

Management's Discussion and Analysis

At a Glance	3
Key Performance Indicators	4
1. Overall Financial Performance	6
1.1 Consolidated Results of Operations	6
1.2 Consolidated Other Business Matters	14
2. Results of Reportable Operating Segments	14
2.1 Loblaw Operating Results	14
2.2 Choice Properties Operating Results	18
2.3 Weston Foods Operating Results	19
3. Liquidity and Capital Resources	21
3.1 Cash Flows	21
3.2 Liquidity	22
3.3 Components of Total Debt	24
3.4 Financial Condition	27
3.5 Credit Ratings	27
3.6 Share Capital	28
3.7 Off-Balance Sheet Arrangements	29
4. Quarterly Results of Operations	30
5. Internal Control Over Financial Reporting	31
6. Enterprise Risks and Risk Management	31
7. COVID-19 Update	32
8. Non-GAAP Financial Measures	33
9. Forward-Looking Statements	43
10. Additional Information	44

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 second quarter 2020 unaudited interim period condensed consolidated financial statements and the accompanying notes on pages 45 to 75 of this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2019 and the related annual MD&A included in the Company's 2019 Annual Report.

The Company's second quarter 2020 unaudited interim period condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", 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 International Financial Reporting Standards ("IFRS" or "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 Section 8, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

The Company operates through its three reportable operating segments, Loblaw Companies Limited ("Loblaw"), Choice Properties Real Estate Investment Trust ("Choice Properties") and Weston Foods. Other and Intersegment includes eliminations, intersegment adjustments related to the consolidation and cash and short-term investments held by the Company. All other company level activities that are not allocated to the reportable operating segments, such as net interest expense, corporate activities and administrative costs are included in Other and Intersegment. Loblaw has two reportable operating segments, retail and financial services. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise and financial services. Choice Properties owns, manages and develops a high-quality portfolio of commercial retail, industrial, office and residential properties across Canada. Weston Foods is a North American bakery making bread, rolls, cupcakes, donuts, biscuits, cakes, pies, cones and wafers, artisan baked goods and more. As at the end of the second quarter of 2020, the Company's ownership interest in Loblaw was 52.1%, 62.9% in Choice Properties and 100% in Weston Foods.

In this MD&A, "Consolidated" refers to the consolidated results of GWL including its subsidiaries, while "GWL Corporate" refers to the non-consolidated financial results and metrics of GWL, such as dividends paid by GWL to its shareholders or cash flows received by GWL from its operating businesses. GWL Corporate is a subset of Other and Intersegment.

A glossary of terms and ratios used throughout this Quarterly Report can be found beginning on page 172 of the Company's 2019 Annual Report.

This MD&A contains forward-looking statements, which are subject to risks and uncertainties that could cause the Company's actual results to differ materially from the forward-looking statements. For additional information related to forward looking statements, material assumptions and material risks associated with them, see Section 6, "Enterprise Risks and Risk Management", Section 7, "COVID-19 Update" and Section 9, "Forward-Looking Statements" of this MD&A.

The information in this MD&A is current to July 27, 2020, unless otherwise noted.

At a Glance

Key Financial Highlights

As at or for the 12 weeks ended June 13, 2020 and June 15, 2019
(\$ millions except where otherwise indicated)

The Company's results include:

- the impact of COVID-19 and related costs. See Section 1.1, "Consolidated Results of Operations" and Section 1.2, "Consolidated Other Business Matters", of this MD&A.
- the unfavourable year-over-year impact of the fair value adjustment of the Trust Unit liability as a result of changes in Choice Properties' unit price. See Section 1.1, "Consolidated Results of Operations - Net Interest Expense and Other Financing Charges", of this MD&A.

Consolidated

\$ 12,357	+6.5%	\$ 401	-47.9%	\$ 1,087	-17.2%	8.8%	-250bps
	vs. Q2 2019		vs. Q2 2019		vs. Q2 2019		vs. Q2 2019
REVENUE		OPERATING INCOME		ADJUSTED EBITDA⁽¹⁾		ADJUSTED EBITDA MARGIN⁽¹⁾ (%)	
<hr/>							
\$ (255)	-238.6%	\$ 142	-46.0%	\$ (1.66)	-239.5%	\$ 0.93	-45.3%
	vs. Q2 2019		vs. Q2 2019		vs. Q2 2019		vs. Q2 2019
NET LOSS AVAILABLE TO COMMON SHAREHOLDERS		ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS⁽¹⁾		DILUTED NET LOSS PER COMMON SHARE (\$)		ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE⁽¹⁾ (\$)	

GWL Corporate⁽²⁾

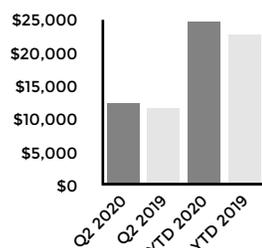
\$ 93	-48.0%	\$ 70	-55.7%	\$ 0.53	+0%	9.8%	-20bps
	vs. Q2 2019		vs. Q2 2019		vs. Q2 2019		vs. Q2 2019
CASH FLOW FROM OPERATING BUSINESSES⁽¹⁾		GWL CORPORATE FREE CASH FLOW⁽¹⁾		QUARTERLY DIVIDENDS DECLARED PER SHARE (\$)		ROLLING YEAR ADJUSTED RETURN ON CAPITAL⁽¹⁾ (%)	

(1) See Section 8, "Non-GAAP Financial Measures", of this MD&A.

Key Performance Indicators

For the 12 weeks and 24 weeks ended June 13, 2020 and June 15, 2019
(\$ millions except where otherwise indicated)

REVENUE

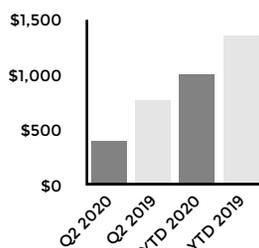


Q2 2020	\$ 12,357	+6.5%
Q2 2019	\$ 11,603	
YTD 2020	\$ 24,690	+8.4%
YTD 2019	\$ 22,776	

How we performed

Revenue increased in the second quarter and year-to-date 2020 mainly due to growth in Loblaw retail, partially offset by the decline in sales in Weston Foods driven by the impact of COVID-19.

OPERATING INCOME



Q2 2020	\$ 401	-47.9%
Q2 2019	\$ 770	
YTD 2020	\$ 999	-26.3%
YTD 2019	\$ 1,356	

How we performed

Operating income decreased in the second quarter and year-to-date 2020 due to declines in the underlying operating performance of Loblaw, Weston Foods and Choice Properties, driven by the impact of COVID-19 and related costs and the year-over-year net impact of adjusting items.

ADJUSTED EBITDA⁽¹⁾

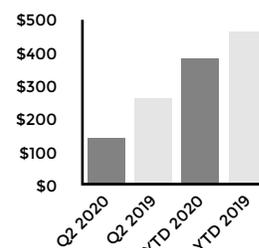


Q2 2020	\$ 1,087	-17.2%
Q2 2019	\$ 1,313	
YTD 2020	\$ 2,391	-3.2%
YTD 2019	\$ 2,471	

How we performed

Adjusted EBITDA⁽¹⁾ decreased in the second quarter and year-to-date 2020 due to declines in Loblaw, Weston Foods and Choice Properties driven by the impact of COVID-19 and related costs.

ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS⁽¹⁾



Q2 2020	\$ 142	-46.0%
Q2 2019	\$ 263	
YTD 2020	\$ 381	-17.9%
YTD 2019	\$ 464	

How we performed

Decrease in the second quarter and year-to-date 2020 due to the decline in the underlying operating performance of the Company resulting from the impact of COVID-19 and related costs and higher net interest expense and other financing charges. Year-to-date decline partially offset by the positive contribution from the year-over-year increase in the Company's ownership interest in Loblaw, as a result of Loblaw share repurchases.

ADJUSTED EBITDA MARGIN⁽¹⁾ (%)

8.8% -250bps
Q2 2020 vs. Q2 2019

9.7% -110bps
YTD 2020 vs. 2019

ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE⁽¹⁾ (\$)

\$ 0.93 -45.3%
Q2 2020 vs. Q2 2019

\$ 2.47 -17.9%
YTD 2020 vs. 2019

(1) See Section 8, "Non-GAAP Financial Measures", of this MD&A.

GWL Corporate Free Cash Flow⁽¹⁾

Following the reorganization of Choice Properties to GWL, management evaluates the cash generating capabilities of GWL Corporate⁽²⁾ based on the various cash flow streams it receives from its operating subsidiaries. As a result, the GWL Corporate free cash flow⁽¹⁾ is based on the dividends received from Loblaw, distributions received from Choice Properties and net cash flow contributions received from Weston Foods less corporate expenses, interest and income taxes paid.

(\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Weston Foods adjusted EBITDA ⁽¹⁾	\$ 7	\$ 49	\$ 59	\$ 95
Weston Foods capital expenditures	(33)	(38)	(57)	(69)
Distributions from Choice Properties	54	78	136	159
Dividends from Loblaw	59	60	118	115
Weston Foods income taxes (paid) received	(1)	(7)	2	(7)
Other	7	37	(11)	36
GWL Corporate cash flow from operating businesses⁽¹⁾	\$ 93	\$ 179	\$ 247	\$ 329
Proceeds from participation in Loblaw's Normal Course Issuer Bid	–	–	92	–
GWL Corporate and financing costs ⁽ⁱ⁾	(20)	(16)	(48)	(42)
Income taxes paid	(3)	(5)	(7)	(12)
GWL Corporate free cash flow⁽¹⁾	\$ 70	\$ 158	\$ 284	\$ 275

(i) Included in Other and Intersegment, GWL Corporate includes all other company level activities that are not allocated to the reportable operating segments such as net interest expense, corporate activities and administrative costs. Also included are preferred share dividends.

As at or for the 12 weeks and 24 weeks ended June 13, 2020 and June 15, 2019
(\$ millions except where otherwise indicated)

GWL CORPORATE⁽²⁾ CASH FLOW FROM OPERATING BUSINESSES⁽¹⁾		
\$ 93	-48.0%	
Q2 2020	vs. Q2 2019	
\$ 247	-24.9%	
YTD 2020	vs. 2019	

How we performed

Decrease in the second quarter and year-to-date 2020 primarily due to the decline in Weston Foods underlying operating performance driven by the impact of COVID-19 and related costs and lower distributions from Choice Properties due to timing.

GWL CORPORATE⁽²⁾ FREE CASH FLOW⁽¹⁾		
\$ 70	-55.7%	
Q2 2020	vs. Q2 2019	
\$ 284	+3.3%	
YTD 2020	vs. 2019	

How we performed

Decrease in the second quarter of 2020 primarily due to the decline in cash flow from operating businesses. Year-to-date slightly increased compared to prior year due to proceeds from participation in Loblaw's Normal Course Issuer Bid received in the first quarter of 2020, partially offset by the decline in cash flow from operating businesses.

GWL CORPORATE⁽²⁾ NET DEBT		
\$ 312	-28.4%	
Q2 2020	vs. Q2 2019	
\$ 436		
Q2 2019		

How we performed

Decrease primarily driven by higher cash and short-term investments and lower total debt.

See Section 3.2, "Liquidity", of this MD&A for a calculation of this metric.

Management's Discussion and Analysis

1. Overall Financial Performance

1.1 Consolidated Results of Operations

The COVID-19 pandemic has affirmed certain longer-term trends at Loblaw, accelerating its strategic growth areas of Everyday Digital, Connected Healthcare, and Payments & Rewards. During the quarter, Loblaw's sales and earnings performance were significantly affected by COVID-19. Loblaw continued to experience unprecedented demand for products across multiple categories, leading to strong top-line results. However, the growth in sales was not sufficient to offset substantial COVID-19 related costs and margin pressure driven by changes in sales mix. In addition, Loblaw's e-commerce sales accelerated by 280% in the quarter, resulting in increased costs and investments. Loblaw is investing to improve expanded capacity and same-day e-commerce service while also improving the cost structure.

Choice Properties results reflect the stability inherent in its high-quality income producing portfolio of properties. During the quarter, Choice Properties undertook a number of proactive measures to mitigate the effects of COVID-19 on its business, including strengthening its balance sheet by extending its weighted average term of debt through the issuance of unsecured debentures and supporting its tenants who have been negatively impacted by the pandemic through the provision of rental assistance.

Weston Foods remains committed to its strategic framework, gaining continued traction through its transformation program. In the second quarter, Weston Foods' financial performance was negatively impacted by COVID-19. Sales were negatively impacted in certain retail categories and foodservice channels as a result of a change in retail sales merchandising practices and government mandated closures of non-essential businesses. At the onset of the crisis, many food retailers temporarily closed in-store bakeries and bakery display cases which negatively impacted retail sales. Similarly, government mandated closures of non-essential businesses including restaurants and social distancing protocols negatively impacted foodservice sales. In addition to the decline in sales, Weston Foods incurred COVID-19 costs relating to temporary employee pay premiums and pay protection safeguards and increased health and safety measures to protect its colleagues. The pandemic has required Weston Foods to act swiftly in response to challenges, however, the business remains well positioned to respond to consumer demand for quality baked goods and to advance its growth categories.

In the second quarter, each of our businesses responded well to the dynamic and unpredictable operating environment created by the pandemic. The Company incurred substantial COVID-19 related costs of approximately \$312 million to protect and benefit colleagues, customers, tenants and other stakeholders. As a result, the impact of COVID-19 on each of our businesses negatively impacted the Company's financial results in the second quarter of 2020.

The Company's results include:

- the impact of COVID-19. Also refer to Section 2, "Results of Reportable Operating Segments", Section 6, "Enterprise Risks and Risk Management" and Section 7, "COVID-19 Update", of this MD&A for more information; and
- 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. The Company's results are impacted by market price fluctuations of Choice Properties' Trust Units on the basis that the Trust Units held by unitholders, other than the Company, are redeemable for cash at the option of the holder. The Company's financial results are negatively impacted when the Trust Unit price rises and positively impacted when the Trust Unit price declines.

