

# Financial Results

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## Condensed Consolidated Statements of Earnings

(unaudited) (millions of Canadian dollars except where otherwise indicated)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
<b>Revenue</b>	\$ 12,357	\$ 11,603	\$ 24,690	\$ 22,776
<b>Operating Expenses</b>				
Cost of inventories sold (note 10)	8,485	7,873	16,877	15,491
Selling, general and administrative expenses	3,471	2,960	6,814	5,929
	11,956	10,833	23,691	21,420
<b>Operating Income</b>	401	770	999	1,356
Net Interest Expense and Other Financing Charges (note 5)	521	308	263	1,180
<b>(Loss) Earnings Before Income Taxes</b>	(120)	462	736	176
Income Taxes (note 6)	52	109	165	195
<b>Net (Loss) Earnings</b>	(172)	353	571	(19)
Attributable to:				
Shareholders of the Company (note 7)	(245)	194	347	(284)
Non-Controlling Interests	73	159	224	265
<b>Net (Loss) Earnings</b>	\$ (172)	\$ 353	\$ 571	\$ (19)
<b>Net (Loss) Earnings per Common Share (\$)</b> (note 7)				
Basic	\$ (1.66)	\$ 1.20	\$ 2.13	\$ (1.98)
Diluted	\$ (1.66)	\$ 1.19	\$ 2.12	\$ (1.99)

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

## Condensed Consolidated Statements of Comprehensive Income

(unaudited) (millions of Canadian dollars)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019 <sup>(i)</sup>	Jun. 13, 2020	Jun. 15, 2019 <sup>(i)</sup>
Net (loss) earnings	\$ (172)	\$ 353	\$ 571	\$ (19)
Other comprehensive (loss) income				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation adjustment (note 20)	(66)	(3)	47	(22)
Losses on cash flow hedges (note 20)	(21)	(2)	(48)	(11)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial (losses) gains (note 18)	(47)	19	(11)	(56)
Adjustment to fair value of investment properties	7	–	7	–
Other comprehensive (loss) income	(127)	14	(5)	(89)
<b>Comprehensive (Loss) Income</b>	(299)	367	566	(108)
Attributable to:				
Shareholders of the Company	(345)	201	366	(341)
Non-Controlling Interests	46	166	200	233
<b>Comprehensive (Loss) Income</b>	\$ (299)	\$ 367	\$ 566	\$ (108)

(i) Certain comparative figures have been restated to conform with current year presentation.  
See accompanying notes to the unaudited interim period condensed consolidated financial statements.

# Condensed Consolidated Balance Sheets

(unaudited) (millions of Canadian dollars)	As at		
	Jun. 13, 2020	Jun. 15, 2019 <sup>(i)</sup>	Dec. 31, 2019
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents (note 8)	\$ 2,861	\$ 1,913	\$ 1,834
Short-term investments (note 8)	547	223	229
Security deposits (note 8)	71	—	—
Accounts receivable	1,253	1,213	1,375
Credit card receivables (note 9)	2,834	3,243	3,518
Inventories (note 10)	4,873	4,792	5,270
Prepaid expenses and other assets	448	321	256
Assets held for sale (note 11)	109	91	203
<b>Total Current Assets</b>	<b>12,996</b>	<b>11,796</b>	<b>12,685</b>
Fixed Assets	11,642	11,559	11,773
Right-of-Use Assets	4,146	4,016	4,074
Investment Properties	4,733	4,815	4,888
Equity Accounted Joint Ventures	598	793	605
Intangible Assets	7,285	7,688	7,488
Goodwill	4,784	4,778	4,775
Deferred Income Taxes	219	306	250
Security Deposits (note 8)	77	78	76
Franchise Loans Receivable	—	49	19
Other Assets (note 12)	1,198	1,096	1,180
<b>Total Assets</b>	<b>\$ 47,678</b>	<b>\$ 46,974</b>	<b>\$ 47,813</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Bank indebtedness	\$ 133	\$ 89	\$ 18
Trade payables and other liabilities	5,501	5,241	5,906
Loyalty liability	215	232	191
Provisions	153	163	147
Income taxes payable	108	86	53
Short-term debt (note 13)	1,265	1,479	1,489
Long-term debt due within one year (note 14)	1,332	1,064	1,842
Lease liabilities due within one year	802	728	857
Associate interest	282	247	280
<b>Total Current Liabilities</b>	<b>9,791</b>	<b>9,329</b>	<b>10,783</b>
Provisions	95	98	90
Long-Term Debt (note 14)	13,678	13,752	12,712
Lease Liabilities	4,340	4,220	4,250
Trust Unit Liability (note 20)	3,359	3,607	3,601
Deferred Income Taxes	2,120	2,346	2,245
Other Liabilities (note 15)	952	561	957
<b>Total Liabilities</b>	<b>34,335</b>	<b>33,913</b>	<b>34,638</b>
<b>EQUITY</b>			
Share Capital (note 16)	3,622	3,599	3,626
Retained Earnings	4,913	4,415	4,766
Contributed Surplus (notes 17 & 19)	(1,023)	(836)	(979)
Accumulated Other Comprehensive Income	221	209	196
<b>Total Equity Attributable to Shareholders of the Company</b>	<b>7,733</b>	<b>7,387</b>	<b>7,609</b>
Non-Controlling Interests	5,610	5,674	5,566
<b>Total Equity</b>	<b>13,343</b>	<b>13,061</b>	<b>13,175</b>
<b>Total Liabilities and Equity</b>	<b>\$ 47,678</b>	<b>\$ 46,974</b>	<b>\$ 47,813</b>

