included a gain of \$7 million (2018 – loss of \$2 million) related to the sale and leaseback of properties to Choice Properties.

Depreciation and Amortization Loblaw's depreciation and amortization was \$775 million in the third quarter of 2019, an increase of \$316 million, or 68.8% compared to the same period in 2018, and included the unfavourable impacts of IFRS 16 of approximately \$278 million and the spin-out related incremental depreciation of approximately \$28 million. Normalized for these impacts, the increase in depreciation and amortization in the third quarter of 2019 was \$10 million primarily driven by the consolidation of franchises and an increase in IT assets.

Year-to-date depreciation and amortization was \$1,935 million, an increase of \$794 million, or 69.6% compared to the same period in 2018, and included the unfavourable impacts of IFRS 16 of approximately \$693 million and the spin-out related incremental depreciation of approximately \$70 million. Normalized for these impacts, the increase in year-to-date depreciation and amortization was \$31 million, primarily driven by the consolidation of franchises and an increase in IT assets.

Depreciation and amortization included \$157 million (2018 – \$161 million) in the third quarter of 2019 and \$392 million (2018 – \$401 million) year-to-date of amortization of intangible assets related to the acquisition of Shoppers Drug Mart.

Loblaw Other Business Matters

Spin-out of Choice Properties Impact on Loblaw Results As a result of the reorganization, buildings owned by Choice Properties and leased by Loblaw are accounted for as leases and no longer accounted for as owned property by Loblaw. The building components associated with these leases post spin-out are classified as leasehold improvements and depreciated over the lesser of the lease term and useful life up to 25 years. The remaining average lease term on the leases related to these leasehold improvements is approximately 10 years. The impact of this change in 2019 is expected to be an increase in annual depreciation and amortization of approximately \$85 million compared to 2018. Loblaw's 2019 third quarter financial results included incremental depreciation and amortization of \$28 million (\$70 million year-to-date).

Process and Efficiency Loblaw continues to execute on a multi-year plan, initiated in 2018, that focuses on improving processes and generating efficiencies across administrative, store, and distribution network infrastructure. Many initiatives are underway to reduce the complexity and cost of business operations, ensuring a low cost operating structure that allows for continued investments in Loblaw's strategic growth areas. Loblaw's management anticipates investing capital as well as recording restructuring and other charges related to these initiatives in 2019 and beyond. In the third quarter of 2019, Loblaw recorded approximately \$22 million (\$50 million year-to-date) of restructuring and other related charges, primarily related to Process and Efficiency initiatives.

Consolidation of Franchises Loblaw has more than 500 franchise food retail stores in its network. As at the end of the third quarter of 2019, 444 of these stores were consolidated for accounting purposes under a simplified franchise agreement (“Franchise Agreement”) implemented in 2015.

Loblaw will convert franchises to the Franchise Agreement as existing agreements expire, at the end of which all franchises will be consolidated. The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
Number of Consolidated Franchise stores, beginning of period	424	352	400	310
Add: Net Number of Consolidated Franchise stores in the period	20	27	44	69
Number of Consolidated Franchise stores, end of period	444	379	444	379
Sales	\$ 420	\$ 331	\$ 1,020	\$ 784
Operating income	21	6	49	13
Adjusted EBITDA ⁽¹⁾	45	25	107	57
Depreciation and amortization	24	19	58	44
Net income attributable to Non-Controlling Interests	19	8	41	15

Operating income included in the table above does not significantly impact net earnings available to common shareholders of the Company as the related income is largely attributable to non-controlling interests.

Loblaw expects⁽²⁾ that the estimated annual impact in 2019 of new and current consolidated franchises will be revenue of approximately \$1,345 million, adjusted EBITDA⁽¹⁾ of approximately \$135 million, depreciation and amortization of approximately \$80 million and net earnings attributable to non-controlling interests of approximately \$45 million.

CHOICE PROPERTIES SEGMENT RESULTS

(\$ millions except where otherwise indicated)

For the periods ended as indicated	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	\$ Change	% Change
Revenue	\$ 324	\$ 315	\$ 9	2.9 %	\$ 971	\$ 825	\$ 146	17.7 %
Net interest expense and other financing charges ⁽ⁱ⁾	\$ 434	\$ 117	\$ 317	270.9 %	\$ 1,546	\$ 23	\$ 1,523	6,621.7 %
Net (loss) income	\$ (211)	\$ 62	\$ (273)	(440.3)%	\$ (875)	\$ 368	\$ (1,243)	(337.8)%
Funds from operations ⁽¹⁾⁽ⁱⁱ⁾	\$ 174	\$ 170	\$ 4	2.4 %	\$ 514	\$ 432	\$ 82	19.0 %

(i) Net interest expense and other financing charges includes a fair value adjustment on Exchangeable Units.

(ii) Funds from operations is calculated in accordance with the Real Property Association of Canada’s White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019.

Management's Discussion and Analysis

Revenue Revenue in the third quarter of 2019 was \$324 million, an increase of \$9 million, or 2.9%, compared to the same period in 2018 and included \$190 million (2018 – \$183 million) generated from tenants within Loblaw's Retail segment. The increase was primarily driven by:

- additional revenue generated from properties acquired in 2018 and 2019 and from tenant openings in newly developed leasable space; and
- an increase in base rent and operating cost recoveries from existing properties.

On a year-to-date basis, revenue was \$971 million, an increase of \$146 million, or 17.7%, compared to the same period in 2018 and included \$572 million (2018 – \$564 million) generated from tenants within Loblaw's Retail segment. The increase in revenue was primarily driven by:

- additional revenue generated from the investment properties included in the acquisition of CREIT of \$132 million;
- an increase in base rent and operating cost recoveries from existing properties; and
- additional revenue generated from properties acquired in 2018 and 2019 and from tenant openings in newly developed leasable space;

partially offset by,

- a decrease in lease surrender payments from Loblaw.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges in the third quarter of 2019 were \$434 million, an increase of \$317 million compared to the same period in 2018. The increase was primarily driven by:

- the unfavourable year-over-year impact of the fair value adjustment on Class B LP Units ("Exchangeable Units") of \$312 million as a result of the increase in unit price of Choice Properties in the third quarter of 2019; and
- higher interest expense primarily related to the accelerated amortization of the debt placement costs as a result of the repayment of the term loan during the third quarter of 2019.

Year-to-date net interest expense and other financing charges were \$1,546 million, an increase of \$1,523 million compared to the same period in 2018. The increase was primarily driven by:

- the unfavourable year-over-year impact of the fair value adjustment on the Exchangeable Units of \$1,518 million as a result of the significant increase in the unit price of Choice Properties in 2019; and
- higher interest expense resulting from the issuance of new debt related to the acquisition of CREIT; including senior unsecured debentures, term loans and draws on the syndicated credit facility, and interest expense on the debt assumed on the acquisition of CREIT;

partially offset by,

- a charge for the accelerated amortization of the debt premium on the conversion of Class C LP Units of \$37 million in 2018.

Net (Loss) Income Net loss was \$211 million in the third quarter of 2019, a decrease of \$273 million compared to the same period in 2018, primarily driven by:

- the unfavourable impact of higher interest expense and other financing charges described above;

partially offset by,

- the favourable year-over-year impact of the fair value adjustment of investment properties;
- an increase in net operating income generated from additional revenue as described above; and
- the favourable year-over-year impact of acquisition and other costs related to the acquisition of CREIT.

Year-to-date, net loss was \$875 million, a decrease of \$1,243 million compared to the same period in 2018, primarily driven by:

- the unfavourable impact of higher interest expense and other financing charges described above;

partially offset by,

- the favourable year-over-year impact of acquisition and other costs related to the acquisition of CREIT;
- an increase in net operating income from investment properties acquired as part of the acquisition of CREIT; and
- the favourable year-over-year impact of the fair value adjustment of investment properties.

Funds from Operations⁽¹⁾ Funds from Operations⁽¹⁾ in the third quarter of 2019 was \$174 million, an increase of \$4 million compared to the same period in 2018. The increase was primarily driven by growth in net operating income attributable to properties acquired in 2018 and 2019 and from tenant openings in newly developed leasable space.

Year-to-date Funds from Operations⁽¹⁾ was \$514 million, an increase of \$82 million compared to the same period in 2018. The increase was primarily driven by growth in net operating income attributable to the portfolio acquired, partially offset by higher interest expense due to the acquisition of CREIT.

Choice Properties' Other Business Matters

Investment Property Transactions During the third quarter of 2019, Choice Properties sold a portfolio of 30 properties across Canada to a third party for aggregate consideration of \$426 million. The portfolio consisted of 27 Loblaw stand-alone retail properties and 3 Loblaw distribution centres.