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Revenue	\$ 12,357	\$ 11,603	\$ 754	6.5 %	\$ 24,690	\$ 22,776	\$ 1,914	8.4 %
Operating income	\$ 401	\$ 770	\$ (369)	(47.9)%	\$ 999	\$ 1,356	\$ (357)	(26.3)%
Adjusted EBITDA ⁽¹⁾	\$ 1,087	\$ 1,313	\$ (226)	(17.2)%	\$ 2,391	\$ 2,471	\$ (80)	(3.2)%
Adjusted EBITDA margin ⁽¹⁾	8.8%	11.3%			9.7%	10.8%		
Depreciation and amortization⁽ⁱ⁾	\$ 566	\$ 534	\$ 32	6.0 %	\$ 1,126	\$ 1,069	\$ 57	5.3 %
Net interest expense and other financing charges	\$ 521	\$ 308	\$ 213	69.2 %	\$ 263	\$ 1,180	\$ (917)	(77.7)%
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 267	\$ 251	\$ 16	6.4 %	\$ 523	\$ 498	\$ 25	5.0 %
Income taxes	\$ 52	\$ 109	\$ (57)	(52.3)%	\$ 165	\$ 195	\$ (30)	(15.4)%
Adjusted income taxes ⁽¹⁾	\$ 110	\$ 172	\$ (62)	(36.0)%	\$ 273	\$ 305	\$ (32)	(10.5)%
Adjusted effective tax rate ⁽¹⁾	28.8%	26.6%			27.4%	26.7%		
Net (loss) earnings attributable to shareholders of the Company	\$ (245)	\$ 194	\$ (439)	(226.3)%	\$ 347	\$ (284)	\$ 631	222.2 %
Net (loss) earnings available to common shareholders of the Company	\$ (255)	\$ 184	\$ (439)	(238.6)%	\$ 327	\$ (304)	\$ 631	207.6 %
Adjusted net earnings available to common shareholders of the Company ⁽¹⁾	\$ 142	\$ 263	\$ (121)	(46.0)%	\$ 381	\$ 464	\$ (83)	(17.9)%
Diluted net (loss) earnings per common share (\$)	\$ (1.66)	\$ 1.19	\$ (2.85)	(239.5)%	\$ 2.12	\$ (1.99)	\$ 4.11	206.5 %
Adjusted diluted net earnings per common share ⁽¹⁾ (\$)	\$ 0.93	\$ 1.70	\$ (0.77)	(45.3)%	\$ 2.47	\$ 3.01	\$ (0.54)	(17.9)%

(i) Depreciation and amortization includes \$118 million (2019 - \$116 million) in the second quarter of 2020 and \$237 million (2019 - \$235 million) year-to-date of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation, recorded by Loblaw and \$10 million (2019 - \$2 million) in the second quarter of 2020 and \$19 million (2019 - \$2 million) year-to-date of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY

In the second quarter of 2020, the Company recorded a net loss available to common shareholders of the Company of \$255 million (\$1.66 per common share) compared to net earnings available to common shareholders of the Company of \$184 million (\$1.19 per common share) in the same period in 2019. The decrease of \$439 million (\$2.85 per common share) was due to the unfavourable year-over-year net impact of adjusting items totaling \$318 million (\$2.08 per common share) and the decline of \$121 million (\$0.77 per common share) in the underlying operating performance of the Company described below.

- The unfavourable year-over-year net impact of adjusting items totaling \$318 million (\$2.08 per common share) was primarily due to:
 - the unfavourable year-over-year impact of the fair value adjustment of the Trust Unit Liability of \$255 million (\$1.67 per common share) as a result of the increase in Choice Properties' unit price in the quarter. 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;
 - the unfavourable year-over-year impact of the fair value adjustment on investment properties of \$77 million (\$0.49 per common share);

Management's Discussion and Analysis

- the unfavourable impact of a prior year remeasurement of deferred tax balances of \$15 million (\$0.09 per common share); and
- the unfavourable year-over-year impact of restructuring and other related costs of \$12 million (\$0.08 per common share);

partially offset by,

- the favourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$38 million (\$0.24 per common share).

- The decline in underlying operating performance of \$121 million (\$0.77 per common share) was due to:
 - the unfavourable underlying operating performance of Loblaw, Weston Foods and Choice Properties driven by the impact of COVID-19 and related costs, as described below;
 - an increase in adjusted net interest expense and other financing charges⁽¹⁾; and
 - an increase in depreciation and amortization.

Adjusted net earnings available to common shareholders of the Company⁽¹⁾ were \$142 million (\$0.93 per common share). In comparison to the same period in 2019, this represented a decrease of \$121 million (\$0.77 per common share), or 46.0%, due to the decline in underlying operating performance described above.

Year-to-date net earnings available to common shareholders of the Company were \$327 million (\$2.12 per common share) compared to a net loss available to common shareholders of the Company of \$304 million (\$1.99 per common share) in the same period in 2019. The increase of \$631 million (\$4.11 per common share), or 207.6% was due to the favourable year-over-year net impact of adjusting items totaling \$714 million (\$4.65 per common share), partially offset by a decline in the underlying operating performance of \$83 million (\$0.54 per common share) described below.

- The favourable year-over-year net impact of adjusting items totaling \$714 million (\$4.65 per common share) was primarily due to:
 - the favourable year-over-year impact of the fair value adjustment of the Trust Unit Liability of \$831 million (\$5.41 per common share) as a result of the significant decrease in Choice Properties' unit price during 2020; and
 - the favourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$84 million (\$0.55 per common share);partially offset by,
 - the unfavourable year-over-year impact of the fair value adjustment on investment properties of \$147 million (\$0.96 per common share);
 - the unfavourable year-over-year impact of restructuring and other related costs of \$24 million (\$0.16 per common share);
 - the unfavourable impact of a prior year remeasurement of deferred tax balances of \$15 million (\$0.10 per common share); and
 - the unfavourable impact of the deferred tax expense on the outside basis difference in certain Loblaw shares of \$10 million (\$0.07 per common share).
- The decline in underlying operating performance of \$83 million (\$0.54 per common share) was due to:
 - the unfavourable underlying operating performance of Weston Foods, Choice Properties and Loblaw driven by the impact of COVID-19 and related costs, as described below;
 - an increase in adjusted net interest expense and other financing charges⁽¹⁾; and
 - an increase in depreciation and amortization;partially offset by,
 - the positive contribution from the year-over-year increase in the Company's ownership interest in Loblaw, as a result of Loblaw share repurchases.

Year-to-date adjusted net earnings available to common shareholders of the Company⁽¹⁾ were \$381 million (\$2.47 per common share). When compared to the same period in 2019, this represented a decrease of \$83 million (\$0.54 per common share), or 17.9%, due to the decline in underlying operating performance described above.

REVENUE

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Loblaw	\$ 11,957	\$ 11,133	\$ 824	7.4 %	\$ 23,757	\$ 21,792	\$ 1,965	9.0 %
Choice Properties	\$ 315	\$ 324	\$ (9)	(2.8)%	\$ 640	\$ 647	\$ (7)	(1.1)%
Weston Foods	\$ 412	\$ 479	\$ (67)	(14.0)%	\$ 947	\$ 995	\$ (48)	(4.8)%
Other and Intersegment	\$ (327)	\$ (333)			\$ (654)	\$ (658)		
Consolidated	\$ 12,357	\$ 11,603	\$ 754	6.5 %	\$ 24,690	\$ 22,776	\$ 1,914	8.4 %

Revenue in the second quarter of 2020 was \$12,357 million, an increase of \$754 million, or 6.5%, compared to the same period in 2019. The increase in revenue in the second quarter of 2020 was impacted by each of its reportable operating segments as follows:

- Positively by 7.1% due to revenue growth of 7.4% at Loblaw, primarily driven by retail sales, partially offset by a decrease in financial services revenue. Retail sales increased by \$862 million, or 7.9%, compared to the same period in 2019. Excluding the consolidation of franchises, retail sales increased by \$762 million, or 7.2%. The increase was primarily due to positive same-store sales growth and a net increase in retail square footage. Food retail same-store sales growth was 10.0% for the quarter. Food retail same-store sales growth was positively impacted by COVID-19. The timing of Easter had a nominal impact on food retail same-store sales growth in the second quarters of 2020 and 2019. Food retail basket size increased and traffic decreased in the quarter. Loblaw's food retail average article price was 4.6% (2019 – 3.3%), which reflects the year-over-year growth in food retail revenue over the average number of articles sold in Loblaw's stores in the quarter. Drug retail same-store sales decreased by 1.1%. Drug retail same-store sales was negatively impacted by COVID-19. The timing of Easter had a nominal impact on drug retail same-store sales decline and growth in the second quarters of 2020 and 2019, respectively.
- Negatively by 0.1% due to a decline in revenue of 2.8% at Choice Properties. The decrease of \$9 million was mainly due to foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019, partially offset by additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.
- Negatively by 0.6% due to a decline in sales of 14.0% at Weston Foods. Sales included the positive impact of foreign currency translation of approximately 1.7%. Excluding the favourable impact of foreign currency translation, sales decreased by 15.7%. Sales were impacted by a decrease in volumes in certain retail categories and foodservice channels as a result of the COVID-19 pandemic and the unfavourable impact of product rationalization, partially offset by the combined positive impact of pricing and changes in sales mix.

Year-to-date revenue was \$24,690 million, an increase of \$1,914 million, or 8.4%, compared to the same period in 2019. The increase in revenue was impacted by each of the Company's reportable operating segments as follows:

- Positively by 8.6% due to revenue growth of 9.0% at Loblaw, primarily driven by retail sales, partially offset by a decrease in financial services revenue. Retail sales increased by \$1,994 million, or 9.3%, compared to the same period in 2019. Excluding the consolidation of franchises, retail sales increased by \$1,708 million, or 8.2%, due to positive same-store sales growth and a net increase in retail square footage. Food retail same-store sales growth was 9.8% and drug retail same-store sales growth was 4.7%.
- Negatively by a nominal amount due to a decline in revenue of 1.1% at Choice Properties. The decrease of \$7 million was mainly due to foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019, partially offset by additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.
- Negatively by 0.2% due to a decline in sales of 4.8% at Weston Foods. Sales included the positive impact of foreign currency translation of approximately 0.9%. Excluding the favourable impact of foreign currency translation, sales decreased by 5.7%. Sales were impacted by the unfavourable impact of product rationalization and a decrease in volumes in certain retail categories and foodservice channels as a result of the COVID-19 pandemic, partially offset by the combined positive impact of pricing and changes in sales mix.

Management's Discussion and Analysis

OPERATING INCOME

(\$ millions except where otherwise indicated)

For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Loblaw	\$ 402	\$ 586	\$ (184)	(31.4)%	\$ 941	\$ 1,035	\$ (94)	(9.1)%
Choice Properties	\$ (29)	\$ 226	\$ (255)	(112.8)%	\$ 48	\$ 449	\$ (401)	(89.3)%
Weston Foods	\$ (49)	\$ 12	\$ (61)	(508.3)%	\$ (48)	\$ 22	\$ (70)	(318.2)%
Other and Intersegment	\$ 77	\$ (54)			\$ 58	\$ (150)		
Consolidated	\$ 401	\$ 770	\$ (369)	(47.9)%	\$ 999	\$ 1,356	\$ (357)	(26.3)%

Operating income in the second quarter of 2020 was \$401 million compared to \$770 million in the same period in 2019, a decrease of \$369 million, or 47.9%. The decrease was mainly attributable to the decline in underlying operating performance of \$248 million and the unfavourable year-over-year net impact of adjusting items totaling \$121 million, as described below:

- the decline in underlying operating performance of \$248 million was due to:
 - the unfavourable underlying operating performance of Loblaw, Weston Foods and Choice Properties primarily as a result of the impact of COVID-19 and related costs and an increase in depreciation and amortization. In the second quarter of 2020, the Company increased its spending on temporary pay premiums, pay protection safeguards, security, customer convenience and health and safety measures to protect colleagues, customers, tenants and other stakeholders incurring incremental COVID-19 related costs of approximately \$312 million.
- the unfavourable year-over-year net impact of adjusting items totaling \$121 million was primarily due to:
 - the unfavourable year-over-year impact of the fair value adjustment of investment properties of \$93 million;
 - the unfavourable year-over-year impact of restructuring and other related costs of \$16 million; and
 - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of \$15 million; partially offset by,
 - the favourable year-over-year impact of the fair value adjustment of derivatives of \$4 million.

Year-to-date operating income was \$999 million compared to \$1,356 million in the same period in 2019, a decrease of \$357 million, or 26.3%. The decrease was mainly attributable to the unfavourable year-over-year net impact of adjusting items totaling \$239 million and the decline in underlying operating performance of \$118 million, as described below:

- the unfavourable year-over-year net impact of adjusting items totaling \$239 million was primarily due to:
 - the unfavourable year-over-year impact of the fair value adjustment of investment properties of \$179 million;
 - the unfavourable year-over-year impact of restructuring and other related costs of \$37 million;
 - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of \$15 million; and
 - the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$12 million; partially offset by,
 - the favourable impact of prior year pension annuities and buy-outs of \$10 million.
- the decline in underlying operating performance of \$118 million was due to:
 - the unfavourable underlying operating performance of Loblaw, Weston Foods and Choice Properties primarily as a result of the impact of COVID-19 and related costs and an increase in depreciation and amortization.