(i) Certain comparative figures have been restated to conform with current year presentation. Contingent liabilities (note 21).

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

# Condensed Consolidated Statements of Changes in Equity

(unaudited) (millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital	Retained Earnings	Contributed Surplus	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to Fair Value on Transfer of Investment Properties	Total Accumulated Other Comprehensive Income	Non- Controlling Interests	Total Equity
Balance as at Dec. 31, 2019	\$ 2,809	\$ 817	\$ 3,626	\$ 4,766	\$ (979)	\$ 182	\$ (4)	\$ 18	\$ 196	\$ 5,566	\$ 13,175
Net earnings	-	-	-	347	-	-	-	-	-	224	571
Other comprehensive (loss) income <sup>(i)</sup>	-	-	-	(6)	-	46	(28)	7	25	(24)	(5)
Comprehensive income (loss)	\$ -	\$ -	\$ -	\$ 341	\$ -	\$ 46	\$ (28)	\$ 7	\$ 25	\$ 200	\$ 566
Effect of equity-based compensation (notes 16 & 19)	-	-	-	-	(4)	-	-	-	-	(4)	(8)
Net effect of shares held in trusts (notes 16 & 19)	(4)	-	(4)	(11)	-	-	-	-	-	-	(15)
Loblaw capital transactions and dividends (notes 17 & 19)	-	-	-	-	(40)	-	-	-	-	(152)	(192)
Dividends declared											
Per common share (\$)											
- \$1.050	-	-	-	(161)	-	-	-	-	-	-	(161)
Per preferred share (\$)											
- Series I - \$0.7250	-	-	-	(7)	-	-	-	-	-	-	(7)
- Series III - \$0.6500	-	-	-	(5)	-	-	-	-	-	-	(5)
- Series IV - \$0.6500	-	-	-	(5)	-	-	-	-	-	-	(5)
- Series V - \$0.593750	-	-	-	(5)	-	-	-	-	-	-	(5)
	\$ (4)	\$ -	\$ (4)	\$ (194)	\$ (44)	\$ -	\$ -	\$ -	\$ -	\$ (156)	\$ (398)
Balance as at Jun. 13, 2020	\$ 2,805	\$ 817	\$ 3,622	\$ 4,913	\$ (1,023)	\$ 228	\$ (32)	\$ 25	\$ 221	\$ 5,610	\$ 13,343