Choice Properties also sold a retail property in Cowansville, Quebec, which had a Loblaw lease, for \$1 million, excluding transaction costs. Concurrent with the sale, Choice Properties recognized lease surrender of \$2 million upon disposition which was settled in cash.

During the third quarter of 2019, Choice Properties acquired a 100% ownership interest in an investment property in Langford, BC from Loblaw for an aggregate purchase price of \$23 million, excluding transaction costs, for cash consideration.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

(\$ millions) For the periods ended as indicated	16 Weeks Ended			40 Weeks Ended		
	Oct. 5, 2019	Oct. 6, 2018	Change	Oct. 5, 2019	Oct. 6, 2018	Change
Cash and cash equivalents, beginning of period	\$ 1,913	\$ 1,487	\$ 426	\$ 1,521	\$ 2,034	\$ (513)
Cash flows from (used in):						
Operating activities	1,053	1,205	(152)	3,283	2,264	1,019
Investing activities	(460)	(236)	(224)	(987)	(2,139)	1,152
Financing activities	(1,012)	(603)	(409)	(2,323)	(309)	(2,014)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1	—	1	1	3	(2)
Cash and cash equivalents, end of period	\$ 1,495	\$ 1,853	\$ (358)	\$ 1,495	\$ 1,853	\$ (358)

Cash Flows from Operating Activities Cash flows from operating activities were \$1,053 million in the third quarter of 2019, a decrease of \$152 million compared to the same period in 2018. The decrease in cash flows from operating activities included a favourable impact attributable to the implementation of IFRS 16 with an offsetting impact in cash flows used in financing activities. Normalized for the impact of IFRS 16, the decrease in cash flows from operating activities was primarily driven by unfavourable changes in non-cash working capital and an increase in income taxes paid, partially offset by higher cash earnings.

Year-to-date cash flows from operating activities were \$3,283 million in 2019, an increase of \$1,019 million compared to the same period in 2018. The increase in cash flows from operating activities included a favourable impact attributable to the implementation of IFRS 16 with an offsetting impact in cash flows used in financing activities. Normalized for the impact of IFRS 16, the increase in cash flows from operating activities was primarily driven by higher cash earnings and favourable changes in non-cash working capital and provisions.

Cash Flows used in Investing Activities Cash flows used in investing activities were \$460 million in the third quarter of 2019, an increase of \$224 million compared to the same period in 2018. The increase in cash flows used in investing activities was primarily due an unfavourable change in short term investments, partially offset by a favourable change in security deposits.

Management's Discussion and Analysis

Year-to-date cash flows used in investing activities were \$987 million in 2019, a decrease of \$1,152 million compared to the same period in 2018. The decrease in year-to-date cash flows used in investing activities was primarily due to prior year's net cash used in Choice Properties' acquisition of CREIT and a favourable change in security deposits, partially offset by an unfavourable change in short term investments.

The following table summarizes the Company's capital investments by each of its reportable operating segments:

(\$ millions) For the periods ended as indicated	16 Weeks Ended			40 Weeks Ended		
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	Change	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	Change
Weston Foods	\$ 55	\$ 61	\$ (6)	\$ 124	\$ 121	\$ 3
Loblaw	397	300	97	780	656	124
Choice Properties	27	84	(57)	108	196	(88)
Other	3	—	3	3	—	3
Total capital investments	\$ 482	\$ 445	\$ 37	\$ 1,015	\$ 973	\$ 42

Cash Flows used in Financing Activities Cash flows used in financing activities were \$1,012 million in the third quarter of 2019, an increase of \$409 million compared to the same period in 2018. Normalized for the impact of IFRS 16, the increase in cash flows used in financing activities was driven by Choice Properties' higher net repayments of debt, higher repayments of short term debt and higher repurchases of Loblaw's common shares, partially offset by proceeds received from Choice Properties' portfolio transaction and lower interest paid.

Year-to-date cash flows used in financing activities were \$2,323 million in 2019, an increase of \$2,014 million compared to the same period in 2018. Normalized for the impact of IFRS 16, the increase in year-to-date cash flows used in financing activities was driven by Choice Properties' higher net repayments of long term debt in the current year and higher repayments of short term debt, partially offset by proceeds received from Choice Properties' portfolio transaction, issuances of Choice Properties units and lower repurchases of Loblaw's common shares.

The Company's significant long term debt transactions are set out in the "Components of Total Debt" section of this MD&A.

Free Cash Flow⁽¹⁾ The definition of free cash flow⁽¹⁾ was changed in the first quarter of 2019 to normalize for the impact of the implementation of IFRS 16. Lease payments were deducted from the calculation, which resulted in no IFRS 16 impact on the metric.

(\$ millions) For the periods ended as indicated	16 Weeks Ended			40 Weeks Ended		
	Oct. 5, 2019	Oct. 6, 2018	Change	Oct. 5, 2019	Oct. 6, 2018	Change
Cash flows from operating activities	\$ 1,053	\$ 1,205	\$ (152)	\$ 3,283	\$ 2,264	\$ 1,019
Less: Interest paid	254	485	(231)	710	768	(58)
Fixed asset and investment properties purchases	357	336	21	714	704	10
Intangible asset additions	125	109	16	301	269	32
Lease payments, net ⁽ⁱ⁾	202	—	202	595	—	595
Free cash flow ⁽¹⁾	\$ 115	\$ 275	\$ (160)	\$ 963	\$ 523	\$ 440

(i) Includes cash rent paid on lease liabilities, net of lease payments received from finance leases.

The year-over-year free cash flow⁽¹⁾ in the third quarter of 2019 was \$115 million, a decrease of \$160 million compared to the third quarter of 2018. The decrease in free cash flow⁽¹⁾ was primarily driven by lower cash flows from operating activities, partially offset by lower interest paid.

On a year-to-date basis, free cash flow⁽¹⁾ was \$963 million, an increase of \$440 million compared to the same period in 2018. The increase in free cash flow⁽¹⁾ was primarily driven by higher cash flows from operating activities and lower interest paid, partially offset by higher capital expenditures.

LIQUIDITY

The Company (excluding Loblaw and Choice Properties) expects that cash and cash equivalents, short term investments and future operating cash flows will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding requirements and financial obligations, over the next 12 months. The Company (excluding Loblaw and Choice Properties) does not foresee any impediments in obtaining financing to satisfy its long term obligations.

Loblaw expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable it to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding requirements and financial obligations, over the next 12 months. Financial Services expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*[®] (“Eagle”) notes and Guaranteed Investment Certificates (“GICs”).

Choice Properties expects to obtain long term financing for the acquisition of properties primarily through the issuance of equity and unsecured debentures.

For details on the Company’s cash flows, see the “Cash Flows” section of this MD&A.

Total Debt The following table presents total debt, as monitored by management:

(\$ millions)	Oct. 5, 2019				As at Oct. 6, 2018				Dec. 31, 2018			
	Loblaw	Choice Properties	Other/ Intersegment	Total	Loblaw	Choice Properties	Other/ Intersegment	Total	Loblaw	Choice Properties	Other/ Intersegment	Total
Bank indebtedness	\$ 152	\$ —	\$ —	\$ 152	\$ 266	\$ —	\$ —	\$ 266	\$ 56	\$ —	\$ —	\$ 56
Short term debt	550	—	702	1,252	690	—	652	1,342	915	—	664	1,579
Long term debt due within one year	994	699	—	1,693	1,995	380	—	2,375	847	496	—	1,343
Long term debt ⁽ⁱ⁾	6,105	5,833	915	12,853	5,482	6,807	915	13,204	6,379	6,681	915	13,975
Certain other liabilities ⁽ⁱⁱ⁾	56	—	426	482	48	—	—	48	48	—	—	48
Fair value of financial derivatives related to the above debt	—	—	(459)	(459)	—	—	(515)	(515)	—	—	(556)	(556)
Total debt excluding lease liabilities	\$ 7,857	\$ 6,532	\$ 1,584	\$ 15,973	\$ 8,481	\$ 7,187	\$ 1,052	\$ 16,720	\$ 8,245	\$ 7,177	\$ 1,023	\$ 16,445
Lease liabilities due within one year	\$ 1,306	\$ 1	\$ (516)	\$ 791	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Lease liabilities	7,706	6	(3,562)	4,150	—	—	—	—	—	—	—	—
Total debt including total lease liabilities	\$ 16,869	\$ 6,539	\$ (2,494)	\$ 20,914	\$ 8,481	\$ 7,187	\$ 1,052	\$ 16,720	\$ 8,245	\$ 7,177	\$ 1,023	\$ 16,445

- (i) Finance lease obligations of \$546 million and \$535 million were included in long term debt as at October 6, 2018 and December 31, 2018, respectively prior to the implementation of IFRS 16.
- (ii) Includes a financial liability of \$426 million recorded as a result of Choice Properties’ portfolio transaction.