ADJUSTED EBITDA⁽¹⁾

(\$ millions except where otherwise indicated)

For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Loblaw	\$ 1,014	\$ 1,173	\$ (159)	(13.6)%	\$ 2,181	\$ 2,211	\$ (30)	(1.4)%
Choice Properties	\$ 201	\$ 233	\$ (32)	(13.7)%	\$ 428	\$ 463	\$ (35)	(7.6)%
Weston Foods	\$ 7	\$ 49	\$ (42)	(85.7)%	\$ 59	\$ 95	\$ (36)	(37.9)%
Other and Intersegment	\$ (135)	\$ (142)			\$ (277)	\$ (298)		
Consolidated	\$ 1,087	\$ 1,313	\$ (226)	(17.2)%	\$ 2,391	\$ 2,471	\$ (80)	(3.2)%

Adjusted EBITDA⁽¹⁾ in the second quarter of 2020 was \$1,087 million compared to \$1,313 million in the same period in 2019, a decrease of \$226 million, or 17.2%. The decrease in adjusted EBITDA⁽¹⁾ was impacted by each of the Company's reportable operating segments as follows:

- Negatively by 12.1% due to a decrease of 13.6% in adjusted EBITDA⁽¹⁾ at Loblaw, primarily driven by the decline in Loblaw retail and financial services. The decline in Loblaw retail adjusted EBITDA⁽¹⁾ was primarily driven by an increase in retail selling, general and administrative expenses ("SG&A") as a result of COVID-19 related costs, partially offset by an increase in retail gross profit.
- Negatively by 2.4% due to a decrease of 13.7% in adjusted EBITDA⁽¹⁾ at Choice Properties, primarily driven by foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019, an increase in bad debt provisions across the portfolio and an allowance for expected credit losses for a specific mortgage receivable, partially offset by contributions from acquisitions and additional revenue from completed development transfers.
- Negatively by 3.2% due to a decrease of 85.7% in adjusted EBITDA⁽¹⁾ at Weston Foods driven by the decline in sales, an increase in COVID-19 related expenses and higher input costs, partially offset by the net benefits realized from Weston Foods' transformation program, productivity improvements and cost savings initiatives.

Year-to-date adjusted EBITDA⁽¹⁾ was \$2,391 million compared to \$2,471 million in the same period in 2019, a decrease of \$80 million, or 3.2%. The decrease in adjusted EBITDA⁽¹⁾ was impacted by each of the Company's reportable operating segments as follows:

- Negatively by 1.2% due to a decrease of 1.4% in adjusted EBITDA⁽¹⁾ at Loblaw driven by the decline in financial services, partially offset by an increase in Loblaw retail. The increase in Loblaw retail adjusted EBITDA⁽¹⁾ was driven by an increase in retail gross profit, partially offset by an increase in retail SG&A.
- Negatively by 1.4% due to a decrease of 7.6% in adjusted EBITDA⁽¹⁾ at Choice Properties, primarily driven by foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019, an increase in bad debt provisions across the portfolio and an allowance for expected credit losses for a specific mortgage receivable, partially offset by contributions from acquisitions and additional revenue from completed development transfers.
- Negatively by 1.5% due to a decrease of 37.9% in adjusted EBITDA⁽¹⁾ at Weston Foods driven by the decline in sales, an increase in COVID-19 related expenses and higher input costs, partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program and cost savings initiatives.

DEPRECIATION AND AMORTIZATION

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Loblaw	\$ 598	\$ 580	\$ 18	3.1%	\$ 1,192	\$ 1,160	\$ 32	2.8%
Choice Properties	\$ -	\$ 1	\$ (1)	–%	\$ 1	\$ 1	\$ -	–%
Weston Foods	\$ 44	\$ 35	\$ 9	25.7%	\$ 87	\$ 67	\$ 20	29.9%
Other and Intersegment	\$ (76)	\$ (82)			\$ (154)	\$ (159)		
Consolidated	\$ 566	\$ 534	\$ 32	6.0%	\$ 1,126	\$ 1,069	\$ 57	5.3%

Depreciation and amortization in the second quarter of 2020 was \$566 million, an increase of \$32 million compared to the same period in 2019. Year-to-date depreciation and amortization was \$1,126 million, an increase of \$57 million compared to the same period in 2019.

Management's Discussion and Analysis

Depreciation and amortization in the second quarter and year-to-date included \$118 million (2019 – \$116 million) and \$237 million (2019 – \$235 million), respectively, of amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") recorded by Loblaw and \$10 million (2019 – \$2 million) and \$19 million (2019 – \$2 million), respectively, of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs. Excluding these amounts, depreciation and amortization increased in the second quarter and year-to date by \$22 million and \$38 million respectively, driven by:

- an increase in depreciation from the consolidation of Loblaw franchises;
- an increase in Loblaw's information technology ("IT") assets; and
- an increase in depreciation due to capital investments at Weston Foods.

NET INTEREST EXPENSE AND OTHER FINANCING CHARGES

(\$ millions except where otherwise indicated)
For the periods ended as indicated

	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Net interest expense and other financing charges	\$ 521	\$ 308	\$ 213	69.2%	\$ 263	\$ 1,180	\$ (917)	(77.7)%
Add: Fair value adjustment of the Trust Unit liability	(257)	(2)	(255)		247	(584)	831	142.3 %
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	3	(41)	44	107.3%	13	(84)	97	115.5 %
Choice Properties issuance costs	–	(14)	14	100.0%	–	(14)	14	100.0 %
Adjusted net interest expense and other financing charges ⁽¹⁾	\$ 267	\$ 251	\$ 16	6.4%	\$ 523	\$ 498	\$ 25	5.0 %

Net interest expense and other financing charges in the second quarter of 2020 were \$521 million, an increase of \$213 million compared to the same period in 2019. The increase was primarily due to the year-over-year impact of adjusting items totaling \$197 million, itemized in the table above and an increase in adjusted net interest expense and other financing charges⁽¹⁾ of \$16 million. Included in the adjusting items was the unfavourable year-over-year fair value adjustment of the Trust Unit liability of \$255 million, as a result of the increase in Choice Properties' unit price in the quarter. 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.

Adjusted net interest expense and other financing charges⁽¹⁾ increased by \$16 million. The increase was primarily driven by:

- higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to an early redemption premium paid by Choice Properties for two senior unsecured debentures maturing in 2021 that were repaid in full in the quarter and higher distributions from newly issued Trust Units as part of the offering of Trust Units in the second quarter of 2019, partially offset by lower overall debt levels compared to the prior year and the completion of refinancing activity over the last year at lower interest rates;
- higher interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on the Choice Properties' portfolio transaction, as discussed below.

Year-to-date net interest expense and other financing charges were \$263 million, a decrease of \$917 million compared to the same period in 2019. The decrease was primarily due to the favourable year-over-year net impact of adjusting items totaling \$942 million, itemized in the table above, partially offset by an increase in adjusted net interest expense and other financing charges⁽¹⁾ of \$25 million. Included in the adjusting items was the favourable year-over-year fair value adjustment of the Trust Unit liability of \$831 million, as a result of the decrease in Choice Properties' unit price during 2020.

Year-to-date adjusted net interest expense and other financing charges⁽¹⁾ increased by \$25 million. The increase was primarily driven by:

- higher interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on the Choice Properties' portfolio transaction, as discussed below; and

higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions from newly issued Trust Units as part of the offering of Trust Units in the second quarter of 2019 and an early redemption premium paid by Choice Properties for two senior unsecured debentures maturing in 2021 that were repaid in full in the quarter, partially offset by lower overall debt levels compared to the prior year and the completion of refinancing activity over the last year at lower interest rates.

CHOICE PROPERTIES' PORTFOLIO TRANSACTION In 2019, Choice Properties sold 31 properties to third-parties consisting of Loblaw stand-alone retail properties and Loblaw distribution centres. On consolidation, the transactions were 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 "Leases" and IFRS 15 "Revenue from Contracts with Customers". Instead, the proceeds from the transactions were recognized as financial liabilities on the Company's consolidated balance sheet with corresponding interest expense recognized in the consolidated statement of earnings. Included in the second quarter of 2020, interest expense was \$6 million (2019 - nil) and year-to-date was \$13 million (2019 - nil).

INCOME TAXES

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Income taxes	\$ 52	\$ 109	\$ (57)	(52.3)%	\$ 165	\$ 195	\$ (30)	(15.4)%
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽¹⁾⁽ⁱ⁾	54	38	16	42.1 %	116	85	31	36.5 %
Outside basis difference in certain Loblaw shares	4	–	4	– %	(10)	–	(10)	– %
Statutory corporate income tax rate change	–	10	(10)	(100.0)%	2	10	(8)	(80.0)%
Remeasurement of deferred tax balances	–	15	(15)	(100.0)%	–	15	(15)	(100.0)%
Adjusted income taxes ⁽¹⁾	\$ 110	\$ 172	\$ (62)	(36.0)%	\$ 273	\$ 305	\$ (32)	(10.5)%
Effective tax rate applicable to earnings before taxes	(43.3)%	23.6%			22.4%	110.8%		
Adjusted effective tax rate applicable to adjusted earnings before taxes ⁽¹⁾	28.8 %	26.6%			27.4%	26.7%		

(i) See the adjusted EBITDA⁽¹⁾ table and the adjusted net interest expense and other financing charges⁽¹⁾ table included in Section 8, "Non-GAAP Financial Measures", of this MD&A for a complete list of items excluded from adjusted earnings before taxes⁽¹⁾.

The effective tax rate in the second quarter of 2020 was (43.3)%, compared to 23.6% in the same period in 2019. The change was primarily attributable to a decrease in the non-taxable fair value adjustment of the Trust Unit liability, the remeasurement of certain deferred tax balances in 2019, the impact of certain other non-deductible items and the impact of negative earnings before taxes reported in the second quarter of 2020, partially offset by a decrease in tax expense related to temporary differences in respect of GWL's investment in certain Loblaw shares as a result of GWL's participation in Loblaw's Normal Course Issuer Bid ("NCIB") program.

The adjusted effective tax rate⁽¹⁾ for the second quarter of 2020 was 28.8%, compared to 26.6% in the same period in 2019. The increase was primarily attributable to lower franchisee earnings during the quarter which were taxed at the lower small business rate and the impact of certain other non-deductible items.

The year-to-date effective tax rate was 22.4%, compared to 110.8% in the same period in 2019. The decrease was primarily attributable to an increase in the non-taxable fair value adjustment of the Trust Unit liability, partially offset by an increase in tax expense related to temporary differences in respect of GWL's investment in certain Loblaw shares as a result of GWL's participation in Loblaw's NCIB program and the remeasurement of certain deferred tax balances in 2019.

The year-to-date adjusted effective tax rate⁽¹⁾ was 27.4%, compared to 26.7% in the same period in 2019. The increase was primarily attributable to the impact of certain other non-deductible items.

Management's Discussion and Analysis

Loblaw has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, Loblaw filed a Notice of Appeal with the Federal Court of Appeal and recorded a charge of \$367 million, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes, to cover its ultimate liability if the appeal was unsuccessful. On October 15, 2019, the appeal was heard by the Federal Court of Appeal. During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of Loblaw, reversing the decision of the Tax Court. Subsequent to the end of the second quarter, on June 19, 2020, the Crown filed an application for leave to appeal to the Supreme Court of Canada. Loblaw has not reversed any portion of the previously recorded charge.

1.2 Consolidated Other Business Matters

COVID-19 RELATED COSTS The Company increased its spending on temporary pay premiums, pay protection safeguards, security, customer convenience and increased health and safety measures to protect colleagues, customers, tenants and other stakeholders incurring incremental COVID-19 related costs of approximately \$312 million. The estimated COVID-19 related costs incurred by each of the Company's reportable operating segments was as follows:

(unaudited) (\$ millions except where otherwise indicated)	12 Weeks Ended Jun. 13, 2020			
	Loblaw	Choice Properties ⁽ⁱ⁾	Weston Foods	Total
COVID-19 related costs	\$ 282	\$ 14	\$ 16	\$ 312

- (i) In the second quarter of 2020, Choice Properties recorded a provision of \$14 million for certain past due amounts, reflecting increased collectability risk and potential abatements to be granted under the Canada Emergency Commercial Rent Assistance program.

Refer to Section 6, "Enterprise Risks and Risk Management" and Section 7, "COVID-19 Update" section of this MD&A for more information.

2. Results of Reportable Operating Segments

The following discussion provides details of the second quarter of 2020 results of operations of each of the Company's reportable operating segments.

2.1 Loblaw Operating Results

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Revenue	\$ 11,957	\$ 11,133	\$ 824	7.4 %	\$ 23,757	\$ 21,792	\$ 1,965	9.0 %
Operating income	\$ 402	\$ 586	\$ (184)	(31.4)%	\$ 941	\$ 1,035	\$ (94)	(9.1)%
Adjusted EBITDA ⁽¹⁾	\$ 1,014	\$ 1,173	\$ (159)	(13.6)%	\$ 2,181	\$ 2,211	\$ (30)	(1.4)%
Adjusted EBITDA margin ⁽¹⁾	8.5%	10.5%			9.2%	10.1%		
Depreciation and amortization ⁽ⁱ⁾	\$ 598	\$ 580	\$ 18	3.1 %	\$ 1,192	\$ 1,160	\$ 32	2.8 %

- (i) Depreciation and amortization in the second quarter of 2020 includes \$118 million (2019 - \$116 million) and \$237 million (2019 - \$235 million) year-to-date of amortization of intangible assets acquired with Shoppers Drug Mart.

Loblaw's operating results include the impacts of COVID-19 and the consolidation of franchises.

REVENUE Loblaw revenue in the second quarter of 2020 was \$11,957 million, an increase of \$824 million, or 7.4%, compared to the same period in 2019, primarily driven by retail sales, partially offset by a decrease in financial services revenue.

Retail sales increased by \$862 million, or 7.9%, compared to the same period in 2019 and included food retail sales of \$8,747 million (2019 – \$7,858 million) and drug retail sales of \$3,021 million (2019 – \$3,048 million). Excluding the consolidation of franchises, retail sales increased by \$762 million, or 7.2%, primarily driven by the following factors:

- food retail same-store sales growth was 10.0% for the quarter. Food retail same-store sales growth was positively impacted by COVID-19. The timing of Easter had a nominal impact on food retail same-store sales growth in the second quarters of 2020 and 2019. Food retail basket size increased and traffic decreased in the quarter;
- Loblaw's food retail average article price was 4.6% (2019 – 3.3%), which reflects the year-over-year growth in food retail revenue over the average number of articles sold in Loblaw's stores in the quarter; and
- drug retail same-store sales decreased by 1.1% for the quarter. Pharmacy same-store sales decreased by 6.2% and front store same-store sales growth was 3.3%. Drug retail same-store sales was negatively impacted by COVID-19. The timing of Easter had a nominal impact on drug retail same-store sales decline and growth in the second quarters of 2020 and 2019, respectively.

In the last 12 months, 13 food and drug stores were opened and 7 food and drug stores were closed, resulting in a net increase in retail square footage of 0.1 million square feet, or 0.1%.