(unaudited) (millions of Canadian dollars except where otherwise indicated)	Common Shares	Preferred Shares	Total Share Capital <sup>(i)</sup>	Retained Earnings <sup>(i)</sup>	Contributed Surplus	Foreign Currency Translation Adjustment <sup>(i)</sup>	Cash Flow Hedges <sup>(i)</sup>	Adjustment to Fair Value on Transfer of Investment Properties	Total Accumulated Other Comprehensive Income	Non- Controlling Interests	Total Equity
Balance as at Dec. 31, 2018	\$ 2,766	\$ 817	\$ 3,583	\$ 5,017	\$ (799)	\$ 231	\$ -	\$ 8	\$ 239	\$ 6,164	\$ 14,204
Impact of adopting IFRS 16	-	-	-	(115)	-	-	-	-	-	(394)	(509)
Restated balance as at Jan. 1, 2019	\$ 2,766	\$ 817	\$ 3,583	\$ 4,902	\$ (799)	\$ 231	\$ -	\$ 8	\$ 239	\$ 5,770	\$ 13,695
Net (loss) earnings	-	-	-	(284)	-	-	-	-	-	265	(19)
Other comprehensive loss <sup>(ii)</sup>	-	-	-	(27)	-	(22)	(8)	-	(30)	(32)	(89)
Comprehensive (loss) income	\$ -	\$ -	\$ -	\$ (311)	\$ -	\$ (22)	\$ (8)	\$ -	\$ (30)	\$ 233	\$ (108)
Effect of equity-based compensation (notes 16 & 19)	16	-	16	-	(15)	-	-	-	-	(8)	(7)
Net effect of shares held in trusts (notes 16 & 19)	-	-	-	5	-	-	-	-	-	-	5
Loblaw capital transactions and dividends (notes 17 & 19)	-	-	-	-	(22)	-	-	-	-	(321)	(343)
Dividends declared											
Per common share (\$)											
- \$1.040	-	-	-	(159)	-	-	-	-	-	-	(159)
Per preferred share (\$)											
- Series I - \$0.7250	-	-	-	(7)	-	-	-	-	-	-	(7)
- Series III - \$0.6500	-	-	-	(5)	-	-	-	-	-	-	(5)
- Series IV - \$0.6500	-	-	-	(5)	-	-	-	-	-	-	(5)
- Series V - \$0.593750	-	-	-	(5)	-	-	-	-	-	-	(5)
	\$ 16	\$ -	\$ 16	\$ (176)	\$ (37)	\$ -	\$ -	\$ -	\$ -	\$ (329)	\$ (526)
Balance as at Jun. 15, 2019	\$ 2,782	\$ 817	\$ 3,599	\$ 4,415	\$ (836)	\$ 209	\$ (8)	\$ 8	\$ 209	\$ 5,674	\$ 13,061

(i) Certain comparative figures have been restated to conform with current year presentation.

(ii) Other comprehensive (loss) income includes actuarial losses of \$11 million (2019 - \$56 million), \$6 million (2019 - \$27 million) of which is presented above in retained earnings and \$5 million (2019 - \$29 million) in non-controlling interests. Also included in non-controlling interests is foreign currency translation gains of \$1 million (2019 - nil) and unrealized losses on cash flow hedges of \$20 million (2019 - \$3 million).