Management's Discussion and Analysis

Management targets credit metrics consistent with those of a company with an investment grade profile. In Other and Intersegment, the Company (excluding Loblaw and Choice Properties) holds cash and cash equivalents and short term investments and as a result monitors its leverage on a net debt basis. The Company (excluding Loblaw and Choice Properties) has total debt excluding lease liabilities of \$1,584 million (October 6, 2018 – \$1,052 million; December 31, 2018 – \$1,023 million) and cash and cash equivalents and short term investments of \$609 million (October 6, 2018 – \$667 million; December 31, 2018 – \$612 million), resulting in a net debt position of \$975 million (October 6, 2018 – \$385 million; December 31, 2018 – \$411 million).

Loblaw's management is focused on managing its capital structure on a segmented basis to ensure that each of its operating segments is employing a capital structure that is appropriate for the industry in which it operates.

- Loblaw targets maintaining Retail credit metrics consistent with those of investment grade retailers. Loblaw monitors the Retail segment's debt to rolling year adjusted EBITDA⁽¹⁾ ratio as a measure of the leverage being employed. The Retail segment's debt to rolling year adjusted EBITDA⁽¹⁾ ratio as at the end of the third quarter of 2019 increased compared to the third quarter of 2018 and year end 2018 primarily due to an increase in the Retail segment's debt driven by the increase in lease liabilities as a result of the implementation of IFRS 16. This increase was partially offset by the improvement in adjusted EBITDA⁽¹⁾ also as a result of the implementation of IFRS 16.
- President's Choice Bank ("PC Bank") capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory requirements as defined by the Office of the Superintendent of Financial Institutions.

Choice Properties targets maintaining credit metrics consistent with those of investment grade Real Estate Investment Trusts ("REIT"). Choice Properties monitors metrics relevant to the REIT industry including targeting an appropriate debt to total assets ratio.

Covenants and Regulatory Requirements The Company, Loblaw and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at the end of the third quarter and throughout year-to-date 2019, the Company, Loblaw and Choice Properties were in compliance with their respective covenants.

As at the end of the third quarter and throughout 2019, PC Bank and Choice Properties met all applicable regulatory requirements.

COMPONENTS OF TOTAL DEBT

Debentures The following table summarizes the debentures issued or assumed in the periods ended as indicated:

(\$ millions)	Interest Rate	Maturity Date	40 Weeks Ended	
			Oct. 5, 2019	Oct. 6, 2018
			Principal Amount	Principal Amount
Choice Properties senior unsecured debentures				
– Series I	3.01%	March 21, 2022	\$ —	\$ 300
– Series J	3.55%	January 10, 2025	—	350
– Series K	3.56%	September 9, 2024	—	550
– Series L	4.18%	March 8, 2028	—	750
– Series M	3.53%	June 11, 2029	750	—
– Series A-C	3.68%	July 24, 2018	—	125
– Series B-C	4.32%	January 15, 2021	—	100
– Series C-C	2.56%	November 30, 2019	—	100
– Series D-C	2.95%	January 18, 2023	—	125
Total debentures issued			\$ 750	\$ 2,400

There were no debentures issued or assumed in the third quarters of 2019 and 2018.

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

(\$ millions)	Interest Rate	Maturity Date	16 Weeks Ended		40 Weeks Ended	
			Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
			Principal Amount	Principal Amount	Principal Amount	Principal Amount
Shoppers Drug Mart Corporation Notes	2.36%	May 24, 2018	\$ —	\$ —	\$ —	\$ 275
Loblaw Companies Limited - Term Loan ⁽ⁱ⁾	Variable	March 28, 2019	—	48	—	48
Loblaw Companies Limited - Term Loan ⁽ⁱⁱ⁾	Variable	March 28, 2019	—	250	—	250
Choice Properties senior unsecured debentures						
– Series A-C	3.68%	July 24, 2018	—	125	—	125
– Series A	3.55%	July 5, 2018 ⁽ⁱⁱⁱ⁾	—	—	—	400
– Series 7	3.00%	September 20, 2019 ⁽ⁱⁱⁱ⁾	200	—	200	—
– Series C-C	2.56%	November 30, 2019 ⁽ⁱⁱⁱ⁾	100	—	100	—
Choice Properties - Term Loan ^(iv)	Variable	May 4, 2022	—	—	175	—
Choice Properties - Term Loan ^(v)	Variable	May 4, 2023	400	—	625	—
Total debentures and unsecured term loan facilities repaid			\$ 700	\$ 423	\$ 1,100	\$ 1,098

- (i) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on August 29, 2018.
- (ii) Loblaw unsecured term loan facility bearing interest at variable rates of either Prime plus 0.13% or Bankers' Acceptance rate plus 1.13% were redeemed on August 29, 2018.
- (iii) Choice Properties senior unsecured debentures Series A were redeemed on February 12, 2018 and Series 7 and Series C-C were redeemed on June 27, 2019.
- (iv) Choice Properties term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on June 11, 2019.
- (v) Choice Properties term loan facility bearing interest at variable rates of either Prime plus 0.45% or Bankers' Acceptance rate plus 1.45% were redeemed on June 11, 2019 and September 30, 2019.

Management's Discussion and Analysis

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

(\$ millions)	Maturity Date	Oct. 5, 2019		As at Oct. 6, 2018		As at Dec. 31, 2018	
		Available Credit	Drawn	Available Credit	Drawn	Available Credit	Drawn
Loblaw committed credit facility	June 10, 2021	\$ 1,000	\$ —	\$ 1,000	\$ —	\$ 1,000	\$ —
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	117	1,500	340	1,500	325
Total committed lines of credit		\$ 2,500	\$ 117	\$ 2,500	\$ 340	\$ 2,500	\$ 325

Independent Securitization Trusts 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 a co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle* and Other Independent Securitization Trusts, in accordance with its financing requirements.

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

(\$ millions)	Oct. 5, 2019	As at	
		Oct. 6, 2018	Dec. 31, 2018
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> [®]	\$ 1,000	\$ 1,150	\$ 750
Securitized to Other Independent Securitization Trusts	550	690	915
Total securitized to independent securitization trusts	\$ 1,550	\$ 1,840	\$ 1,665

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at the end of the third quarter of 2019 and throughout year-to-date of 2019.

During the third quarter of 2019, *Eagle* issued \$250 million of senior and subordinated term notes with a maturity date of July 17, 2024 at a weighted average interest rate of 2.28%. In connection with this issuance, \$250 million of bond forward agreements were settled, resulting in a realized fair value loss of \$8 million and a net effective interest rate of 2.94% on the *Eagle* note issued.

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

Independent Funding Trusts As at the end of the third quarter of 2019, the independent funding trusts had drawn \$501 million (October 6, 2018 – \$545 million; December 31, 2018 – \$536 million) from the revolving committed credit facility that is the source of funding to the 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 (October 6, 2018 and December 31, 2018 – \$64 million), representing not less than 10% (October 6, 2018 and December 31, 2018 – not less than 10%) of the principal amount of loans outstanding.

During the second quarter of 2019, Loblaw renewed the revolving committed credit facility relating to the independent funding trusts until May 27, 2022.

Debt Associated with Equity Forward Sale Agreement In 2001, Weston Holdings Limited (“WHL”) entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of \$48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of \$122.44 (October 6, 2018 – \$117.23; December 31, 2018 – \$118.42) per Loblaw common share as at the end of the third quarter of 2019. The forward matures in 2031 and WHL is permitted to settle the liability at any time with the 9.6 million Loblaw common shares. The obligation of WHL under this forward is secured by the underlying Loblaw common shares. WHL recognizes a non-cash charge or income, which is included in consolidated net interest expense and other financing charges, representing the fair value adjustment of WHL’s forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that WHL owns. WHL does not record any change in the market price associated with the Loblaw common shares it owns.

The following table summarizes the Company’s (excluding Loblaw and Choice Properties) debt in Other and Intersegment:

(\$ millions)	Maturity Date	As at		
		Oct. 5, 2019	Oct. 6, 2018	Dec. 31, 2018
Series A	2031	\$ 466	\$ 466	\$ 466
Series B	On demand	702	652	664
Fair value of financial derivatives related to the above debt	n/a	(459)	(515)	(556)
Debt associated with equity forward sale agreement ⁽ⁱ⁾		\$ 709	\$ 603	\$ 574
Debentures	2024 - 2033	450	450	450
Certain other liabilities ⁽ⁱⁱ⁾		426	—	—
Transaction costs and other		(1)	(1)	(1)
Other and Intersegment debt		\$ 1,584	\$ 1,052	\$ 1,023

(i) WHL is permitted to settle the liability at any time with the 9.6 million Loblaw common shares.