Financial services revenue in the second of 2020 decreased by \$51 million compared to the same period in 2019 mainly due to lower interchange income and credit card related fees primarily driven by lower customer spending and lower sales attributable to partial closure of *The Mobile Shop* kiosks, due to COVID-19.

On a year-to-date basis, Loblaw revenue was \$23,757 million, an increase of \$1,965 million, or 9.0%, compared to the same period in 2019, primarily driven by retail sales, partially offset by a decrease in financial services revenue.

Retail sales were \$23,352 million, an increase of \$1,994 million, or 9.3%, compared to the same period in 2019 and included food retail sales of \$17,079 million (2019 – \$15,373 million) and drug retail sales of \$6,273 million (2019 – \$5,985 million). Excluding the consolidation of franchises, retail sales on a year-to-date basis increased by \$1,708 million, or 8.2%. Year-to-date, the increase in food retail was primarily due to same-store sales growth of 9.8%. Year-to-date drug retail same-store sales growth was 4.7% with pharmacy same-store sales growth of 2.1% and front store same-store sales growth of 6.9%.

Year-to-date financial services revenue decreased by \$51 million compared to the same period in 2019 mainly due to lower interchange income and credit card related fees primarily driven by lower customer spending and lower sales attributable to partial closure of *The Mobile Shop* kiosks, partially offset by higher interest income.

OPERATING INCOME Loblaw operating income in the second quarter of 2020 was \$402 million, a decrease of \$184 million, or 31.4%, compared to the same period in 2019. The decrease included the decline in underlying operating performance of \$175 million and the unfavourable year-over-year net impact of adjusting items totaling \$9 million, as described below:

- the decline in underlying operating performance of \$175 million was primarily due to retail, including the unfavourable contribution from the consolidation of franchises of \$25 million, driven by an increase in COVID-19 related expenses and a decline in financial services. In the second quarter of 2020, Loblaw incurred incremental costs of approximately \$282 million related to COVID-19 investments in four areas: enhancing customer convenience by expanding online capabilities and increasing staffing in its stores; supporting colleagues in its stores and distribution centres with temporary pay premiums and pay protection safeguards; securing operations, with more in-store cleaning and in-store security, introducing new ways to shop stores to promote social distancing, and installing plexiglass barriers at check outs; and providing financial support to its communities and customers by pledging financial support to food banks and community charities and offering personalized solutions for *President's Choice Financial Mastercard*® customers who are experiencing financial hardship. These investments continued in the second quarter.
- the unfavourable year-over-year net impact of adjusting items totaling \$9 million was primarily due to the following:
 - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of \$15 million; partially offset by,
 - the favourable year-over-year impact of the fair value adjustment of derivatives of \$7 million.

Management's Discussion and Analysis

Year-to-date Loblaw operating income was \$941 million, a decrease of \$94 million, or 9.1%, compared to the same period in 2019. The decrease included the decline in underlying operating performance of \$60 million and the unfavourable year-over-year net impact of adjusting items totaling \$34 million, as described below:

- the decline in underlying operating performance of \$60 million was primarily due to financial services and retail due to an increase in depreciation and amortization. The increase in retail SG&A, excluding depreciation and amortization, was more than offset by an increase in retail gross profit.
- the unfavourable year-over-year net impact of adjusting items totaling \$34 million was primarily due to:
 - the unfavourable impact of the reversal of certain prior period items recognized in 2019 of \$15 million;
 - the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$10 million;
 - the unfavourable year-over-year impact of restructuring and other related costs of \$8 million;
 - the unfavourable impact of a prior year net gain on sale of non-operating properties of \$6 million; and
 - the unfavourable year-over-year impact of the fair value adjustment on investment properties of \$3 million; partially offset by,
 - the favourable impact of prior year pension annuities and buy-outs of \$10 million.

ADJUSTED EBITDA⁽¹⁾ Loblaw adjusted EBITDA⁽¹⁾ in the second quarter of 2020 was \$1,014 million, a decrease of \$159 million, or 13.6%, compared to the same period in 2019. The decrease was primarily due to the decline in retail and financial services.

Retail adjusted EBITDA⁽¹⁾ in the second quarter of 2020 decreased by \$151 million, including the unfavourable impact of the consolidation of franchises of \$20 million and was driven by an increase in retail SG&A, partially offset by an increase in retail gross profit.

- Retail gross profit percentage of 29.6% decreased by 30 basis points compared to the same period in 2019. Excluding the consolidation of franchises, retail gross profit percentage was 26.9%, a decrease of 90 basis points compared to the second quarter of 2019. Food and drug retail margins were negatively impacted as a result of the change in product sales mix, largely due to COVID-19.
- Excluding the consolidation of franchises, retail SG&A increased by \$235 million and SG&A as a percentage of sales was 18.5%, an increase of 90 basis points compared to the second quarter of 2019. The unfavourable increase of 90 basis points was primarily driven by costs associated with COVID-19 related investments and additional costs from the acceleration of Loblaw's e-commerce initiative, partially offset by process and efficiency and cost savings from mitigating other expenses.

Financial services adjusted EBITDA⁽¹⁾ decreased by \$8 million compared to the same period in 2019, primarily driven by lower revenue as described above, higher credit losses and an increase in expected credit losses attributable to an immediate increase in unemployment forecasts and recessionary environment when COVID-19 was declared a pandemic, partially offset by lower loyalty program transaction volume and lower customer acquisition costs.

Year-to-date Loblaw adjusted EBITDA⁽¹⁾ was \$2,181 million, a decrease of \$30 million, or 1.4%, compared to the same period in 2019. The decrease was primarily due to the decline in financial services, partially offset by an increase in retail.

Year-to-date financial services adjusted EBITDA⁽¹⁾ decreased by \$55 million compared to the same period in 2019 as described above.

Year-to-date retail adjusted EBITDA⁽¹⁾ increased by \$25 million, including the favourable impact of the consolidation of franchises of \$16 million and was driven by an increase in retail gross profit, partially offset by an increase in retail SG&A.

- Retail gross profit percentage of 29.7% decreased by 10 basis points compared to the same period in 2019. Excluding the consolidation of franchises, retail gross profit percentage was 27.1%, a decrease of 60 basis points compared to the same period in 2019. Food retail margins were stable while drug retail margins were negatively impacted by mix. The overall mix between food and drug was negative, largely due to COVID-19.
- Excluding the consolidation of franchises, retail SG&A increased by \$323 million and SG&A as a percentage of sales was 18.0%, an increase of 10 basis points compared to the same period of 2019. The unfavourable increase of 10 basis points was primarily driven by COVID-19 related expenses, which was more than offset by the incremental margin from COVID-19 related lift in food sales.

Year-to-date Loblaw adjusted EBITDA⁽¹⁾ included gains of nil (2019 – \$5 million) related to the sale and leaseback of properties to Choice Properties.

DEPRECIATION AND AMORTIZATION Loblaw's depreciation and amortization in the second quarter of 2020 was \$598 million, an increase of \$18 million compared to the same period in 2019. Year-to-date depreciation and amortization was \$1,192 million, an increase of \$32 million compared to the same period in 2019. The increase in depreciation and amortization in the second quarter of 2020 and year-to-date was primarily driven by the consolidation of franchises and an increase in IT assets.

Depreciation and amortization included \$118 million (2019 - \$116 million) in the second quarter of 2020 and \$237 million (2019 - \$235 million) year-to-date of amortization of intangible assets related to the acquisition of Shoppers Drug Mart.

LOBLAW OTHER BUSINESS MATTERS

Process and Efficiency In the second quarter of 2020, Loblaw recorded approximately \$17 million (\$36 million year-to-date) of restructuring and other related costs, primarily related to Process and Efficiency initiatives. Included in the restructuring charges is \$9 million (\$24 million year-to-date) related to the closure of the two distribution centres in Laval and Ottawa, that were previously announced in the first quarter of 2020. Loblaw is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Over the next two years, the distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall. Loblaw expects to incur additional restructuring costs in 2020 and 2021 related to these closures.

Consolidation of Franchises Loblaw has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2020, Loblaw consolidated all of its remaining franchisees for accounting purposes under a simplified franchise agreement implemented in 2015.

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	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019 ⁽ⁱ⁾	Jun. 13, 2020	Jun. 15, 2019 ⁽ⁱ⁾
Number of Consolidated Franchise stores, beginning of period	526	414	470	400
Add: Net Number of Consolidated Franchise stores in the period	-	10	56	24
Number of Consolidated Franchise stores, end of period ⁽ⁱ⁾	526	424	526	424
Sales	\$ 406	\$ 306	\$ 895	\$ 609
Operating (loss) income	(2)	23	40	37
Adjusted EBITDA ⁽¹⁾	20	40	87	71
Depreciation and amortization	22	17	47	34
Net (loss) earnings attributable to non-controlling interests	(10)	17	23	22

(i) The number of franchise stores disclosed elsewhere includes certain stores under buying arrangements which will not be subject to the simplified franchise agreement.

Operating (loss) income that is 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.

In light of the uncertainty surrounding the duration and severity of the pandemic, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of franchises.

Management's Discussion and Analysis

2.2 Choice Properties Operating Results

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Revenue	\$ 315	\$ 324	\$ (9)	(2.8)%	\$ 640	\$ 647	\$ (7)	(1.1)%
Net interest expense (income) and other financing charges ⁽ⁱ⁾	\$ 67	\$ (13)	\$ 80	615.4 %	\$ (189)	\$ 1,112	\$ (1,301)	(117.0)%
Net (loss) income	\$ (96)	\$ 238	\$ (334)	(140.3)%	\$ 237	\$ (664)	\$ 901	135.7 %
Funds from Operations ⁽ⁱ⁾⁽ⁱⁱ⁾	\$ 141	\$ 170	\$ (29)	(17.1)%	\$ 311	\$ 340	\$ (29)	(8.5)%

(i) Net interest expense (income) 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.

REVENUE Revenue in the second quarter of 2020 was \$315 million, a decrease of \$9 million, or 2.8%, compared to the same period in 2019, and included \$182 million (2019 – \$191 million) generated from tenants within Loblaw's retail segment.

On a year-to-date basis, revenue was \$640 million, a decrease of \$7 million, or 1.1%, compared to the same period in 2019 and included \$368 million (2019 – \$382 million) generated from tenants within Loblaw's retail segment.

The decrease in revenue in the second quarter of 2020 and year-to-date was primarily driven by:

- foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019;
- partially offset by,
- additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space.

NET INTEREST EXPENSE (INCOME) AND OTHER FINANCING CHARGES Net interest expense and other financing charges in the second quarter of 2020 were \$67 million compared to net interest income and other financing charges of \$13 million in the same period in 2019. The change of \$80 million was primarily driven by:

- the unfavourable year-over-year impact of the fair value adjustment on Class B LP units ("Exchangeable Units") of \$79 million; and
 - an early redemption premium paid of \$7 million for two senior unsecured debentures maturing in 2021 that were repaid in full during the quarter;
- partially offset by,
- lower overall debt levels compared to the prior year and the completion of refinancing activity over the last year at lower interest rates.

Year-to-date, net interest income and other financing charges were \$189 million compared to net interest expense and other financing charges of \$1,112 million in the same period in 2019. The change of \$1,301 million was primarily driven by:

- the favourable year-over-year impact of the fair value adjustment on the Exchangeable Units of \$1,298 million as a result of the significant decrease in the unit price of Choice Properties in 2020; and
 - lower overall debt levels compared to the prior year and the completion of refinancing activity over the last year at lower interest rates;
- partially offset by,
- an early redemption premium paid of \$7 million for two senior unsecured debentures maturing in 2021 that were repaid in full in the current quarter.

NET (LOSS) INCOME Net loss in the second quarter of 2020 was \$96 million, compared to net income of \$238 million in the same period in 2019. The decrease of \$334 million was primarily driven by:

- the unfavourable year-over-year impact of the fair value adjustment on investment properties;
- the unfavourable impact of higher interest expense and other financing charges described above;
- an increase in bad debt provisions across the portfolio;
- reduced contribution from equity accounted joint ventures; and
- an allowance for expected credit losses for a specific mortgage receivable.

Year-to-date, net income was \$237 million, compared to a net loss of \$664 million in the same period in 2019. The increase of \$901 million was primarily driven by:

- the favourable impact of higher net interest income and other financing charges, described above; partially offset by,
- the unfavourable year-over-year impact of the fair value adjustment on investment properties;
- an increase in bad debt provisions across the portfolio;
- reduced contribution from equity accounted joint ventures; and
- an allowance for expected credit losses for a specific mortgage receivable.

FUNDS FROM OPERATIONS⁽¹⁾ Funds from Operations⁽¹⁾ in the second quarter of 2020 was \$141 million, a decrease of \$29 million compared to the same period in 2019, primarily driven by deleveraging activities through the use of proceeds from the Choice Properties' portfolio transaction and the offering of Trust Units in the second quarter of 2019 to reduce overall borrowing costs. Funds from Operations was further impacted by an increase in bad debt provisions, an allowance for expected credit losses on a specific mortgage receivable and an early redemption premium paid for two senior unsecured debentures maturing in 2021.

Year-to-date Funds from Operations⁽¹⁾ was \$311 million, a decrease of \$29 million compared to the same period in 2019 primarily driven by the activities as described above.

CHOICE PROPERTIES OTHER BUSINESS MATTERS

Investment Property Transactions During the second quarter of 2020, Choice Properties acquired a parcel of vacant land from Loblaw for a purchase price of \$8 million, excluding transaction costs, for cash consideration.

2.3 Weston Foods Operating Results

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change	Jun. 13, 2020	Jun. 15, 2019	\$ Change	% Change
Sales	\$ 412	\$ 479	\$ (67)	(14.0)%	\$ 947	\$ 995	\$ (48)	(4.8)%
Operating (loss) income	\$ (49)	\$ 12	\$ (61)	(508.3)%	\$ (48)	\$ 22	\$ (70)	(318.2)%
Adjusted EBITDA ⁽¹⁾	\$ 7	\$ 49	\$ (42)	(85.7)%	\$ 59	\$ 95	\$ (36)	(37.9)%
Adjusted EBITDA margin ⁽¹⁾	1.7%	10.2%			6.2%	9.5%		
Depreciation and amortization ⁽ⁱ⁾	\$ 44	\$ 35	\$ 9	25.7 %	\$ 87	\$ 67	\$ 20	29.9 %

(i) Depreciation and amortization in the second quarter of 2020 includes \$10 million (2019 – \$2 million) and \$19 million (2019 – \$2 million) year-to-date of accelerated depreciation related to restructuring and other related costs.