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

# Condensed Consolidated Statements of Cash Flows

(unaudited) (millions of Canadian dollars)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019 <sup>(i)</sup>	Jun. 13, 2020	Jun. 15, 2019 <sup>(i)</sup>
<b>Operating Activities</b>				
Net (loss) earnings	\$ (172)	\$ 353	\$ 571	\$ (19)
Add (deduct):				
Net interest expense and other financing charges (note 5)	521	308	263	1,180
Income taxes (note 6)	52	109	165	195
Depreciation and amortization	566	534	1,126	1,069
Asset impairments, net of recoveries	8	1	14	3
Adjustment to fair value of investment properties	93	–	195	16
Foreign currency translation loss (note 20)	–	–	–	1
Change in provisions	10	(26)	13	(35)
	<b>1,078</b>	<b>1,279</b>	<b>2,347</b>	<b>2,410</b>
Change in credit card receivables (note 9)	414	(192)	684	66
Change in non-cash working capital	(427)	140	(144)	23
Income taxes paid	(112)	(124)	(197)	(316)
Interest received	5	8	13	16
Interest received from finance leases	2	1	2	2
Other	48	(15)	63	(9)
<b>Cash Flows from Operating Activities</b>	<b>1,008</b>	<b>1,097</b>	<b>2,768</b>	<b>2,192</b>
<b>Investing Activities</b>				
Fixed asset and investment properties purchases	(143)	(213)	(315)	(357)
Intangible asset additions	(79)	(84)	(173)	(176)
Cash assumed on initial consolidation of franchises (note 4)	–	2	14	9
Proceeds from disposal of assets	35	15	146	39
Lease payments received from finance leases	1	1	4	4
Change in short-term investments (note 8)	(198)	122	(317)	55
Change in security deposits (note 8)	(71)	12	(71)	7
Other	(66)	(71)	(99)	(108)
<b>Cash Flows used in Investing Activities</b>	<b>(521)</b>	<b>(216)</b>	<b>(811)</b>	<b>(527)</b>
<b>Financing Activities</b>				
Change in bank indebtedness	50	(41)	115	33
Change in short-term debt	38	187	(224)	(100)
Change in other financing (note 15)	1	–	3	–
Interest paid	(165)	(152)	(419)	(418)
Long-term debt – Issued (note 14)	937	737	1,921	872
– Repayments (note 14)	(880)	(794)	(1,448)	(842)
Cash rent paid on lease liabilities – Interest	(51)	(49)	(99)	(99)
Cash rent paid on lease liabilities – Principal	(151)	(158)	(301)	(298)
Share capital – Issued (notes 16 & 19)	–	4	–	14
– Purchased and held in trusts (note 16)	–	–	(21)	(5)
Loblaw common share capital – Issued (notes 17 & 19)	3	26	24	55
– Purchased and held in trusts (note 17)	–	–	(10)	(20)
– Purchased and cancelled (note 17)	–	(250)	(96)	(465)
Choice Properties units – Issued	–	345	–	345
– Issuance Costs	–	(14)	–	(14)
Dividends – To common shareholders	(80)	(79)	(161)	(158)
– To preferred shareholders	(11)	(11)	(22)	(22)
– To non-controlling interests	(57)	(53)	(114)	(111)
Other	(39)	(15)	(79)	(40)
<b>Cash Flows used in Financing Activities</b>	<b>(405)</b>	<b>(317)</b>	<b>(931)</b>	<b>(1,273)</b>
Effect of foreign currency exchange rate changes on cash and cash equivalents	(5)	–	1	–
Change in Cash and Cash Equivalents	77	564	1,027	392
Cash and Cash Equivalents, Beginning of Period	2,784	1,349	1,834	1,521
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 2,861</b>	<b>\$ 1,913</b>	<b>\$ 2,861</b>	<b>\$ 1,913</b>

(i) Certain comparative figures have been restated to conform with current year presentation. See accompanying notes to the unaudited interim period condensed consolidated financial statements.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## Note 1. Nature and Description of the Reporting Entity

George Weston Limited ("GWL" or the "Company") is a Canadian public company incorporated in 1928, with its registered office located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S5. The Company's parent is Wittington Investments, Limited ("Wittington").

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 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.

Quarterly net earnings are affected by 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, selling, general and administrative expenses ("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.

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

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company's 2019 audited annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements.

These unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

**STATEMENT OF COMPLIANCE** These unaudited interim period condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board. These unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company's 2019 audited annual consolidated financial statements and accompanying notes.

These unaudited interim period condensed consolidated financial statements were approved for issuance by the Company's Board of Directors on July 27, 2020.

### Note 3. Subsidiaries

The table below summarizes the Company's principal subsidiaries. The proportion of ownership interests held equals the voting rights held by the Company. GWL's ownership in Loblaw and Choice Properties is impacted by changes in Loblaw's common share equity and Choice Properties' trust units, respectively.

		Jun. 13, 2020		As at Jun. 15, 2019		Dec. 31, 2019	
		Number of shares / units held	Ownership interest	Number of shares / units held	Ownership interest	Number of shares / units held	Ownership interest
<b>Loblaw</b>	Common shares <sup>(i)</sup>	<b>186,460,059</b>	<b>52.1%</b>	187,815,136	51.3%	187,815,136	52.2%
	Class B LP Units <sup>(ii)</sup>	<b>389,961,783</b>	n/a	389,961,783	n/a	389,961,783	n/a
	Trust Units	<b>50,661,415</b>	n/a	50,661,415	n/a	50,661,415	n/a
<b>Choice Properties</b>		<b>440,623,198</b>	<b>62.9%</b>	440,623,198	63.0%	440,623,198	62.9%

- (i) Includes 9.6 million Loblaw common shares pledged under the equity forward sale agreement (see note 20). Additionally, commencing in the first quarter of 2020, GWL participated in Loblaw's Normal Course Issuer Bid ("NCIB") program, in order to maintain its proportionate percentage ownership (see note 17).
- (ii) Class B LP Units ("Exchangeable Units") are economically equivalent to Trust Units, receive distributions equal to the distributions paid on Trust Units and are exchangeable, at the holder's option, into Trust Units.