(ii) Represents a financial liability of \$426 million recorded as a result of Choice Properties’ portfolio transaction.

FINANCIAL CONDITION

	As at		
	Oct. 5, 2019 ⁽ⁱⁱ⁾	Oct. 6, 2018	Dec. 31, 2018
Rolling year adjusted return on average equity attributable to common shareholders of the Company ⁽¹⁾	16.8%	12.8%	12.7%
Rolling year adjusted return on capital ⁽¹⁾⁽ⁱ⁾	10.4%	11.7%	12.0%

(i) Includes the annualized impact of IFRS 16. Tax-effected adjusted operating income⁽¹⁾ is expected to be approximately \$0.1 billion higher on an annualized basis due to the change in presentation of the Company’s rent expense.

(ii) Opening equity and opening capital include the implementation impacts of IFRS 16 when calculating the average of equity and average of capital, respectively.

The rolling year adjusted return on average equity attributable to common shareholders of the Company⁽¹⁾ increased as at the end of the third quarter of 2019 compared to the end of the third quarter of 2018 and year end 2018 primarily due to the spin-out of Choice Properties and earnings growth, and decrease in retained earnings as a result of the implementation of IFRS 16.

The rolling year adjusted return on capital⁽¹⁾ decreased as at the end of the third quarter of 2019 compared to the end of the third quarter of 2018 and year end 2018, primarily due to an increase in the average debt driven by the increase in lease liabilities as a result of the implementation of IFRS 16. This increase was partially offset by the improvement in tax-effected adjusted operating income⁽¹⁾ also as a result of IFRS 16.

Management's Discussion and Analysis

CREDIT RATINGS

In the third quarter of 2019, Standard and Poor's reaffirmed the credit ratings and outlook for GWL, Loblaw, and Choice Properties, and Dominion Bond Rating Service ("DBRS") reaffirmed the credit ratings and trend for Choice Properties.

Subsequent to the end of the third quarter of 2019, DBRS reaffirmed the credit ratings and trend for GWL, and reaffirmed the credit ratings for Loblaw and changed the trend from Stable to Positive.

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

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

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

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

The following table sets out the current credit ratings of Choice Properties:

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service		Standard & Poor's	
	Credit Rating	Trend	Credit Rating	Outlook
Issuer rating	BBB	Stable	BBB	Stable
Senior unsecured debentures	BBB	Stable	BBB	n/a

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:

	16 Weeks Ended				40 Weeks Ended			
	Oct. 5, 2019		Oct. 6, 2018		Oct. 5, 2019		Oct. 6, 2018	
(\$ 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	153,568,888	\$ 2,782	128,004,251	\$ 230	153,370,108	\$ 2,766	127,905,581	\$ 221
Issued for settlement of stock options	322,709	30	—	—	523,114	46	100,298	9
Purchased and cancelled	—	—	(566,962)	(2)	(1,625)	—	(568,590)	(2)
Issued and outstanding, end of period	153,891,597	\$ 2,812	127,437,289	\$ 228	153,891,597	\$ 2,812	127,437,289	\$ 228
Shares held in trusts, beginning of period	(81,576)	\$ 1	(129,796)	\$ —	(120,305)	\$ —	(228,803)	\$ —
Purchased for future settlement of RSUs and PSUs	(10,000)	—	—	—	(60,000)	(1)	—	—
Released for settlement of RSUs and PSUs	2,339	—	9,221	—	91,068	2	108,228	—
Shares held in trusts, end of period	(89,237)	\$ 1	(120,575)	\$ —	(89,237)	\$ 1	(120,575)	\$ —
Issued and outstanding net of shares held in trusts, end of period	153,802,360	\$ 2,813	127,316,714	\$ 228	153,802,360	\$ 2,813	127,316,714	\$ 228
Weighted average outstanding, net of shares held in trusts	153,616,739		127,702,237		153,469,027		127,746,599	

Management's Discussion and Analysis

Normal Course Issuer Bid ("NCIB") Program The following table summarizes the activity under its NCIB program:

(\$ millions except where otherwise indicated)	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾	Oct. 5, 2019	Oct. 6, 2018 ⁽³⁾
Purchased for future settlement of RSUs and PSUs (number of shares)	10,000	—	60,000	—
Purchased for current settlement of RSUs and DSUs (number of shares)	29,524	2,961	60,880	17,667
Purchased and cancelled (number of shares)	—	566,962	—	568,590
Cash consideration paid				
Purchased and held in trusts	\$ (1)	\$ —	\$ (6)	\$ —
Purchased and settled	(3)	—	(6)	(2)
Purchased and cancelled	—	(56)	—	(56)
Premium charged to retained earnings	\$ —	\$ 96	\$ 5	\$ 96
Reduction in share capital	\$ —	\$ 2	\$ —	\$ 2

In the second quarter of 2019, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 7,676,458 of its common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of October 5, 2019, the Company purchased 39,524 common shares under its current NCIB program.

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

(\$)	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
Dividends declared per share ⁽ⁱ⁾ :				
Common share	\$ 0.525	\$ 0.490	\$ 1.565	\$ 1.435
Preferred share:				
Series I	\$ 0.3625	\$ 0.3625	\$ 1.0875	\$ 1.0875
Series III	\$ 0.3250	\$ 0.3250	\$ 0.9750	\$ 0.9750
Series IV	\$ 0.3250	\$ 0.3250	\$ 0.9750	\$ 0.9750
Series V	\$ 0.296875	\$ 0.296875	\$ 0.890625	\$ 0.890625

- (i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were paid on October 1, 2019. Dividends declared on Preferred Shares, Series I were paid on September 15, 2019.

The following table summarizes the Company's cash dividends declared subsequent to the end of the third quarter of 2019:

(\$)	
Dividends declared per share ⁽ⁱ⁾ – Common share	\$ 0.525
– Preferred share:	
Series I	\$ 0.3625
Series III	\$ 0.3250
Series IV	\$ 0.3250
Series V	\$ 0.296875

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V are payable on January 1, 2020. Dividends declared on Preferred Shares, Series I are payable on December 15, 2019.

At the time such dividends are declared, GWL identifies on its website (www.weston.ca) the designation of eligible and ineligible dividends in accordance with the administrative position of the Canada Revenue Agency.

OFF-BALANCE SHEET ARRANGEMENTS

The Company uses off-balance sheet arrangements including letters of credit, guarantees and cash collateralization in connection with certain obligations. There were no significant changes to these off-balance sheet arrangements during the third quarter of 2019. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7, "Off-Balance Sheet Arrangements", of the Company's 2018 Annual Report.

Management's Discussion and Analysis

QUARTERLY RESULTS OF OPERATIONS

The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2018 and December 31, 2017 contained 52 weeks. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year contains 53 weeks, the fourth quarter is 13 weeks in duration.

The following is a summary of selected consolidated financial information derived from the Company's unaudited interim period condensed consolidated financial statements for each of the eight most recently completed quarters.

Selected Quarterly Information

(\$ millions except where otherwise indicated)	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
	2019 (16 weeks)	2018 (16 weeks)	2019 (12 weeks)	2018 (12 weeks)	2019 (12 weeks)	2018 (12 weeks)	2018 (12 weeks)	2017 (12 weeks)
Sales	\$ 15,226	\$ 14,862	\$ 11,603	\$ 11,245	\$ 11,173	\$ 10,744	\$ 11,717	\$ 11,402
Operating income	884	804	770	589	586	502	690	164
Adjusted EBITDA ⁽¹⁾	1,661	1,391	1,313	1,073	1,158	918	1,146	1,065
Depreciation and amortization ⁽ⁱ⁾	701	530	534	400	535	400	416	407
Net earnings (loss)	264	130	353	78	(372)	378	412	78
Net earnings (loss) attributable to shareholders of the Company	83	65	194	38	(478)	190	281	44
Net earnings (loss) available to common shareholders of the Company	69	51	184	28	(488)	180	271	34
Net earnings (loss) per common share (\$) - basic	\$ 0.45	\$ 0.40	\$ 1.20	\$ 0.22	\$ (3.18)	\$ 1.41	\$ 1.86	\$ 0.27
Net earnings (loss) per common share (\$) - diluted	\$ 0.44	\$ 0.40	\$ 1.19	\$ 0.21	\$ (3.18)	\$ 1.40	\$ 1.86	\$ 0.27
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 2.54	\$ 2.25	\$ 1.70	\$ 1.63	\$ 1.30	\$ 1.38	\$ 1.59	\$ 1.76
Weston Foods sales growth (decline)	1.3%	(5.7)%	2.4%	(8.1)%	(0.2)%	(4.1)%	(3.8)%	(1.9)%
Weston Foods sales growth (decline) excluding impact of foreign currency translation	0.6%	(7.3)%	0.2%	(5.7)%	(3.1)%	(1.5)%	(5.9)%	0.9 %
Average quarterly national food price inflation (as measured by CPI)	4.1%	0.3 %	3.6%	0.1 %	3.3 %	1.2 %	1.7 %	1.0 %
Loblaw's Food retail same-store sales growth	0.1%	0.9 %	0.6%	0.8 %	2.0 %	1.9 %	0.8 %	0.5 %
Loblaw's Drug retail same-store sales growth	4.1%	2.5 %	4.0%	1.7 %	2.2 %	3.7 %	1.9 %	3.6 %
Choice Properties' Funds From Operations per unit - diluted	\$ 0.250	\$ 0.253	\$ 0.248	\$ 0.272	\$ 0.252	\$ 0.255	\$ 0.256	\$ 0.282
Choice Properties' Net Operating Income (cash basis)	\$ 239	\$ 230	\$ 235	\$ 202	\$ 233	\$ 150	\$ 233	\$ 153