SALES Weston Foods sales in the second quarter of 2020 were \$412 million, a decrease of \$67 million, or 14.0%, compared to the same period in 2019. Sales included the positive impact of foreign currency translation of approximately 1.7%. Excluding the favourable impact of foreign currency translation, sales decreased by 15.7%. Sales were impacted by a decrease in volumes in certain retail categories and foodservice channels as a result of the COVID-19 pandemic and the unfavourable impact of product rationalization, partially offset by the combined positive impact of pricing and changes in sales mix.

On a year-to-date basis, sales were \$947 million, a decrease of \$48 million, or 4.8%, compared to the same period in 2019. Sales included the positive impact of foreign currency translation of approximately 0.9%. Excluding the favourable impact of foreign currency translation, sales decreased by 5.7%. Sales were impacted by the unfavourable impact of product rationalization and a decrease in volumes in certain retail categories and foodservice channels as a result of the COVID-19 pandemic, partially offset by the combined positive impact of pricing and changes in sales mix.

Management's Discussion and Analysis

OPERATING (LOSS) INCOME Weston Foods operating loss in the second quarter of 2020 was \$49 million compared to operating income of \$12 million in the same period in 2019, a decrease of \$61 million. The decrease was due to the decline in underlying operating performance of \$43 million driven by the decline in sales and COVID-19 related costs and the unfavourable year-over-year net impact of adjusting items totaling \$18 million. Weston Foods has incurred COVID-19 related costs to support colleagues in its bakeries and distribution centres with temporary pay premiums, pay protection safeguards and by increasing health and safety measures at its facilities. The year-over-year net impact of adjusting items included the following:

- the unfavourable year-over-year impact of restructuring and other related costs of \$15 million; and
- the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$3 million.

Year-to-date operating loss was \$48 million compared to operating income of \$22 million in the same period in 2019, a decrease of \$70 million. The decrease was due to the decline in underlying operating performance of \$39 million driven by the decline in sales and COVID-19 related costs and the unfavourable year-over-year net impact of adjusting items totaling \$31 million. Weston Foods has incurred COVID-19 related costs to support colleagues in its bakeries and distribution centres with temporary pay premiums, pay protection safeguards and by increasing health and safety measures at its facilities. The year-over-year net impact of adjusting items included the following:

- the unfavourable year-over-year impact of restructuring and other related costs of \$29 million; and
- the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$2 million.

ADJUSTED EBITDA⁽¹⁾ Weston Foods adjusted EBITDA⁽¹⁾ in the second quarter of 2020 was \$7 million compared to \$49 million in the same period in 2019, a decrease of \$42 million, or 85.7%. The decrease was driven by the decline in sales, an increase in COVID-19 related expenses and higher input costs, partially offset by the net benefits realized from Weston Foods' transformation program, productivity improvements and cost savings initiatives.

Weston Foods adjusted EBITDA margin⁽¹⁾ in the second quarter of 2020 decreased to 1.7% compared to 10.2% in the same period in 2019. The decline in adjusted EBITDA margin⁽¹⁾ in the second quarter of 2020 was driven by the factors described above.

Year-to-date adjusted EBITDA⁽¹⁾ was \$59 million compared to \$95 million in the same period in 2019, a decrease of \$36 million, or 37.9%. The decrease was driven by the decline in sales, an increase in COVID-19 related expenses and higher input costs, partially offset by productivity improvements, the net benefits realized from Weston Foods' transformation program and cost savings initiatives.

Year-to-date adjusted EBITDA margin⁽¹⁾ decreased to 6.2% compared to 9.5% in the same period in 2019. The decline in adjusted EBITDA margin⁽¹⁾ was driven by the factors described above.

DEPRECIATION AND AMORTIZATION Weston Foods depreciation and amortization in the second quarter of 2020 was \$44 million, an increase of \$9 million compared to the same period in 2019. Depreciation and amortization included \$10 million (2019 – \$2 million) of accelerated depreciation related to Weston Foods' transformation program. Excluding this amount, depreciation and amortization in the second quarter of 2020 increased by \$1 million due to capital investments.

Year-to-date depreciation and amortization in 2020 was \$87 million, an increase of \$20 million compared to the same period in 2019. Depreciation and amortization included \$19 million (2019 – \$2 million) of accelerated depreciation related to Weston Foods' transformation program. Excluding this amount, depreciation and amortization increased by \$3 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 second quarter of 2020 and year-to-date, Weston Foods recorded restructuring and other related costs of \$19 million (2019 – \$4 million) and \$35 million (2019 – \$6 million), which were primarily related to Weston Foods' transformation program.

3. Liquidity and Capital Resources

3.1 Cash Flows

(\$ millions) For the periods ended as indicated	12 Weeks Ended			24 Weeks Ended		
	Jun. 13, 2020	Jun. 15, 2019 ⁽ⁱ⁾	\$ Change	Jun. 13, 2020	Jun. 15, 2019 ⁽ⁱ⁾	\$ Change
Cash and cash equivalents, beginning of period	\$ 2,784	\$ 1,349	\$ 1,435	\$ 1,834	\$ 1,521	\$ 313
Cash flows from operating activities	\$ 1,008	\$ 1,097	\$ (89)	\$ 2,768	\$ 2,192	\$ 576
Cash flows used in investing activities	\$ (521)	\$ (216)	\$ (305)	\$ (811)	\$ (527)	\$ (284)
Cash flows used in financing activities	\$ (405)	\$ (317)	\$ (88)	\$ (931)	\$ (1,273)	\$ 342
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ (5)	\$ –	\$ (5)	\$ 1	\$ –	\$ 1
Cash and cash equivalents, end of period	\$ 2,861	\$ 1,913	\$ 948	\$ 2,861	\$ 1,913	\$ 948

CASH FLOWS FROM OPERATING ACTIVITIES Cash flows from operating activities were \$1,008 million in the second quarter of 2020, a decrease of \$89 million compared to the same period in 2019. The decrease in cash flows from operating activities was primarily due to an unfavourable change in non-cash working capital driven by an increase in inventory purchases and a decrease in trade payables as well as lower cash earnings due to COVID-19, partially offset by a decrease in credit card receivables as a result of reduced consumer spending.

Year-to-date cash flows from operating activities were \$2,768 million in 2020, an increase of \$576 million compared to the same period in 2019. The increase in cash flows from operating activities is primarily due to a decrease in credit card receivables as a result of reduced customer spending and lower income taxes paid.

CASH FLOWS USED IN INVESTING ACTIVITIES Cash flows used in investing activities were \$521 million in the second quarter of 2020, an increase of \$305 million compared to the same period in 2019. The increase in cash flows used in investing activities was primarily driven by an increase in short-term investments and an unfavourable change in security deposits, partially offset by a reduction in capital investments and higher proceeds from the sale of assets.

Year-to-date cash flows used in investing activities were \$811 million in 2020, an increase of \$284 million compared to the same period in 2019. The increase in year-to-date cash flows used in investing activities was primarily due to an increase in short-term investments and an unfavourable change in security deposits, partially offset by higher proceeds from the sale of assets.

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

(\$ millions) For the periods ended as indicated	12 Weeks Ended			24 Weeks Ended		
	Jun. 13, 2020 ⁽ⁱ⁾	Jun 15, 2019	\$ Change	Jun. 13, 2020 ⁽ⁱ⁾	Jun 15, 2019	\$ Change
Loblaw	\$ 199	\$ 209	\$ (10)	\$ 410	\$ 383	\$ 27
Choice Properties	20	50	(30)	69	81	(12)
Weston Foods	33	38	(5)	57	69	(12)
Other	–	–	–	2	–	2
Total capital investments	\$ 252	\$ 297	\$ (45)	\$ 538	\$ 533	\$ 5

(i) Additions to fixed assets in Loblaw included prepayments that were made in 2019 and transferred from other assets in 2020 of \$30 million in the second quarter of 2020 and \$50 million year-to-date.

CASH FLOWS USED IN FINANCING ACTIVITIES Cash flows used in financing activities were \$405 million in the second quarter of 2020, an increase of \$88 million compared to the same period in 2019. The increase in cash flows used in financing activities was primarily driven by higher issuances of Choice Properties units in the prior year and repayments of short-term debt, partially offset by Loblaw not repurchasing any common shares under its NCIB during the second quarter of 2020, higher net issuances of long-term debt in the current year and an increase in bank indebtedness.

Year-to-date cash flows used in financing activities were \$931 million in 2020, a decrease of \$342 million compared to the same period in 2019. The decrease in cash flows used in financing activities was primarily driven by higher net issuances of long-term debt in the current year, lower repurchases of Loblaw common shares under its NCIB and an increase in bank indebtedness, partially offset by higher issuances of Choice Properties units in the prior year and repayments of short-term debt.

The Company's significant long-term debt transactions are set out in Section 3.3, "Components of Total Debt".

Management's Discussion and Analysis

FREE CASH FLOW⁽¹⁾

(\$ millions) For the periods ended as indicated	12 Weeks Ended			24 Weeks Ended		
	Jun. 13, 2020	Jun. 15, 2019 ⁽⁴⁾	\$ Change	Jun. 13, 2020	Jun. 15, 2019 ⁽⁴⁾	\$ Change
Cash flows from operating activities	\$ 1,008	\$ 1,097	\$ (89)	\$ 2,768	\$ 2,192	\$ 576
Less: Interest paid	165	152	13	419	418	1
Fixed asset and investment properties purchases	173	213	(40)	365	357	8
Intangible asset additions	79	84	(5)	173	176	(3)
Lease payments, net	201	206	(5)	396	393	3
Free cash flow ⁽¹⁾	\$ 390	\$ 442	\$ (52)	\$ 1,415	\$ 848	\$ 567

Free cash flow⁽¹⁾ in the second quarter 2020 was \$390 million, a decrease of \$52 million compared to the same period in 2019. The decrease in free cash flow⁽¹⁾ was primarily driven by unfavourable changes in non-cash working capital driven by an increase in inventory purchases and a decrease in trade payables as well as lower cash earnings due to COVID-19, partially offset by a decrease in credit card receivables as a result of reduced consumer spending.

On a year-to-date basis, free cash flow⁽¹⁾ was \$1,415 million, an increase of \$567 million compared to the same period in 2019. The increase in free cash flow⁽¹⁾ was primarily driven by a decrease in credit card receivables as a result of reduced consumer spending and lower income taxes paid.

3.2 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 over the next 12 months, including working capital, pension plan funding requirements and financial obligations. President's Choice Bank ("PC Bank") expects to obtain long-term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*[®] ("Eagle") notes and Guaranteed Investment Certificates ("GICs").

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

For details on the Company's cash flows, see Section 3.1 "Cash Flows", of this MD&A.

TOTAL DEBT The following table presents total debt, as monitored by management:

(\$ millions)	As at														
	Jun. 13, 2020					Jun. 15, 2019					Dec. 31, 2019				
	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total
Bank indebtedness	\$ 133	\$ -	\$ -	\$ -	\$ 133	\$ 89	\$ -	\$ -	\$ -	\$ 89	\$ 18	\$ -	\$ -	\$ -	\$ 18
Short-term debt	525	-	-	740	1,265	790	-	-	689	1,479	775	-	-	714	1,489
Long-term debt due within one year	1,240	92	-	-	1,332	324	740	-	-	1,064	1,127	715	-	-	1,842
Long-term debt	6,343	6,420	-	915	13,678	6,449	6,388	-	915	13,752	5,971	5,826	-	915	12,712
Certain other liabilities ⁽ⁱ⁾	66	432	-	-	498	49	-	-	-	49	65	435	-	-	500
Fair value of financial derivatives related to the above debt	-	-	-	(573)	(573)	-	-	-	(495)	(495)	-	-	-	(537)	(537)
Total debt excluding lease liabilities	\$ 8,307	\$ 6,944	\$ -	\$ 1,082	\$ 16,333	\$ 7,701	\$ 7,128	\$ -	\$ 1,109	\$ 15,938	\$ 7,956	\$ 6,976	\$ -	\$ 1,092	\$ 16,024
Lease liabilities due within one year ⁽ⁱⁱ⁾	\$ 1,324	\$ 1	\$ 13	\$ (536)	\$ 802	\$ 1,239	\$ 1	\$ 10	\$ (522)	\$ 728	\$ 1,419	\$ 1	\$ 13	\$ (576)	\$ 857
Lease liabilities ⁽ⁱⁱ⁾	\$ 7,685	\$ 5	\$ 54	\$ (3,404)	\$ 4,340	\$ 7,749	\$ 6	\$ 66	\$ (3,601)	\$ 4,220	\$ 7,691	\$ 6	\$ 60	\$ (3,507)	\$ 4,250
Total debt including lease liabilities	\$ 17,316	\$ 6,950	\$ 67	\$ (2,858)	\$ 21,475	\$ 16,689	\$ 7,135	\$ 76	\$ (3,014)	\$ 20,886	\$ 17,066	\$ 6,983	\$ 73	\$ (2,991)	\$ 21,131

(i) Includes financial liabilities of \$432 million (June 15, 2019 - nil; December 31, 2019 - \$435 million) recorded primarily as a result of Choice Properties' portfolio transaction.

(ii) Lease liabilities due within one year of \$3 million (June 15, 2019 - \$3 million; December 31, 2019 - \$4 million) and lease liabilities of \$11 million (June 15, 2019 - \$14 million; December 31, 2019 - \$12 million) relating to GWL Corporate are included under Other and Intersegment.