### Note 4. Business Acquisitions

**CONSOLIDATION OF FRANCHISES** Loblaw accounts for the consolidation of existing franchises as business acquisitions and consolidates its franchises as of the date the franchisee enters into a simplified franchise agreement with Loblaw. The assets acquired and liabilities assumed through the consolidation are valued at the acquisition date using fair values, which approximate the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises were included in Loblaw's results of operations from the date of acquisition.

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

(\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Net assets acquired:				
Cash and cash equivalents	\$ -	\$ 2	\$ 14	\$ 9
Inventories	-	11	42	24
Fixed assets	-	15	44	27
Trade payables and other liabilities <sup>(i)</sup>	-	(13)	(54)	(24)
Other liabilities <sup>(i)</sup>	-	(15)	(30)	(30)
Non-controlling interests	-	-	(16)	(6)
Total net assets acquired	\$ -	\$ -	\$ -	\$ -

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

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## Note 5. Net Interest Expense and Other Financing Charges

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

(\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Interest expense:				
Long-term debt	\$ 163	\$ 153	\$ 313	\$ 311
Lease liabilities	51	49	99	99
Borrowings related to credit card receivables	8	10	20	17
Trust Unit distributions	48	46	96	89
Choice Properties issuance costs	—	14	—	14
Independent funding trusts	3	4	8	9
Post-employment and other long-term employee benefits (note 18)	1	2	4	4
Bank indebtedness	—	3	1	4
Financial liabilities (note 15)	6	—	13	—
Capitalized interest	—	(1)	(1)	(3)
	\$ 280	\$ 280	\$ 553	\$ 544
Interest income:				
Accretion income	\$ (2)	\$ (1)	\$ (3)	\$ (2)
Short-term interest income	(5)	(7)	(14)	(17)
	\$ (7)	\$ (8)	\$ (17)	\$ (19)
Forward sale agreement <sup>(i)</sup>	(9)	\$ 34	(26)	\$ 71
Fair value adjustment of the Trust Unit liability (note 20)	257	2	(247)	584
Net interest expense and other financing charges	\$ 521	\$ 308	\$ 263	\$ 1,180

- (i) Included in the second quarter of 2020 and year-to-date is income of \$3 million (2019 – charge of \$41 million) and income of \$13 million (2019 – charge of \$84 million) related to the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares (see note 20). The fair value adjustment of the forward sale agreement is non-cash and results from changes in the value of the underlying Loblaw common shares. At maturity, any cash paid under the forward sale agreement could be offset by the sale of the underlying Loblaw common shares. Also included in the second quarter of 2020 and year-to-date is forward accretion income of \$11 million (2019 – \$11 million) and \$23 million (2019 – \$23 million) respectively, and the forward fee of \$5 million (2019 – \$4 million) and \$10 million (2019 – \$10 million), respectively, associated with the forward sale agreement.

## Note 6. Income Taxes

In the second quarter of 2020, income tax expense was \$52 million (2019 – \$109 million) and the effective tax rate was (43.3)% (2019 – 23.6%). The decrease in the effective tax rate 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.

On a year-to-date basis, income tax expense was \$165 million (2019 – \$195 million) and the effective tax rate was 22.4% (2019 – 110.8%). The decrease in the effective tax rate 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 participation in Loblaw's NCIB program and the remeasurement of certain deferred tax balances in 2019.

During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron Bank Limited ("Glenhuron") case in favour of Loblaw, reversing the decision of the Tax Court of Canada ("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 (see note 21).

## Note 7. Basic and Diluted Net (Loss) Earnings per Common Share

(\$ 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)
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)
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)
Weighted average common shares outstanding (in millions) (note 16)	153.4	153.5	153.5	153.4
Dilutive effect of equity-based compensation <sup>(i)</sup> (in millions)	–	0.2	0.1	0.2
Diluted weighted average common shares outstanding (in millions)	153.4	153.7	153.6	153.6
Basic net (loss) earnings per common share (\$)	\$ (1.66)	\$ 1.20	\$ 2.13	\$ (1.98)
Diluted net (loss) earnings per common share (\$)	\$ (1.66)	\$ 1.19	\$ 2.12	\$ (1.99)

(i) In the second quarter of 2020 and year-to-date, 2,060,743 (2019 – 1,203,062) and 1,148,238 (2019 – 1,296,077) potentially dilutive instruments, respectively, were excluded from the computation of diluted net earnings (loss) per common share as they were anti-dilutive.