(i) Depreciation and amortization includes amortization of intangible assets acquired with Shoppers Drug Mart recorded by Loblaw and accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

Impact of Trends and Seasonality on Quarterly Results Consolidated quarterly results for the last eight quarters were impacted by the following significant items: foreign currency exchange rates, seasonality and the timing of holidays. The impact of Weston Foods seasonality is greatest in the third and fourth quarters and least in the first quarter. The impact of Loblaw seasonality is greatest in the fourth quarter and least in the first quarter.

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

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

- underlying operating performance of each of the Company's reportable operating segments;
- Loblaw's minimum wage increases and incremental healthcare reform;
- Loblaw's cost savings and operating efficiencies from Process and Efficiency initiatives and benefits from strategic initiatives;
- the favourable impact of Loblaw share repurchases for cancellation; and
- the impact of certain adjusting items as set out in the "Non-GAAP Financial Measures" section of this MD&A, including:
 - the change in fair value adjustment of the Trust Unit liability;
 - Loblaw's charge related to Glenhuron;
 - the change in fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares;
 - restructuring and other related costs;
 - CREIT acquisition and other related costs;
 - the *PC Optimum* Program;
 - the Loblaw Card Program;
 - Loblaw's spin-out of Choice Properties;
 - Choice Properties' issuance costs;
 - the change in fair value adjustment on investment properties;
 - the remeasurement of deferred tax balances;
 - the statutory corporate income tax rate changes;
 - the wind-down of *PC Financial* personal banking services;
 - certain prior period items;
 - the impact of healthcare reform on inventory balances;
 - asset impairments, net of recoveries;
 - gain or loss on sale of non-operating properties; and
 - the change in foreign currency translation and other company level activities.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal controls over financial reporting in the third quarter of 2019 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Management's Discussion and Analysis

ENTERPRISE RISKS AND RISK MANAGEMENT

A detailed full set of risks inherent in the Company's business are included in the Company's AIF for the year ended December 31, 2018 and the MD&A included in the Company's 2018 Annual Report, which are hereby incorporated by reference. The Company's 2018 Annual Report and AIF are available at www.sedar.com. Those risks and risk management strategies remain unchanged.

ACCOUNTING STANDARDS

Accounting Standard Implemented in 2019

IFRS 16 In 2016, the IASB issued IFRS 16 replacing IAS 17 and related interpretations. The standard introduces a single, on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset representing its control of and right to use the underlying asset and a lease liability representing its obligation to make future lease payments. Lessor accounting remains similar to IAS 17.

IFRS 16 became effective for annual periods beginning on or after January 1, 2019. For leases where the Company is the lessee, it had the option of adopting a fully retrospective approach or a modified retrospective approach on transition to IFRS 16. The Company adopted the standard on January 1, 2019 using the modified retrospective approach. The Company applied the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at January 1, 2019, and no restatement of the comparative period. Under the modified retrospective approach, the Company chose to measure all right-of-use assets retrospectively as if the standard had been applied since lease commencement dates.

Substantially all of the Company's operating leases are real estate leases for retail stores, production plants, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and equipment. The Company recognized right-of-use assets and lease liabilities for its operating leases except for certain low-value leases and classes of underlying assets in which the lease terms are 12 months or less. The depreciation expense on right-of-use assets and interest expense on lease liabilities replaced rent expense, which was previously recognized on a straight-line basis under IAS 17 over the term of a lease. There are no significant impacts to the Company's existing finance leases under IAS 17 as a lessee.

The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are mainly related to non-consolidated franchisees and ancillary tenants. As an intermediate lessor, the Company reassessed the classification of its subleases by reference to the right-of-use assets arising from the head lease and recognized a corresponding finance lease receivable when the reassessment concluded that the subleases were finance leases.

IFRS 16 permits the use of recognition exemptions and practical expedients. The Company applied the following recognition exemptions and practical expedients:

- grandfathered the definition of leases for existing contracts at the date of initial application;
- excluded certain low-value and short term leases from IFRS 16 lease accounting;
- used portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- applied a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- excluded initial direct costs from the measurement of right-of-use assets at the date of initial application; and
- used hindsight in determining lease term at the date of initial application.

The Company did not exercise the practical expedient wherein a lessee may rely on its assessment of whether leases are onerous applying IAS 37, “Provisions, Contingent Liabilities and Contingent Assets” immediately before the date of initial application as an alternative to performing an impairment review. On the date of initial application, the Company applied the requirements of IAS 36, “Impairment of Assets” and recorded an impairment of \$62 million on right-of-use assets in opening retained earnings, which represents an incremental \$16 million to the previous onerous lease provision.

The impact of adopting IFRS 16 on the Company’s balance sheet as at January 1, 2019 was as follows:

Condensed Consolidated Balance Sheet

Increase (Decrease) (\$ millions)	As at Jan. 1, 2019
Current Assets	
Prepaid expenses and other assets	\$ (62)
Total Current Assets	\$ (62)
Fixed Assets ⁽ⁱ⁾	(435)
Right-of-Use Assets ⁽ⁱ⁾	4,114
Intangible Assets	(82)
Deferred Income Taxes	32
Other Assets	85
Total Assets	\$ 3,652
Current Liabilities	
Trade payables and other liabilities	\$ (11)
Provisions	(4)
Long term debt due within one year ⁽ⁱ⁾	(37)
Lease liabilities due within one year ⁽ⁱ⁾⁽ⁱⁱ⁾	736
Total Current Liabilities	\$ 684
Provisions	(76)
Long Term Debt ⁽ⁱ⁾	(498)
Lease Liabilities ⁽ⁱ⁾⁽ⁱⁱ⁾	4,350
Deferred Income Taxes	(89)
Other Liabilities	(210)
Non-Controlling Interests	(394)
Retained Earnings	(115)
Total Liabilities and Equity	\$ 3,652

(i) Leases previously classified as finance lease arrangements under IAS 17 were presented within fixed assets, long term debt due within one year and long term debt. Effective January 1, 2019, these balances are included in right-of-use assets and lease liabilities.

(ii) Leases that are low-value, short term or where the lease payments are variable and do not depend on an index or rate are not included in the calculation of lease liabilities. These lease expenses are recognized in SG&A on the most systematic basis.

The Company used its incremental borrowing rates as at January 1, 2019 to measure lease liabilities. The weighted average incremental borrowing rate was 4.39%. The weighted average lease term remaining as at January 1, 2019 was approximately 10 years.

Management's Discussion and Analysis

The following reconciliation is between lease liabilities recognized on January 1, 2019 and operating lease commitments disclosed under IAS 17 as at December 31, 2018 discounted using the weighted average incremental borrowing rate as at the date of initial application:

(\$ millions)	As at Jan. 1, 2019
Operating lease commitment as at December 31, 2018 as disclosed in the Company's notes to the consolidated financial statements	\$ 4,826
Discounted using the weighted average incremental borrowing rate as at January 1, 2019	\$ 3,932
Finance lease obligations recognized as at December 31, 2018	535
Extension and termination options reasonably certain to be exercised	619
Lease liabilities recognized as at January 1, 2019	\$ 5,086
Lease liabilities due within one year	\$ 736
Lease liabilities	4,350
Total lease liabilities	\$ 5,086

Critical Accounting Estimates and Judgments for Leases

Judgments Made in Relation to Accounting Policies Applied Management exercises judgment in determining the appropriate lease term on a lease by lease basis. Management considers all facts and circumstances that create an economic incentive to exercise a renewal option or to not exercise a termination option including investments in major leaseholds, store performances and past business practice. The periods covered by renewal options are only included in the lease term if management is reasonably certain to renew. Management considers reasonably certain to be a high threshold. Changes in the economic environment or changes in the retail industry may impact management's assessment of lease term, and any changes in management's estimate of lease terms may have a material impact on the Company's balance sheet and statement of earnings.