Management targets credit metrics consistent with those of an investment grade profile. GWL Corporate holds cash and cash equivalents and short-term investments and as a result monitors its leverage on a net debt basis. GWL Corporate has total debt including lease liabilities of \$1,096 million (June 15, 2019 - \$1,126 million; December 31, 2019 - \$1,108 million) and cash and cash equivalents and short-term investments of \$784 million (June 15, 2019 - \$690 million; December 31, 2019 - \$679 million), resulting in a net debt position of \$312 million (June 15, 2019 - \$436 million; December 31, 2019 - \$429 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 segment credit metrics consistent with those of investment grade retailers. Loblaw monitors the retail segment's debt to rolling year retail adjusted EBITDA⁽¹⁾ ratio as a measure of the leverage being employed. Loblaw retail segment debt to rolling year retail adjusted EBITDA⁽¹⁾ ratio as at the end of the second quarter of 2020 was flat compared to the second quarter of 2019 and year end 2019.
- 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 and throughout the second quarter of 2020, the Company, Loblaw and Choice Properties were in compliance with their respective covenants.

As at the end of and throughout the second quarter of 2020, PC Bank and Choice Properties met all applicable regulatory requirements.

Management's Discussion and Analysis

3.3 Components of Total Debt

DEBENTURES The following table summarizes the debentures issued in the periods ended as indicated:

(\$ millions)	Interest Rate	Maturity Date	12 Weeks Ended		24 Weeks Ended	
			Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
			Principal Amount	Principal Amount	Principal Amount	Principal Amount
Loblaw Companies Limited debenture	2.28%	May 7, 2030	\$ 350	\$ –	\$ 350	\$ –
Choice Properties senior unsecured debentures						
– Series M	3.53%	June 11, 2029	–	750	–	750
– Series N	2.98%	March 4, 2030	–	–	400	–
– Series O	3.83%	March 4, 2050	–	–	100	–
– Series P	2.85%	May 21, 2027	500	–	500	–
Total debentures issued			\$ 850	\$ 750	\$ 1,350	\$ 750

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

(\$ millions)	Interest Rate	Maturity Date	12 Weeks Ended		24 Weeks Ended	
			Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
			Principal Amount	Principal Amount	Principal Amount	Principal Amount
Choice Properties senior unsecured debentures						
– Series C	3.50%	February 8, 2021	\$ 250	\$ –	\$ 250	\$ –
– Series E	2.30%	September 14, 2020	–	–	250	–
– Series 8	3.60%	April 20, 2020	–	–	300	–
– Series B-C	4.32%	January 15, 2021	100	–	100	–
Total debentures repaid			\$ 350	\$ –	\$ 900	\$ –

Subsequent to the end of the second quarter of 2020, Loblaw repaid \$350 million aggregate principal amount of 5.22% Medium Term Notes, Series 2-B on June 18, 2020.

COMMITTED CREDIT FACILITIES The components of the committed lines of credit available were as follows:

(\$ millions)	Maturity Date	Jun. 13, 2020		As at			
		Available Credit	Drawn	Jun. 15, 2019		Dec. 31, 2019	
				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	12	1,500	16	1,500	132
Total committed credit facilities		\$ 2,500	\$ 12	\$ 2,500	\$ 16	\$ 2,500	\$ 132

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 the Other Independent Securitization Trusts, in accordance with its financing requirements.

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

(\$ millions)	Jun. 13, 2020	As at	
		Jun. 15, 2019	Dec. 31, 2019
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> [®]	\$ 1,000	\$ 750	\$ 1,000
Securitized to Other Independent Securitization Trusts	525	790	775
Total securitized to independent securitization trusts	\$ 1,525	\$ 1,540	\$ 1,775

Under its securitization programs, PC Bank is required to maintain, at all times, a credit card receivable pool balance equal to a minimum of 107% of the outstanding securitized liability. PC Bank was in compliance with this requirement as at the end of the second quarter of 2020 and throughout the first half of 2020.

A repayment accumulation process has been triggered during the second quarter of 2020 due to the upcoming maturity of the *Eagle* Series with \$250 million of senior and subordinated term notes at a weighted average interest rate of 2.23% on September 17, 2020. Loblaw has recorded the accumulated funds as security deposits beginning on June 1, 2020. As at June 13, 2020, approximately \$71 million was recorded in security deposits. The remaining \$179 million will be accumulated and recorded as security deposits until repayment in September 2020.

INDEPENDENT FUNDING TRUSTS As at the end of the second quarter of 2020, the independent funding trusts had drawn \$490 million (June 15, 2019 – \$526 million; December 31, 2019 – \$505 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. As at the end of the second quarter of 2020, Loblaw provided a credit enhancement of \$64 million (June 15, 2019 and December 31, 2019 – \$64 million) for the benefit of the independent funding trusts representing not less than 10% (June 15, 2019 and December 31, 2019 – not less than 10%) of the principal amount of loans outstanding.

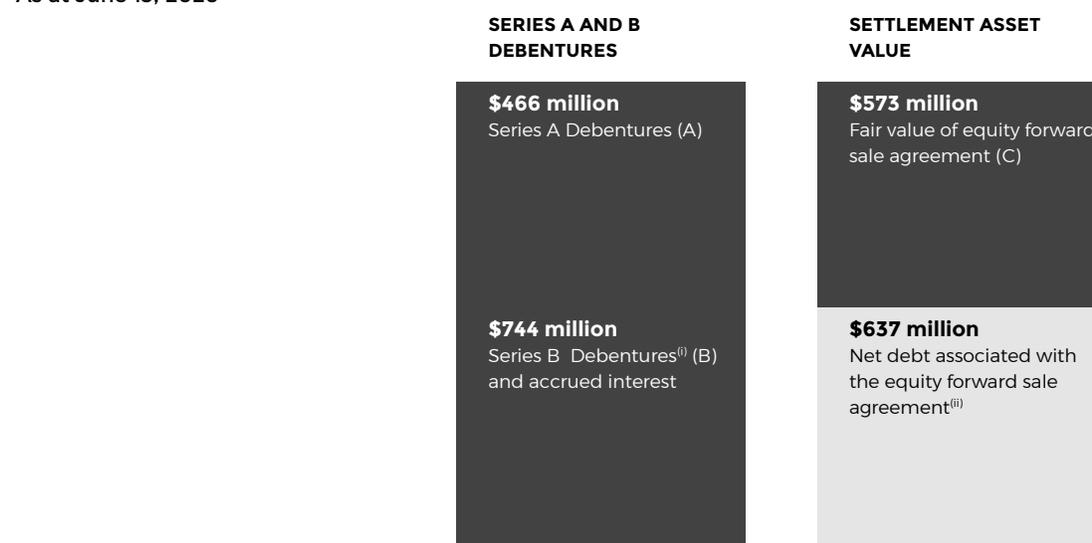
The revolving committed credit facility relating to the independent funding trusts has a maturity date of May 27, 2022.

Management's Discussion and Analysis

DEBT ASSOCIATED WITH EQUITY FORWARD SALE AGREEMENT In 2001, Weston Holdings Limited ("WHL") issued \$466 million of 7.00% Series A Debentures due 2031, which are serviced by the issuance of Series B Debentures. In addition, WHL entered into an equity forward sale agreement with the lender to sell 9.6 million Loblaw common shares at an initial forward sale price of \$48.50 which increases by the interest rates on Series A Debentures and Series B Debentures. As at the end of the second quarter of 2020 the forward rate was \$125.98 (June 15, 2019 - \$120.84; December 31, 2019 - \$123.64) and Series B liability was \$740 million (June 15, 2019 - \$689 million; December 31, 2019 - \$714 million). The Series A Debentures ("A"), Series B Debentures and the accrued interest ("B"), and the fair value of the equity forward sale agreement ("C") should be considered together. At any time, the aggregate value of A, B, and C will be equivalent to the market value of the 9.6 million shares (see chart below). WHL is permitted to settle the transaction in whole or in part, at any time prior to 2031.

Interest charges on Series A Debentures and Series B Debentures are non-cash and accrued at an interest rate of 7% and bankers' acceptance plus 0.50%, respectively and are serviced by the issuance of Series B Debentures. The amount is offset by non-cash forward accretion income associated with the equity forward sale agreement. WHL recognizes a non-cash charge or income, representing the fair value adjustment of the forward sale agreement based on the changes in the value of the underlying 9.6 million Loblaw common shares. WHL has to pay a forward fee of \$10 million (June 15, 2019 - \$10 million; December 31, 2019 - \$20 million) to the lender comprised of servicing fees and estimated dividends associated with the underlying 9.6 million Loblaw common shares.

As at June 13, 2020



Recognized in financial statements

- (i) Included the accrued interest of Series A Debenture and Series B Debenture of \$4 million.
- (ii) Calculated as the bid price of Loblaw of \$66.29 multiplied by 9.6 million Loblaw common shares.

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

(\$ millions)	Maturity Date	As at		
		Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Series A	2031	\$ 466	\$ 466	\$ 466
Series B	On demand	740	689	714
Fair value of financial derivatives related to the above debt	n/a	(573)	(495)	(537)
Debt associated with equity forward sale agreement		\$ 633	\$ 660	\$ 643
Debentures	2024 - 2033	450	450	450
Transaction costs and other	n/a	(1)	(1)	(1)
Other and Intersegment debt		\$ 1,082	\$ 1,109	\$ 1,092

3.4 Financial Condition

	Jun. 13, 2020	As at	
		Jun. 15, 2019	Dec. 31, 2019
Rolling year adjusted return on average equity attributable to common shareholders of the Company ⁽¹⁾	15.3%	14.6%	16.1%
Rolling year adjusted return on capital ⁽¹⁾	9.8%	10.0%	10.3%

The rolling year adjusted return on average equity attributable to common shareholders of the Company⁽¹⁾ increased as at the end of the second quarter of 2020 compared to the end of the second quarter of 2019, primarily due to Loblaw earnings growth and decreased compared to year end 2019, primarily due to a decline in Loblaw's underlying operating performance.

The rolling year adjusted return on capital⁽¹⁾ decreased as at the end of the second quarter of 2020 compared to the end of the second quarter of 2019 and year end 2019, primarily due to a decline in Loblaw's earnings, partially offset by an increase in cash and cash equivalents.

3.5 Credit Ratings

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

Management's Discussion and Analysis

3.6 Share Capital

COMMON SHARE CAPITAL The following table summarizes the activity in the Company's common shares issued and outstanding for the periods ended as indicated:

(\$ millions except where otherwise indicated)	12 Weeks Ended				24 Weeks Ended			
	Jun. 13, 2020		Jun. 15, 2019		Jun. 13, 2020		Jun. 15, 2019	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital ⁽⁴⁾	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital ⁽⁴⁾
Issued and outstanding, beginning of period	153,670,563	\$ 2,809	153,520,982	\$ 2,778	153,667,750	\$ 2,809	153,370,108	\$ 2,766
Issued for settlement of stock options	–	–	47,906	4	2,813	–	200,405	16
Purchased and cancelled	–	–	–	–	–	–	(1,625)	–
Issued and outstanding, end of period	153,670,563	\$ 2,809	153,568,888	\$ 2,782	153,670,563	\$ 2,809	153,568,888	\$ 2,782
Shares held in trusts, beginning of period	(261,823)	\$ (4)	(85,929)	\$ –	(88,832)	\$ –	(120,305)	\$ –
Purchased for future settlement of RSUs and PSUs	–	–	–	–	(229,000)	(4)	(50,000)	(1)
Released for settlement of RSUs and PSUs	2,227	–	4,353	–	58,236	–	88,729	1
Shares held in trusts, end of period	(259,596)	\$ (4)	(81,576)	\$ –	(259,596)	\$ (4)	(81,576)	\$ –
Issued and outstanding, net of shares held in trusts, end of period	153,410,967	\$ 2,805	153,487,312	\$ 2,782	153,410,967	\$ 2,805	153,487,312	\$ 2,782
Weighted average outstanding, net of shares held in trusts	153,409,403		153,462,096		153,489,551		153,370,552	

NORMAL COURSE ISSUER BID PROGRAM The following table summarizes the Company's activity under its NCIB program:

(\$ millions except where otherwise indicated)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019 ⁽⁴⁾
Purchased for future settlement of RSUs and PSUs (number of shares)	–	–	229,000	50,000
Purchased for current settlement of RSUs and DSUs (number of shares)	31,870	–	32,960	31,356
Cash consideration paid				
Purchased and held in trusts	\$ –	\$ –	\$ (21)	\$ (5)
Purchased and settled	\$ (3)	\$ –	\$ (3)	\$ (3)
Premium charged to retained earnings				
Purchased and held in trusts	\$ –	\$ –	\$ 17	\$ 5

During the second quarter of 2020, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 7,683,528 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 June 13, 2020, the Company did not purchase any common shares under its current NCIB program.

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

(\$)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Dividends declared per share ⁽ⁱ⁾ :				
Common share	\$ 0.525	\$ 0.525	\$ 1.050	\$ 1.040
Preferred share:				
Series I	\$ 0.3625	\$ 0.3625	\$ 0.7250	\$ 0.7250
Series III	\$ 0.3250	\$ 0.3250	\$ 0.6500	\$ 0.6500
Series IV	\$ 0.3250	\$ 0.3250	\$ 0.6500	\$ 0.6500
Series V	\$ 0.296875	\$ 0.296875	\$ 0.593750	\$ 0.593750

(i) Dividends declared on common shares and Preferred Shares, Series III, Series IV and Series V were paid on July 1, 2020. Dividends declared on Preferred Shares, Series I were paid on June 15, 2020.

The following table summarizes the Company's cash dividends declared subsequent to the end of the second quarter of 2020:

(\$)		
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 October 1, 2020. Dividends declared on Preferred Shares, Series I are payable on September 15, 2020.

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.

3.7 Off-Balance Sheet Arrangements

The Company uses off-balance sheet arrangements including letters of credit, guarantees and cash collateralization in connection with certain obligations. There were no significant changes to these off-balance sheet arrangements during the first half of 2020. For a discussion of the Company's significant off-balance sheet arrangements see Section 3.7, "Off-Balance Sheet Arrangements", of the Company's 2019 Annual Report.