## Note 8. Cash and Cash Equivalents, Short-Term Investments and Security Deposits

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

### CASH AND CASH EQUIVALENTS

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Cash	\$ 888	\$ 710	\$ 775
Cash equivalents:			
Bankers' acceptances	1,253	557	557
Government treasury bills	719	505	262
Corporate commercial paper	1	141	240
Cash and cash equivalents	\$ 2,861	\$ 1,913	\$ 1,834

### SHORT-TERM INVESTMENTS

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Bankers' acceptances	\$ 139	\$ 52	\$ 32
Government treasury bills	351	164	61
Corporate commercial paper	57	7	136
Short-term investments	\$ 547	\$ 223	\$ 229

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## SECURITY DEPOSITS

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Cash	\$ 45	\$ 46	\$ 46
Government treasury bills	103	32	30
Total security deposits	\$ 148	\$ 78	\$ 76
Current portion	(71)	–	–
Security deposits	\$ 77	\$ 78	\$ 76

**Security Deposits** A repayment accumulation process has been triggered during the second quarter of 2020 due to the upcoming maturity of the *Eagle Credit Card Trust*<sup>®</sup> (“*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.

## Note 9. Credit Card Receivables

The components of credit card receivables were as follows:

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019 <sup>(i)</sup>	Dec. 31, 2019
Gross credit card receivables	\$ 3,084	\$ 3,418	\$ 3,714
Allowance for credit card receivables	(250)	(175)	(196)
Credit card receivables	\$ 2,834	\$ 3,243	\$ 3,518
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> <sup>®</sup> (note 14)	\$ 1,000	\$ 750	\$ 1,000
Securitized to Other Independent Securitization Trusts (note 13)	525	790	775
Total securitized to independent securitization trusts	\$ 1,525	\$ 1,540	\$ 1,775

(i) Certain comparative figures have been restated to conform with current year presentation.

Loblaw, through President’s Choice Bank (“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.

On a year-to-date basis in 2020, PC Bank recorded a \$250 million net decrease of co-ownership interest in the securitized receivables held with the Other Independent Securitization Trusts as a result of a decline in the volume of credit card receivables.

As at the end of the second quarter of 2020, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was \$47 million (June 15, 2019 – \$71 million; December 31, 2019 – \$70 million), which represented 9% (June 15, 2019 – 9%; December 31, 2019 – 10%) of the securitized credit card receivables amount.

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.

## Note 10. Inventories

The components of inventories were as follows:

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Raw materials and supplies	\$ 79	\$ 70	\$ 70
Finished goods	4,794	4,722	5,200
Inventories	\$ 4,873	\$ 4,792	\$ 5,270

As at the end of the second quarter of 2020, Loblaw recorded an inventory provision of \$35 million (June 15, 2019 – \$31 million; December 31, 2019 – \$33 million), for the write-down of inventories below cost to net realizable value. The write-down was included in cost of inventories sold. There were no reversals of previously recorded write-downs of inventories during the first half of 2020 and 2019.

## Note 11. Assets Held for Sale

Loblaw classifies certain assets, primarily land and buildings, that it intends to dispose of in the next 12 months, as assets held for sale. These assets were previously used in Loblaw's retail business segment. In the second quarter of 2020, Loblaw recorded a nominal gain (2019 – loss of \$2 million) from the sale of these assets. On a year-to-date basis, Loblaw recorded a nominal loss (2019 – net gain of \$6 million) from the sale of these assets. No impairment charges were recognized on these properties in the first half of 2020 (2019 – nil).

## Note 12. Other Assets

The components of other assets were as follows:

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Fair value of equity forward (note 20)	\$ 573	\$ 495	\$ 537
Sundry investments and other receivables	50	81	43
Net accrued benefit plan asset (note 18)	216	203	249
Finance lease receivable	62	65	73
Mortgages, loans and notes receivable	227	208	188
Other	193	176	177
Total Other Assets	\$ 1,321	\$ 1,228	\$ 1,267
Current portion of mortgages, loans and notes receivable <sup>(i)</sup>	(123)	(132)	(87)
Other Assets	\$ 1,198	\$ 1,096	\$ 1,180

(i) Current portion of mortgages, loans and note receivable are included in prepaid expenses and other assets in the condensed consolidated balance sheets.