Key Sources of Estimation In determining the carrying amount of right-of-use assets and lease liabilities, the Company is required to estimate the incremental borrowing rate specific to each leased asset or portfolio of leased assets if the interest rate implicit in the lease is not readily determined. Management determines the incremental borrowing rate of each leased asset or portfolio of leased assets by incorporating the Company's creditworthiness, the security, term and value of the underlying leased asset, and the economic environment in which the leased asset operates. The incremental borrowing rates are subject to change mainly due to macroeconomic changes in the environment.

OUTLOOK⁽²⁾

Weston Foods is focused on becoming a premier North American bakery and delivering solid financial results. In 2019, Weston Foods will focus on growing its core business, selectively innovating in new segments and markets, and strengthening key processes.

In 2019, on a full-year comparative basis, Weston Foods expects its business performance to stabilize:

- Excluding the positive impact of foreign currency translation, sales will be lower when compared to 2018, due to the impact of lapping sales lost from key customers last year and the impact of product rationalization, partially offset by growth in key categories and pricing;
- Excluding the prior year gains on the sale leaseback of properties, adjusted EBITDA⁽¹⁾ will be slightly lower when compared to 2018. Adjusted EBITDA⁽¹⁾ will be impacted by headwinds from higher input and distribution costs in an inflationary environment and by sales trends as described above, partially offset by improvements driven from productivity and the transformation program;
- Investment in capital expenditures will decrease to approximately \$200 million; and
- Depreciation will increase compared to 2018.

Loblaw is focused on its strategic framework, delivering best in food and health and beauty, using data driven insights underpinned by process and efficiency excellence. This framework is supported by Loblaw's financial plan of maintaining a stable trading environment that targets positive same-store sales and stable gross margin, creating efficiencies to deliver operating leverage, investing for the future and returning capital to shareholders.

Loblaw will remain focused on delivering Process and Efficiency improvements to offset increasing costs and to fund continued incremental investments in its strategic growth areas of Everyday Digital Retail, Connected Healthcare and Payments & Rewards.

In 2019, on a full-year comparative basis, excluding the impact of the spin-out of Choice Properties, Loblaw expects to:

- deliver positive same-store sales and stable gross margin in the Retail segment in a highly competitive market;
- deliver positive adjusted net earnings⁽¹⁾ growth;
- invest approximately \$1.1 billion in capital expenditures, net of proceeds from property disposals; and
- return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

Choice Properties anchored by its sizable base of assets, its relationship with Loblaw and its solid capital structure provides a solid foundation for stable and growing cash flows. With the acquisition of CREIT on May 4, 2018, Choice Properties has evolved into two primary functional areas: an existing income producing property portfolio and a development business. The income producing property portfolio provides a solid foundation for stable cash flows and is diversified by both geographic location and product type including retail, industrial, office and residential assets. Development initiatives provide the opportunity to add high quality real estate by focusing primarily on retail intensification projects and well located rental residential projects at various stages of development.

In 2019, Choice Properties will continue to focus on financial and operational stability. This includes improvement to its portfolio quality through property acquisition and dispositions, the advancement of retail and industrial development projects, the expansion of its multi-residential platform and prudent financial management.

For 2019, the Company expects adjusted net earnings⁽¹⁾ to increase due to the results from its operating segments described above.

Management's Discussion and Analysis

NON-GAAP FINANCIAL MEASURES

The Company uses the following non-GAAP financial measures: adjusted EBITDA and adjusted EBITDA margin, adjusted net earnings attributable to shareholders of the Company, adjusted net earnings available to common shareholders of the Company, adjusted diluted net earnings per common share, rolling year adjusted return on average equity attributable to common shareholders of the Company, rolling year adjusted return on capital, free cash flow and with respect to Choice Properties: funds from operations. In addition to these items, the following measures are used by management in calculating adjusted diluted net earnings per common share: adjusted operating income, adjusted net interest expense and other financing charges, adjusted income taxes and adjusted income tax rate. The Company believes these non-GAAP financial measures provide useful information to both management and investors with regard to accurately assessing the Company's financial performance and financial condition for the reasons outlined below.

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

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

Adjusted EBITDA The Company believes adjusted EBITDA is useful in assessing and making decisions regarding the underlying operating performance of the Company's ongoing operations and in assessing the Company's ability to generate cash flows to fund its cash requirements, including its capital investment program.

The following table reconciles adjusted EBITDA to operating income, which is reconciled to GAAP net earnings attributable to shareholders of the Company reported for the periods ended as indicated.

(\$ millions)	16 Weeks Ended					16 Weeks Ended				
	Oct. 5, 2019					Oct. 6, 2018				
	Weston Foods	Loblaw	Choice Properties	Other & Intersegment	Consolidated	Weston Foods ⁽ⁱ⁾	Loblaw ⁽ⁱ⁾	Choice Properties	Other and Intersegment ⁽ⁱ⁾	Consolidated
Net earnings attributable to shareholders of the Company					\$ 83					\$ 65
Add impact of the following:										
Non-controlling interests					181					65
Income taxes					103					347
Net interest expense and other financing charges					517					327
Operating income	\$ 23	\$ 688	\$ 221	\$ (48)	\$ 884	\$ 31	\$ 590	\$ 179	\$ 4	\$ 804
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ —	\$ 157	\$ —	\$ —	\$ 157	\$ —	\$ 161	\$ —	\$ —	\$ 161
Restructuring and other related costs	9	22	—	—	31	12	7	—	(2)	17
Fair value adjustment of derivatives	2	3	—	—	5	1	—	—	—	1
Fair value adjustment on investment properties	—	—	3	39	42	—	—	34	—	34
Loss on sale of non-operating properties	—	2	—	—	2	—	—	—	—	—
CREIT acquisition and other related costs	—	—	2	—	2	—	—	10	—	10
Inventory loss, net of recoveries	(2)	—	—	—	(2)	—	—	—	—	—
Loblaw's spin-out of Choice Properties	—	—	—	—	—	—	6	—	4	10
Loblaw Card Program	—	—	—	—	—	—	(4)	—	—	(4)
Gain on sale of air rights	—	—	—	—	—	—	—	—	(13)	(13)
Foreign currency translation and other company level activities	—	—	—	—	—	—	—	—	7	7
Adjusting items	\$ 9	\$ 184	\$ 5	\$ 39	\$ 237	\$ 13	\$ 170	\$ 44	\$ (4)	\$ 223
Adjusted operating income	\$ 32	\$ 872	\$ 226	\$ (9)	\$ 1,121	\$ 44	\$ 760	\$ 223	\$ —	\$ 1,027
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱ⁾	40	618	—	(118)	540	38	298	—	28	364
Adjusted EBITDA	\$ 72	\$ 1,490	\$ 226	\$ (127)	\$ 1,661	\$ 82	\$ 1,058	\$ 223	\$ 28	\$ 1,391

- (i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$157 million (2018 – \$161 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$4 million (2018 – \$5 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

Management's Discussion and Analysis

40 Weeks Ended

(\$ millions)	Oct. 5, 2019					Oct. 6, 2018				
	Weston Foods	Loblaw	Choice Properties	Other & Intersegment	Consolidated	Weston Foods ⁽ⁱ⁾	Loblaw ⁽ⁱ⁾	Choice Properties	Other and Intersegment ⁽ⁱ⁾	Consolidated
Net (loss) earnings attributable to shareholders of the Company					\$ (201)					\$ 293
Add impact of the following:										
Non-controlling interests					446					293
Income taxes					298					579
Net interest expense and other financing charges					1,697					730
Operating income	\$ 45	\$ 1,723	\$ 670	\$ (198)	\$ 2,240	\$ 62	\$ 1,472	\$ 391	\$ (30)	\$ 1,895
Add (deduct) impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ —	\$ 392	\$ —	\$ —	\$ 392	\$ —	\$ 401	\$ —	\$ —	\$ 401
Restructuring and other related costs	15	50	—	—	65	29	14	—	(15)	28
Pension annuities and buy-outs	—	10	—	—	10	—	1	—	—	1
Fair value adjustment of derivatives	4	5	—	—	9	(9)	(11)	—	—	(20)
Fair value adjustment on investment properties	—	(3)	10	51	58	—	1	70	(27)	44
Gain on sale of non-operating properties	—	(4)	—	—	(4)	—	—	—	—	—
Certain prior period items	—	(15)	—	—	(15)	—	—	—	—	—
CREIT acquisition and other related costs	—	—	8	—	8	—	—	130	—	130
Inventory loss, net of recoveries	(2)	—	—	—	(2)	(1)	—	—	—	(1)
Loblaw's spin-out of Choice Properties	—	—	—	1	1	—	6	—	4	10
Impact of healthcare reform on inventory balances	—	—	—	—	—	—	19	—	—	19
Loblaw Card Program	—	—	—	—	—	—	4	—	—	4
Wind-down of PC Financial personal banking services	—	—	—	—	—	—	(20)	—	—	(20)
Gain on sale of air rights	—	—	—	—	—	—	—	—	(13)	(13)
Foreign currency translation and other company level activities	—	—	—	(2)	(2)	—	—	—	(16)	(16)
Adjusting items	\$ 17	\$ 435	\$ 18	\$ 50	\$ 520	\$ 19	\$ 415	\$ 200	\$ (67)	\$ 567
Adjusted operating income	\$ 62	\$ 2,158	\$ 688	\$ (148)	\$ 2,760	\$ 81	\$ 1,887	\$ 591	\$ (97)	\$ 2,462
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱ⁾	105	1,543	1	(277)	1,372	93	740	—	87	920
Adjusted EBITDA	\$ 167	\$ 3,701	\$ 689	\$ (425)	\$ 4,132	\$ 174	\$ 2,627	\$ 591	\$ (10)	\$ 3,382

- (i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$392 million (2018 – \$401 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$6 million (2018 – \$9 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

The following items impacted operating income in the third quarters of 2019 and 2018, and on a year-to-date basis:

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately \$6 billion of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangible assets will be approximately \$525 million until 2024, and will decrease thereafter.