Management's Discussion and Analysis

4. 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, 2019 and December 31, 2018 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 such as 2020 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)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2020 (12 weeks)	2019 (12 weeks)	2020 (12 weeks)	2019 (12 weeks)	2019 (12 weeks)	2018 (12 weeks)	2019 (16 weeks)	2018 (16 weeks)
Revenue	\$ 12,357	\$ 11,603	\$ 12,333	\$ 11,173	\$ 12,107	\$ 11,717	\$ 15,226	\$ 14,862
Operating income	401	770	598	586	718	690	884	804
Adjusted EBITDA ⁽ⁱ⁾	1,087	1,313	1,304	1,158	1,351	1,146	1,661	1,391
Depreciation and amortization ⁽ⁱ⁾	566	534	560	535	548	416	701	530
Net (loss) earnings	(172)	353	743	(372)	578	412	264	130
Net (loss) earnings attributable to shareholders of the Company	(245)	194	592	(478)	443	281	83	65
Net (loss) earnings available to common shareholders of the Company	(255)	184	582	(488)	433	271	69	51
Net (loss) earnings per common share (\$) - basic	\$ (1.66)	\$ 1.20	\$ 3.79	\$ (3.18)	\$ 2.82	\$ 1.86	\$ 0.45	\$ 0.40
Net (loss) earnings per common share (\$) - diluted	\$ (1.66)	\$ 1.19	\$ 3.78	\$ (3.18)	\$ 2.81	\$ 1.86	\$ 0.44	\$ 0.40
Adjusted diluted net earnings per common share ⁽ⁱ⁾ (\$)	\$ 0.93	\$ 1.70	\$ 1.55	\$ 1.30	\$ 1.69	\$ 1.59	\$ 2.54	\$ 2.25
Loblaw's food retail same-store sales growth	10.0 %	0.6 %	9.6 %	2.0 %	1.9 %	0.8 %	0.1 %	0.9 %
Loblaw's drug retail same-store sales (decline) growth	(1.1)%	4.0 %	10.7 %	2.2 %	3.9 %	1.9 %	4.1 %	2.5 %
Choice Properties' Funds From Operations per unit - diluted	\$ 0.201	\$ 0.248	\$ 0.244	\$ 0.252	\$ 0.237	\$ 0.256	\$ 0.250	\$ 0.253
Choice Properties' Net Operating Income (cash basis)	\$ 216	\$ 235	\$ 232	\$ 233	\$ 235	\$ 233	\$ 239	\$ 230
Weston Foods sales (decline) growth	(14.0)%	2.4 %	3.7 %	(0.2)%	3.0 %	(3.8)%	1.3 %	(5.7)%
Weston Foods sales (decline) growth excluding impact of foreign currency translation	(15.7)%	0.2 %	3.7 %	(3.1)%	3.2 %	(5.9)%	0.6 %	(7.3)%

(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. Historically, Loblaw seasonality is greatest in the fourth quarter and least in the first quarter. Historically, Weston Foods seasonality is greatest in the third and fourth quarters and least in the first quarter.

The COVID-19 pandemic continued to have a significant impact on the Company. The Company's financial results for the 24 weeks ended June 13, 2020 show increased revenue, driven by increased demands for essential items, as well as increased cost of inventories sold. In addition, SG&A also increased in the 12 weeks ended June 13, 2020 as the Company increased its spending on temporary pay premiums, pay protection safeguards, security, customer convenience and health and safety measures to protect colleagues, customers, tenants and other stakeholders incurring incremental COVID-19 related costs of approximately \$312 million. See Section 7, "COVID-19 Update", of this MD&A.

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:

- COVID-19 pandemic related impacts. The Company's year-to-date 2020 financial results reflected an increase in revenue from the impact of COVID-19, primarily related to Loblaw. In addition, the Company incurred incremental COVID-19 related costs and investments in the second quarter of 2020;
- underlying operating performance of each of the Company's reportable operating segments;
- the impact of Loblaw's store closure plan; and
- the impact of certain adjusting items as set out in Section 8, "Non-GAAP Financial Measures", 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;
 - acquisition transaction costs and other related costs;
 - 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;
 - certain prior period items;
 - asset impairments, net of recoveries;
 - outside basis difference in certain Loblaw shares;
 - gain or loss on sale of non-operating properties; and
 - the change in foreign currency translation and other company level activities.

5. Internal Control Over Financial Reporting

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

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

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

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING There were no changes in the Company's internal control over financial reporting in the second quarter of 2020 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

6. Enterprise Risks and Risk Management

COVID-19 The duration and impact of the COVID-19 pandemic on each of the Company, Loblaw, Choice Properties and Weston Foods is unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company and its operating segments. The Company and each of the operating segments took decisive action in response to COVID-19, continue to closely monitor the situation as it evolves day-to-day, and may take further actions in response to directives of government and public health authorities or that are in the best interests of its employees, customers, tenants, suppliers or other stakeholders, as necessary.

Loblaw remains committed to keeping its grocery stores and pharmacies, including its Shoppers Drug Mart locations, open and restocked, all while ensuring appropriate measures are in place to protect the health and safety of its customers and frontline colleagues.

Choice Properties is actively supporting its tenants and employees through the process of reopening its properties, and ensuring they have the information required to reopen safely, in compliance with public health measures. Choice Properties is implementing additional safety measures at all of its properties, including increased frequency in cleaning and disinfecting as well as physical distancing practices. Choice Properties continues to prepare for a second and future waves of the pandemic as well as the implications of economic recovery and opening activities.

Management's Discussion and Analysis

Weston Foods continues to take action to mitigate the effects of COVID-19 on its day-to-day business operations. Weston Foods remains committed to delivering quality products to its foodservice and retail customers. The COVID-19 pandemic has created volatility in consumer demand for certain categories of products in both the retail and foodservice channels, which requires Weston Foods to carefully manage production planning and will, if required, result in temporary facility closures as a result.

Changes in operations in response to COVID-19 could materially impact financial results and may include temporary closures of facilities, tenants' ability to pay rent in full or at all, consumer demand for tenants' product or services, temporary or long-term stoppage of development projects, temporary or long-term labour shortages or disruptions, temporary or long-term impacts on supply chains and distribution channels, temporary or long-term restrictions on cross-border commerce and travel, greater currency volatility, and increased risks to IT systems, networks and digital services. Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long term, adversely impact operations and the financial performance of the Company and each of its operating segments.

The spread of COVID-19 has caused an economic slowdown and increased volatility in financial markets. Governments and central banks have responded with monetary and fiscal interventions intended to stabilize economic conditions. However, it is not currently known how these interventions will impact debt and equity markets or the economy over the long-term. Although the ultimate impact of COVID-19 on the global economy and its duration remains uncertain, disruptions caused by COVID-19 may adversely affect the performance of the Company.

Uncertain economic conditions resulting from the COVID-19 pandemic may, in the short or long-term, adversely impact demand for the Company's products and services and/or the debt and equity markets, both of which could adversely affect the Company's financial performance. Governmental interventions aimed at containing COVID-19 could also impact the Company's available workforce, its supply chain and distribution channels and/or its ability to engage in cross-border commerce, which could in turn adversely affect the operations or financial performance of the Company.

A detailed full set of risks inherent in the Company's business are included in the Company's Annual Information Form ("AIF") for the year ended December 31, 2019 and the MD&A included in the Company's 2019 Annual Report, which are hereby incorporated by reference. The Company's 2019 Annual Report and AIF are available at www.sedar.com.

7. COVID-19 Update⁽³⁾

General The COVID-19 pandemic continued to have a significant impact on the Company's operating segments, colleagues, customers, tenants and other stakeholders in the second quarter of 2020.

As disclosed previously, starting in March Loblaw ramped up investments in four areas: enhancing customer convenience by expanding online capabilities and increasing staffing in its stores; supporting colleagues in its stores and distribution centres with temporary pay premiums and pay protection safeguards; securing operations, with more in-store cleaning and in-store security, introducing new ways to shop stores to promote social distancing, and installing plexiglass barriers at check outs; and providing financial support to its communities and customers by pledging financial support to food banks and community charities and offering personalized solutions for *President's Choice Financial Mastercard*[®] customers who are experiencing financial hardship. These investments continued in the second quarter.

In the first quarter of 2020, Loblaw announced that the cost of the incremental investments were expected to be approximately \$90 million every 4 week period. The cost of these incremental investments was approximately \$282 million in the second quarter of 2020, exceeding the benefit from incremental sales volumes due to COVID-19. These costs include approximately \$180 million related to the temporary pay premium costs and included the one-time bonus for store and distribution centre colleagues of \$25 million which was announced on June 11, 2020. Loblaw continues to incur COVID-19 related costs to enhance the safety and security of its customers and colleagues. In the four weeks following the end of the second quarter, these costs were approximately \$19 million. Given the unprecedented nature of the pandemic and the variability in reopening plans across the country, it is expected that consumer behavior and the resulting impact on sales and gross margin mix will continue to be volatile. In the four weeks following the end of the second quarter, sales mix continued to evolve as restaurants began to reopen. Food retail same-store sales continued at elevated levels but have seen a modest tapering of growth rates, and drug retail same-store sales growth rates have improved, relative to the second quarter.

As one of Canada's largest landlords, Choice Properties has an important role to play in helping its tenants who have been negatively impacted by the pandemic. As disclosed previously, Choice Properties agreed to assist qualifying small businesses and independent tenants who requested rent relief with rent deferrals for 60 days, effective April 1, 2020. Choice Properties has further supported its tenants by participating in the Canada Emergency Commercial Rent Assistance ("CECRA") program, which provides a 75% rent abatement for qualifying small businesses for 4 months commencing April 1, 2020, of which one-third is funded by landlords and two-thirds by the federal government. Choice Properties has also been in discussions with its larger tenants on a case-by-case basis to determine rent payment solutions. Most of Choice Properties' leases require that rent be paid on the first day of each month. During the three month period ended June 30, 2020, Choice Properties collected 89% of the contractual rents which is at the higher end of collections within the industry and is primarily due to the stability of its necessity-based portfolio. In the second quarter of 2020, Choice Properties recorded a provision of \$14 million for certain past due

amounts reflecting increased collectability risk and potential abatements to be granted under the CECRA program. As of July 20, 2020, Choice Properties had received 93% of the contractual rents for July.

There have been delays in Choice Properties' development initiatives as a result of the pandemic. Despite these delays, Choice Properties remains confident that it will continue to add high-quality real estate to its portfolio at a reasonable cost in the medium to long term.

Weston Foods is focused on its important food manufacturing role in North America and ensuring a reliable supply of quality products to its customers. To further this objective, Weston Foods has been investing to support colleagues in its bakeries and distribution centres with temporary pay premiums and pay protection safeguards and by increasing health and safety measures at its facilities.

Weston Foods' sales were negatively impacted by COVID-19, primarily in certain retail categories and foodservice channels as a result of a change in retail sales merchandising practices and government mandated closures of non-essential businesses during the quarter. At the onset of the crisis, many food retailers temporarily closed in-store bakeries and bakery display cases which negatively impacted retail sales. Similarly, government mandated closures of non-essential businesses including restaurants and social distancing protocols negatively impacted foodservice sales. In addition, Weston Foods incurred approximately \$16 million in COVID-19 related costs during the quarter. As a result of changes in demand arising from retail merchandising practices and government mandated closures of non-essential businesses Weston Foods is managing its production planning carefully. In the four weeks following the end of the second quarter, sales excluding the impact of foreign currency translation were down approximately 5% compared to the same period in 2019 and COVID-19 related costs were approximately \$1 million. The pandemic has required Weston Foods to act swiftly to challenges, however, the business remains well positioned to respond to strong consumer demand for quality baked goods and to advance its growth plans in key categories.

In light of the uncertainty surrounding the duration and severity of the pandemic, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. As announced on April 9, 2020, the Company has withdrawn its 2020 Outlook that is contained in its MD&A for the year ended December 31, 2019.

Liquidity The Company and its operating segments maintain strong balance sheets and liquidity. As at the end of the second quarter of 2020, the liquidity position of the operating segments was as follows: Loblaw's consolidated cash and short-term investments balance was \$2.6 billion. The aggregate available liquidity at Loblaw was approximately \$4.6 billion including undrawn amounts under committed credit facilities. Subsequent to the end of the second quarter, Loblaw's liquidity was reduced by \$350 million due to the repayment of the 5.22% Medium Term Notes, Series 2-B, which were paid on June 18, 2020. Choice Properties had \$1.5 billion of available liquidity under its committed credit facility and no significant debt maturities for the remainder of the year. The Company (excluding Loblaw and Choice Properties) had cash and short-term investments of \$0.8 billion with no debt maturities in 2020.

Risk Factor For more information on the risks presented to the Company by the COVID-19 pandemic, see Section 6, "Enterprise Risks and Risk Management", of this MD&A.

8. Non-GAAP Financial Measures

The Company uses non-GAAP financial measures in this document, such as: 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, free cash flow and Choice Properties funds from operations, among others. 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 effective 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.

Further, certain non-GAAP measures of Loblaw and Choice Properties are included in this document. For more information on these measures, refer to the materials filed by Loblaw and Choice Properties, which are available on sedar.com or at loblaw.ca or choicereit.ca, respectively.

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.

Management's Discussion and Analysis

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.