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

Pension annuities and buy-outs The Company has and continues to undertake annuity purchases and pension buy-outs in respect of former employees to reduce its defined benefit pension plan obligation and decrease future pension volatility and risks.

Fair value adjustment of derivatives The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations primarily as a result of purchases of certain raw materials, fuels and utilities. In accordance with the Company's commodity risk management policy, the Company enters into commodity and foreign currency derivatives to reduce the impact of price fluctuations in forecasted raw material and fuel purchases over a specified period of time. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, certain changes in fair value, which include realized and unrealized gains and losses related to future purchases of raw materials and fuel, are recorded in operating income. Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

Fair value adjustment on investment properties In conjunction with the acquisition of CREIT, the Company elected to change the measurement of investment properties from cost model to fair value model. Prior to the second quarter of 2018, the Company recognized investment properties at cost less accumulated depreciation and any accumulated impairment losses. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. 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.

Loss (Gain) on sale of non-operating properties In the third quarter of 2019, Loblaw disposed of vacant land to a third party and recorded a loss of \$2 million related to the sale.

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

CREIT acquisition and other related costs During 2018 and 2019, Choice Properties recorded acquisition and other related costs in connection with the acquisition of CREIT.

Inventory loss, net of recoveries In 2016, Weston Foods' damaged inventory of \$11 million (U.S. \$9 million) was written-off and was recorded in SG&A in the Company's consolidated statement of earnings. The Company received partial proceeds from the insurance claim in the subsequent years. Final proceeds were received and recorded in the third quarter of 2019.

Loblaw's spin-out of Choice Properties During 2018 and 2019, the Company and Loblaw recorded transaction and other related costs in connection with the spin-out of Loblaw's interest in Choice Properties.

Management's Discussion and Analysis

Impact of healthcare reform on inventory balances In the first quarter of 2018, Loblaw recorded an inventory provision for the write-down of inventories below cost to net realizable value, related to its generic drug inventory, as a result of healthcare reform announced in the first quarter of 2018, effective April 1, 2018.

Loblaw Card Program In the fourth quarter of 2017, the Company and Loblaw acknowledged their involvement in an industry wide price-fixing arrangement involving certain packaged bread products. In connection with the arrangement, the Company offered customers a \$25 Loblaw Card, which can be used to purchase items sold in Loblaw grocery stores across Canada. The Company recorded a charge of \$107 million associated with the Loblaw Card Program in the fourth quarter of 2017. In 2018, the Company recorded total charge of \$4 million year-to-date, of which \$4 million of reversal was recorded in the third quarter of 2018.

Wind-down of PC Financial personal banking services In the third quarter of 2017, PC Bank entered into an agreement to end its business relationship with a major Canadian chartered bank, which represented the personal banking services offered under the *PC Financial* brand. As a result of this agreement, PC Bank received a payment of approximately \$44 million, net of certain costs incurred, \$20 million of which was recognized in the first half of 2018 and \$24 million was recognized in 2017.

Gain on sale of air rights In the third quarter of 2018, a joint venture owned by Choice Properties completed the sale of air rights on one of its properties. The Company recorded a gain of \$13 million in the third quarter related to the sale.

Foreign currency translation and other company level activities The Company's consolidated financial statements are expressed in Canadian dollars. A portion of the Company's (excluding Loblaw's) net assets are denominated in U.S. dollars and as a result, the Company is exposed to foreign currency translation gains and losses. The impact of foreign currency translation on a portion of the U.S. dollar denominated net assets, primarily cash and cash equivalents and short term investments held by foreign operations, is recorded in SG&A and the associated tax, if any, is recorded in income taxes. Other company level activities include fair value adjustments related to investments held by the Company.

Adjusted Net Interest Expense and Other Financing Charges The Company believes adjusted net interest expense and other financing charges is useful in assessing the ongoing net financing costs of the Company.

The following table reconciles adjusted net interest expense and other financing charges to GAAP net interest expense and other financing charges reported for the periods ended as indicated.

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
Net interest expense and other financing charges	\$ 517	\$ 327	\$ 1,697	\$ 730
Add (deduct) impact of the following:				
Fair value adjustment of the Trust Unit liability	(169)	55	(753)	(44)
Choice Properties issuance costs	—	—	(14)	—
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(52)	25	(136)	44
Loblaw's charge related to Glenhuron	—	(176)	—	(176)
Adjusted net interest expense and other financing charges	\$ 296	\$ 231	\$ 794	\$ 554

In addition to certain items described in the “Adjusted EBITDA” section above, the following items impacted net interest expense and other financing charges in the third quarters of 2019 and 2018, and on a year-to-date basis:

Fair value adjustment of the Trust Unit liability The Company is exposed to market price fluctuations as a result of the Choice Properties Trust Units held by unitholders other than the Company. These Trust Units are presented as a liability on the Company’s unaudited interim period condensed consolidated balance sheets as they are redeemable for cash at the option of the holder, subject to certain restrictions. This liability is recorded at fair value at each reporting date based on the market price of Trust Units at the end of each period. An increase (decrease) in the market price of Trust Units results in a charge (income) to net interest expense and other financing charges.

Choice Properties issuance costs Choice Properties incurred issuance costs of \$14 million related to the Offering in the second quarter of 2019.

Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares The fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares is non-cash and is included in net interest expense and other financing charges. The adjustment is determined by changes in the value of the underlying Loblaw common shares. An increase (decrease) in the market price of Loblaw common shares results in a charge (income) to net interest expense and other financing charges.

Loblaw’s charge related to Glenhuron In the third quarter of 2018, Loblaw recorded a charge of \$367 million related to the Tax Court of Canada’s decision on Glenhuron. Of the total charge, \$176 million was recorded in net interest expense and other financing charges and \$191 million was recorded in income taxes.

Adjusted Income Taxes and Adjusted Income Tax Rate The Company believes the adjusted income tax rate applicable to adjusted earnings before taxes is useful in assessing the underlying operating performance of its business.

The following table reconciles the effective income tax rate applicable to adjusted earnings before taxes to the GAAP effective income tax rate applicable to earnings before taxes as reported for the periods ended as indicated.

(\$ millions except where otherwise indicated)	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
Adjusted operating income ⁽ⁱ⁾	\$ 1,121	\$ 1,027	\$ 2,760	\$ 2,462
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	296	231	794	554
Adjusted earnings before taxes	\$ 825	\$ 796	\$ 1,966	\$ 1,908
Income taxes	\$ 103	\$ 347	\$ 298	\$ 579
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽ⁱⁱ⁾	66	47	151	114
Reserve release related to 2014 tax audit	8	—	8	—
Remeasurement of deferred tax balances	—	—	15	—
Statutory corporate income tax rate change	—	—	10	—
Loblaw’s charge related to Glenhuron	—	(191)	—	(191)
Adjusted income taxes	\$ 177	\$ 203	\$ 482	\$ 502
Effective income tax rate applicable to earnings before taxes	28.1%	72.7%	54.9%	49.7%
Adjusted income tax rate applicable to adjusted earnings before taxes	21.5%	25.5%	24.5%	26.3%

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

(ii) See the adjusted EBITDA table and the adjusted net interest expense and other financing charges table above for a complete list of items excluded from adjusted earnings before taxes.

Management's Discussion and Analysis

In addition to certain items described in the "Adjusted EBITDA" and "Adjusted Net Interest Expense and Other Financing Charges" sections above, the following items impacted income taxes and the effective income tax rate in 2019:

Reserve release related to 2014 tax audit In the third quarter of 2019, Loblaw reversed certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart acquisition costs incurred in 2014.