(unaudited) (\$ millions)	12 Weeks Ended									
	Jun. 13, 2020					Jun. 15, 2019				
	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated
Net (loss) earnings attributable to shareholders of the Company					\$ (245)					\$ 194
Add impact of the following:										
Non-controlling interests					73					159
Income taxes					52					109
Net interest expense and other financing charges					521					308
Operating income (loss)	\$ 402	\$ (29)	\$ (49)	\$ 77	\$ 401	\$ 586	\$ 226	\$ 12	\$ (54)	\$ 770
Add impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 118	\$ -	\$ -	\$ -	\$ 118	\$ 116	\$ -	\$ -	\$ -	\$ 116
Fair value adjustment on investment properties	-	230	-	(137)	93	-	4	-	(4)	-
Restructuring and other related costs	17	-	19	-	36	16	-	4	-	20
Fair value adjustment of derivatives	(3)	-	3	-	-	4	-	-	-	4
Acquisition transaction costs and other related costs	-	-	-	-	-	-	2	-	-	2
Loblaw's spin-out of Choice Properties	-	-	-	-	-	-	-	-	1	1
Certain prior period items	-	-	-	-	-	(15)	-	-	-	(15)
Loss on sale of non-operating properties	-	-	-	-	-	2	-	-	-	2
Foreign currency translation and other company level activities	-	-	-	1	1	-	-	-	(3)	(3)
Adjusting items	\$ 132	\$ 230	\$ 22	\$ (136)	\$ 248	\$ 123	\$ 6	\$ 4	\$ (6)	\$ 127
Adjusted operating income (loss)	\$ 534	\$ 201	\$ (27)	\$ (59)	\$ 649	\$ 709	\$ 232	\$ 16	\$ (60)	\$ 897
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱ⁾	480	-	34	(76)	438	464	1	33	(82)	416
Adjusted EBITDA	\$ 1,014	\$ 201	\$ 7	\$ (135)	\$ 1,087	\$ 1,173	\$ 233	\$ 49	\$ (142)	\$ 1,313

- (i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$118 million (2019 - \$116 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$10 million (2019 - \$2 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

24 Weeks Ended

(unaudited) (\$ millions)	Jun. 13, 2020					Jun. 15, 2019				
	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated
Net earnings (loss) attributable to shareholders of the Company					\$ 347					\$ (284)
Add impact of the following:										
Non-controlling interests					224					265
Income taxes					165					195
Net interest expense and other financing charges					263					1,180
Operating income (loss)	\$ 941	\$ 48	\$ (48)	\$ 58	\$ 999	\$ 1,035	\$ 449	\$ 22	\$ (150)	\$ 1,356
Add impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 237	\$ -	\$ -	\$ -	\$ 237	\$ 235	\$ -	\$ -	\$ -	\$ 235
Fair value adjustment on investment properties	-	378	-	(183)	195	(3)	7	-	12	16
Restructuring and other related costs	36	-	35	-	71	28	-	6	-	34
Fair value adjustment of derivatives	12	-	4	-	16	2	-	2	-	4
Acquisition transaction costs and other related costs	-	2	-	-	2	-	6	-	-	6
Pension annuities and buy-outs	-	-	-	-	-	10	-	-	-	10
Loblaw's spin-out of Choice Properties	-	-	-	-	-	-	-	-	1	1
Certain prior period items	-	-	-	-	-	(15)	-	-	-	(15)
Gain on sale of non-operating properties	-	-	-	-	-	(6)	-	-	-	(6)
Foreign currency translation and other company level activities	-	(1)	-	2	1	-	-	-	(2)	(2)
Adjusting items	\$ 285	\$ 379	\$ 39	\$ (181)	\$ 522	\$ 251	\$ 13	\$ 8	\$ 11	\$ 283
Adjusted operating income (loss)	\$ 1,226	\$ 427	\$ (9)	\$ (123)	\$ 1,521	\$ 1,286	\$ 462	\$ 30	\$ (139)	\$ 1,639
Depreciation and amortization excluding the impact of the above adjustments ⁽ⁱ⁾	955	1	68	(154)	870	925	1	65	(159)	832
Adjusted EBITDA	\$ 2,181	\$ 428	\$ 59	\$ (277)	\$ 2,391	\$ 2,211	\$ 463	\$ 95	\$ (298)	\$ 2,471

- (i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$237 million (2019 - \$235 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$19 million (2019 - \$2 million) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

Management's Discussion and Analysis

The following items impacted operating income in the second quarters of 2020 and 2019:

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 \$500 million until 2024 and will decrease thereafter.

Fair value adjustment on investment properties The Company measures investment properties at fair value. 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.

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 of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. For details on the restructuring and other related costs incurred by each of the Company's operating segments see Section 2.1, "Loblaw Operating Results" and Section 2.3, "Weston Foods Operating Results", of this MD&A.

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.

Acquisition transaction costs and other related costs Choice Properties recorded transaction and other related costs in connection with the acquisition of Canadian Real Estate Investment Trust.

Pension annuities and buy-outs The Company has undertaken 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.

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

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.

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

(unaudited) (\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Net interest expense and other financing charges	\$ 521	\$ 308	\$ 263	\$ 1,180
Add: Fair value adjustment of the Trust Unit liability	(257)	(2)	247	(584)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	3	(41)	13	(84)
Choice Properties issuance costs	–	(14)	–	(14)
Adjusted net interest expense and other financing charges	\$ 267	\$ 251	\$ 523	\$ 498

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 second quarters of 2020 and 2019:

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 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.

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.

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

Management's Discussion and Analysis

ADJUSTED INCOME TAXES AND ADJUSTED EFFECTIVE TAX RATE The Company believes the adjusted effective 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 tax rate applicable to adjusted earnings before taxes to the GAAP effective tax rate applicable to earnings before taxes as reported for the periods ended as indicated.

(unaudited) (\$ millions except where otherwise indicated)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Adjusted operating income ⁽ⁱ⁾	\$ 649	\$ 897	\$ 1,521	\$ 1,639
Adjusted net interest expense and other financing charges ⁽ⁱ⁾	267	251	523	498
Adjusted earnings before taxes	\$ 382	\$ 646	\$ 998	\$ 1,141
Income taxes	\$ 52	\$ 109	\$ 165	\$ 195
Add: Tax impact of items excluded from adjusted earnings before taxes ⁽ⁱⁱ⁾	54	38	116	85
Outside basis difference in certain Loblaw shares	4	–	(10)	–
Statutory corporate income tax rate change	–	10	2	10
Remeasurement of deferred tax balances	–	15	–	15
Adjusted income taxes	\$ 110	\$ 172	\$ 273	\$ 305
Effective tax rate applicable to earnings before taxes	(43.3)%	23.6%	22.4%	110.8%
Adjusted effective tax rate applicable to adjusted earnings before taxes	28.8 %	26.6%	27.4%	26.7%

(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.

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 tax rate in the second quarters of 2020 and 2019:

Outside basis difference in certain Loblaw shares The Company recorded a deferred tax recovery of \$4 million in the second quarter of 2020 and deferred tax expense of \$10 million year-to-date on temporary differences in respect of GWL's investment in certain Loblaw shares that are expected to reverse in the foreseeable future as a result of GWL's participation in Loblaw's NCIB program.

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 first quarter of 2020, the Government of Nova Scotia substantively enacted a decrease in the provincial statutory corporate income tax rate from 16% to 14% effective April 1, 2020. The Company recorded income of \$2 million in the first quarter of 2020 related to the remeasurement of its deferred income tax balance.

In the second quarter of 2019, the Government of Alberta announced and 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 related to the remeasurement of its deferred income tax balances.

Remeasurement of deferred tax balances As a result of the completion of Choice Properties' offering of Trust Units in the second quarter of 2019, the Company recorded income of \$15 million related to certain deferred tax liabilities resulting from the dilution of its interest in Choice Properties.

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.

(unaudited) (\$ millions except where otherwise indicated)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Net (loss) earnings attributable to shareholders of the Company	\$ (245)	\$ 194	\$ 347	\$ (284)
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(20)	(20)
Net (loss) earnings available to common shareholders of the Company	\$ (255)	\$ 184	\$ 327	\$ (304)
Less: Reduction in net earnings due to dilution at Loblaw	–	(1)	(1)	(2)
Net (loss) earnings available to common shareholders for diluted earnings per share	\$ (255)	\$ 183	\$ 326	\$ (306)
Net (loss) earnings attributable to shareholders of the Company	\$ (245)	\$ 194	\$ 347	\$ (284)
Adjusting items (refer to the following table)	397	79	54	768
Adjusted net earnings attributable to shareholders of the Company	\$ 152	\$ 273	\$ 401	\$ 484
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)	(20)	(20)
Adjusted net earnings available to common shareholders of the Company	\$ 142	\$ 263	\$ 381	\$ 464
Less: Reduction in net earnings due to dilution at Loblaw	–	(1)	(1)	(2)
Adjusted net earnings available to common shareholders for diluted earnings per share	\$ 142	\$ 262	\$ 380	\$ 462
Diluted weighted average common shares outstanding (in millions)	153.4	153.7	153.6	153.6

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.

	12 Weeks Ended			
	Jun. 13, 2020		Jun. 15, 2019	
(unaudited) (\$ except where otherwise indicated)	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	\$ (255)	\$ (1.66)	\$ 184	\$ 1.19
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 45	\$ 0.29	\$ 44	\$ 0.28
Fair value adjustment on investment properties	78	0.51	1	0.02
Restructuring and other related costs	21	0.14	9	0.06
Fair value adjustment of derivatives	1	–	1	–
Acquisition transaction costs and other related costs	–	–	2	–
Loblaw's spin-out of Choice Properties	–	–	1	0.01
Certain prior period items	–	–	(6)	(0.04)
Loss on sale of non-operating properties	–	–	1	0.01
Fair value adjustment of the Trust Unit liability	257	1.68	2	0.01
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(2)	(0.01)	36	0.23
Choice Properties issuance costs	–	–	14	0.09
Outside basis difference in certain Loblaw shares	(4)	(0.03)	–	–
Statutory corporate income tax change	–	–	(8)	(0.05)
Remeasurement of deferred tax balances	–	–	(15)	(0.09)
Foreign currency translation and other company level activities	1	0.01	(3)	(0.02)
Adjusting items	\$ 397	\$ 2.59	\$ 79	\$ 0.51
Adjusted	\$ 142	\$ 0.93	\$ 263	\$ 1.70

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

	24 Weeks Ended			
	Jun. 13, 2020		Jun. 15, 2019	
(unaudited) (\$ except where otherwise indicated)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net (Loss) Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net (Loss) Earnings Per Common Share
As reported	\$ 327	\$ 2.12	\$ (304)	\$ (1.99)
Add (deduct) impact of the following ⁽ⁱ⁾ :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 91	\$ 0.59	\$ 88	\$ 0.57
Fair value adjustment on investment properties	163	1.07	16	0.11
Restructuring and other related costs	39	0.25	15	0.09
Fair value adjustment of derivatives	8	0.05	2	0.02
Acquisition transaction costs and other related costs	2	0.01	5	0.03
Pension annuities and buy-outs	–	–	4	0.03
Loblaw's spin-out of Choice Properties	–	–	1	0.01
Certain prior period items	–	–	(6)	(0.04)
Gain on sale of non-operating properties	–	–	(3)	(0.02)
Fair value adjustment of the Trust Unit liability	(247)	(1.61)	584	3.80
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(11)	(0.07)	73	0.48
Choice Properties issuance costs	–	–	14	0.09
Outside basis difference in certain Loblaw shares	10	0.07	–	–
Statutory corporate income tax change	(2)	(0.01)	(8)	(0.05)
Remeasurement of deferred tax balances	–	–	(15)	(0.10)
Foreign currency translation and other company level activities	1	–	(2)	(0.02)
Adjusting items	\$ 54	\$ 0.35	\$ 768	\$ 5.00
Adjusted	\$ 381	\$ 2.47	\$ 464	\$ 3.01

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

(unaudited) (\$ millions)	12 Weeks Ended			24 Weeks Ended		
	Jun. 13, 2020	Jun. 15, 2019 ^(a)	\$ Change	Jun. 13, 2020	Jun. 15, 2019 ^(a)	\$ Change
Cash flows from operating activities	\$ 1,008	\$ 1,097	\$ (89)	\$ 2,768	\$ 2,192	\$ 576
Less: Interest paid	165	152	13	419	418	1
Fixed asset and investment properties	173	213	(40)	365	357	8
Intangible asset additions	79	84	(5)	173	176	(3)
Lease payments, net	201	206	(5)	396	393	3
Free cash flow	\$ 390	\$ 442	\$ (52)	\$ 1,415	\$ 848	\$ 567

Management's Discussion and Analysis

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 its performance.

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

(unaudited) (\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Net (loss) income	\$ (96)	\$ 238	\$ 237	\$ (664)
Add (deduct) impact of the following:				
Fair value adjustment on Exchangeable Units	(70)	(149)	(456)	842
Unit distributions on Exchangeable Units	72	72	144	144
Fair value adjustment on investment properties	216	4	352	7
Amortization of intangible assets	1	–	1	–
Foreign exchange gain	–	–	(1)	–
Acquisition transaction costs and other related costs	–	2	2	6
Fair value adjustment on investment property held in equity accounted joint ventures	14	(1)	26	(10)
Internal expenses for leasing	2	2	4	4
Capitalized interest on equity accounted joint ventures	2	1	3	3
Income taxes	–	1	–	1
Fair value adjustment on unit-based compensation	–	–	(1)	7
Funds from Operations	\$ 141	\$ 170	\$ 311	\$ 340

9. Forward-Looking Statements

This Quarterly Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of IT systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 3, "Liquidity and Capital Resources", Section 7, "COVID-19 Update", and Section 8, "Non-GAAP Financial Measures", 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 2020 is based on certain assumptions, including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the "Enterprise Risks and Risk Management" section of the Company's 2019 Annual Report and the Company's AIF for the year ended December 31, 2019. Such risks and uncertainties include:

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of the Company, as well as on consumer behaviour and the economy in general;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to execute e-commerce initiatives or adapt the business model to the shifts in the retail landscape caused by digital advances;
- 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 and operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- adverse outcomes of legal and regulatory proceedings and related matters;
- failure by Choice Properties to realize the anticipated benefits associated with its strategic priorities and major initiatives, including failure to develop quality assets and effectively manage development, redevelopment, and renovation initiatives;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- 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;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- 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.

Management's Discussion and Analysis

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, 2019, as well as COVID-19 related risks as described in Section 6, "Enterprise Risks and Risk Management", of this MD&A. 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.

10. Additional Information

Additional information about the Company, has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at 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 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

July 27, 2020

Footnote Legend

- (1) See Section 8, "Non-GAAP Financial Measures", of the Company's 2020 Second Quarter Management's Discussion and Analysis.
 - (2) GWL Corporate refers to the non-consolidated financial results and metrics of GWL. GWL Corporate is a subset of Other and Intersegment.
 - (3) To be read in conjunction with Section 9, "Forward-Looking Statements", of the Company's 2020 Second Quarter Management's Discussion and Analysis.
 - (4) Comparative figures have been restated to conform with current year presentation.
-