Remeasurement of deferred tax balances In the second quarter of 2019, Choice Properties' equity offering of Trust Units resulted in the dilution of the Company's interest in Choice Properties. The Company recorded income of \$15 million in the second quarter of 2019 and year-to-date on the resulting remeasurement of its deferred income tax balances.

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

In the second quarter of 2019, the Government of Alberta substantively enacted a gradual decrease in the provincial statutory corporate income tax rate from 12% to 8% by 2022. The Company recorded income of \$10 million in the second quarter of 2019 and year-to-date related to the remeasurement of its deferred income tax balances.

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

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company reported for the periods ended as indicated.

(\$ millions except where otherwise indicated)	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
Net earnings (loss) attributable to shareholders of the Company	\$ 83	\$ 65	\$ (201)	\$ 293
Less: Prescribed dividends on preferred shares in share capital	(14)	(14)	(34)	(34)
Net earnings (loss) available to common shareholders of the Company	\$ 69	\$ 51	\$ (235)	\$ 259
Less: Reduction in net earnings due to dilutive instruments at Loblaw	(1)	—	(3)	(2)
Net earnings (loss) available to common shareholders for diluted earnings per share	\$ 68	\$ 51	\$ (238)	\$ 257
Net earnings (loss) attributable to shareholders of the Company	\$ 83	\$ 65	\$ (201)	\$ 293
Adjusting items (refer to the following table)	322	237	1,090	417
Adjusted net earnings attributable to shareholders of the Company	\$ 405	\$ 302	\$ 889	\$ 710
Less: Prescribed dividends on preferred shares in share capital	(14)	(14)	(34)	(34)
Adjusted net earnings available to common shareholders of the Company	\$ 391	\$ 288	\$ 855	\$ 676
Less: Reduction in net earnings due to dilutive instruments at Loblaw	(1)	—	(3)	(2)
Adjusted net earnings available to common shareholders for diluted earnings per share	\$ 390	\$ 288	\$ 852	\$ 674
Weighted average common shares outstanding (millions) ⁽ⁱ⁾	153.8	128.1	153.7	128.1

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

Management's Discussion and Analysis

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

	16 Weeks Ended			
	Oct. 5, 2019		Oct. 6, 2018	
	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share (\$)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share (\$)
As reported	\$ 69	\$ 0.44	\$ 51	\$ 0.40
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 60	\$ 0.39	\$ 61	\$ 0.47
Restructuring and other related costs	13	0.09	10	0.09
Fair value adjustment of derivatives	3	0.02	—	—
Fair value adjustment on investment properties	34	0.22	15	0.12
Loss on sale of non-operating properties	1	0.01	—	—
CREIT acquisition and other related costs	2	0.01	4	0.03
Inventory loss, net of recoveries	(1)	(0.01)	—	—
Loblaw's spin-out of Choice Properties	—	—	7	0.05
Loblaw Card Program	—	—	(2)	(0.02)
Gain on sale of air rights	—	—	(6)	(0.05)
Fair value adjustment of the Trust Unit liability	169	1.11	(24)	(0.19)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	45	0.29	(18)	(0.14)
Loblaw's charge related to Glenhuron	—	—	184	1.44
Reserve release related to 2014 audit	(4)	(0.03)	—	—
Foreign currency translation and other company level activities	—	—	6	0.05
Adjusting items	\$ 322	\$ 2.10	\$ 237	\$ 1.85
Adjusted	\$ 391	\$ 2.54	\$ 288	\$ 2.25

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

40 Weeks Ended

	Oct. 5, 2019		Oct. 6, 2018	
	Net (Loss) Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net (Loss) Earnings Per Common Share (\$)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share (\$)
As reported	\$ (235)	\$ (1.55)	\$ 259	\$ 2.01
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 148	\$ 0.95	\$ 147	\$ 1.15
Restructuring and other related costs	28	0.19	21	0.17
Pension annuities and buy-outs	4	0.03	1	0.01
Fair value adjustment of derivatives	5	0.03	(11)	(0.08)
Fair value adjustment on investment properties	50	0.33	19	0.15
Gain on sale of non-operating properties	(2)	(0.01)	—	—
Certain prior period items	(6)	(0.04)	—	—
CREIT acquisition and other related costs	7	0.04	59	0.45
Inventory loss, net of recoveries	(1)	(0.01)	(1)	(0.01)
Loblaw's spin-out of Choice Properties	1	0.01	7	0.05
Impact of healthcare reform on inventory balances	—	—	7	0.05
Loblaw Card Program	—	—	1	0.01
Wind-down of <i>PC Financial</i> personal banking services	—	—	(7)	(0.05)
Gain on sale of air rights	—	—	(6)	(0.05)
Fair value adjustment of the Trust Unit liability	753	4.90	42	0.32
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	118	0.77	(32)	(0.25)
Choice Properties issuance costs	14	0.09	—	—
Remeasurement of deferred tax balances	(15)	(0.10)	—	—
Statutory corporate income tax change	(8)	(0.05)	—	—
Loblaw's charge related to Glenhuron	—	—	184	1.44
Reserve release related to 2014 audit	(4)	(0.03)	—	—
Foreign currency translation and other company level activities	(2)	(0.01)	(14)	(0.11)
Adjusting items	\$ 1,090	\$ 7.09	\$ 417	\$ 3.25
Adjusted	\$ 855	\$ 5.54	\$ 676	\$ 5.26

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

Free Cash Flow The Company believes free cash flow is useful in assessing the Company's cash available for additional financing and investing activities.

The definition of free cash flow was changed in the first quarter of 2019 to normalize for the impact of the implementation of IFRS 16. Lease payments were deducted from the calculation, which resulted in no IFRS 16 impact on the metric.

Management's Discussion and Analysis

The following table reconciles free cash flow to GAAP measures reported for the periods ended as indicated.

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
Cash flows from operating activities	\$ 1,053	\$ 1,205	\$ 3,283	\$ 2,264
Less: Interest paid	254	485	710	768
Fixed asset and investment properties purchases	357	336	714	704
Intangible asset additions	125	109	301	269
Lease payments, net ⁽ⁱ⁾	202	—	595	—
Free cash flow	\$ 115	\$ 275	\$ 963	\$ 523

(i) Includes cash rent paid on lease liabilities, net of lease payments received from finance leases.

Choice Properties' Funds from Operations Choice Properties considers Funds from Operations to be a useful measure of operating performance as it adjusts for items included in net income that do not arise from operating activities or do not necessarily provide an accurate depiction of the Trust's performance.

The following table reconciles Choice Properties' Funds from Operations to net income for the periods ended as indicated.

(\$ millions)	16 Weeks Ended		40 Weeks Ended	
	Oct. 5, 2019	Oct. 6, 2018	Oct. 5, 2019	Oct. 6, 2018
Net (loss) income	\$ (211)	\$ 62	\$ (875)	\$ 368
Add (deduct) impact of the following:				
Fair value adjustment on Exchangeable Units	297	(15)	1,139	(379)
Unit distributions on Exchangeable Units	72	72	216	199
Fair value adjustment on investment properties	5	34	12	70
CREIT acquisition and other related costs	2	10	8	130
Fair value adjustment on investment property held in equity accounted joint ventures	8	3	(2)	4
Internal expenses for leasing	1	2	5	4
Capitalized interest on equity accounted joint ventures	—	1	3	2
Income taxes	(2)	1	(1)	1
Accelerated amortization of debt premium	—	—	—	37
Fair value adjustment on unit-based compensation	2	—	9	(4)
Funds from Operations	\$ 174	\$ 170	\$ 514	\$ 432

ADDITIONAL INFORMATION

Additional information about the Company has been filed electronically with the Canadian securities regulatory authorities through the System for Electronic Document Analysis and Retrieval ("SEDAR") and is available at www.sedar.com.

This Quarterly Report includes selected information on Loblaw, a public company with shares trading on the TSX. For information regarding Loblaw, readers should also refer to the materials filed by Loblaw on SEDAR from time to time. These filings are also maintained on Loblaw's corporate website at www.loblaw.ca.

This Quarterly Report also includes selected information on Choice Properties, a public real estate investment trust with units trading on the TSX. For information regarding Choice Properties, readers should also refer to the materials filed by Choice Properties on SEDAR from time to time. These filings are also maintained on Choice Properties' website at www.choicereit.ca.

Toronto, Canada

November 18, 2019

Footnote Legend

- (1) See "Non-GAAP Financial Measures" section of the Company's 2019 Third Quarter Management's Discussion and Analysis beginning on page 40.
 - (2) To be read in conjunction with "Forward-Looking Statements" beginning on page 3.
 - (3) Comparative figures have been restated to conform with current year presentation.
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