## Note 13. Short-Term Debt

The components of short-term debt were as follows:

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Other Independent Securitization Trusts (note 9)	\$ 525	\$ 790	\$ 775
Series B Debentures <sup>(i)</sup>	740	689	714
Short-term debt	\$ 1,265	\$ 1,479	\$ 1,489

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

**OTHER INDEPENDENT SECURITIZATION TRUSTS** The outstanding short-term debt balances relate to credit card receivables securitized to the Other Independent Securitization Trusts with recourse (see note 9).

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## Note 14. Long-Term Debt

The components of long-term debt were as follows:

(\$ millions)	Jun. 13, 2020	As at	
		Jun. 15, 2019	Dec. 31, 2019
Debentures	\$ 10,845	\$ 10,677	\$ 10,387
Choice Properties unsecured term loan facilities	–	400	–
Long-term debt secured by mortgage	1,227	1,236	1,231
Construction loans	25	24	25
Guaranteed Investment Certificates	1,452	1,225	1,311
Independent Securitization Trusts (note 9)	1,000	750	1,000
Independent funding trusts	490	526	505
Committed credit facilities	12	16	132
Transaction costs and other	(41)	(38)	(37)
Total long-term debt	\$ 15,010	\$ 14,816	\$ 14,554
Long-term debt due within one year	(1,332)	(1,064)	(1,842)
Long-term debt	\$ 13,678	\$ 13,752	\$ 12,712

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 the financial covenants.

**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.

**GUARANTEED INVESTMENT CERTIFICATES ("GICs")** The following table summarizes PC Bank's GIC activity, before commissions, for the periods ended as follows:

(\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Balance, beginning of period	\$ 1,324	\$ 1,121	\$ 1,311	\$ 1,141
GICs issued	266	181	286	184
GICs matured	(138)	(77)	(145)	(100)
Balance, end of period	\$ 1,452	\$ 1,225	\$ 1,452	\$ 1,225

**INDEPENDENT FUNDING TRUSTS** Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts in the amount of \$64 million (June 15, 2019 and December 31, 2019 - \$64 million), 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.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

(\$ millions)	Maturity Date	Jun. 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
<b>Total committed credit facilities</b>		<b>\$ 2,500</b>	<b>\$ 12</b>	<b>\$ 2,500</b>	<b>\$ 16</b>	<b>\$ 2,500</b>	<b>\$ 132</b>

**LONG-TERM DEBT DUE WITHIN ONE YEAR** The components of long-term debt due within one year were as follows:

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Debentures	\$ 346	\$ 600	\$ 897
GICs	640	324	527
Independent Securitization Trusts	250	–	250
Long-term debt secured by mortgage	71	116	156
Construction Loans	25	24	12
<b>Long-term debt due within one year</b>	<b>\$ 1,332</b>	<b>\$ 1,064</b>	<b>\$ 1,842</b>

**RECONCILIATION OF LONG-TERM DEBT** The following table reconciles the changes in cash flows from financing activities for long-term debt for the periods ended as indicated:

(\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Total long-term debt, beginning of period	\$ 14,944	\$ 14,871	\$ 14,554	\$ 15,318
Reclassification of finance lease obligations due to IFRS 16	–	–	–	(535)
Restated balance, beginning of period	14,944	14,871	14,554	14,783
Long-term debt issuances <sup>(i)</sup>	937	737	1,921	872
Long-term debt repayments	(880)	(794)	(1,448)	(842)
Total cash flow from long-term debt financing activities	57	(57)	473	30
Other non-cash changes	9	2	(17)	3
<b>Total long-term debt, end of period</b>	<b>\$ 15,010</b>	<b>\$ 14,816</b>	<b>\$ 15,010</b>	<b>\$ 14,816</b>

(i) Includes net movements from the independent funding trusts, which are revolving debt instruments.

## Note 15. Other Liabilities

The components of other liabilities were as follows:

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Financial liabilities <sup>(i)</sup>	\$ 428	\$ –	\$ 431
Net defined benefit plan obligation (note 18)	367	397	375
Other long-term employee benefit obligation	130	112	128
Equity-based compensation liability (note 19)	5	14	7
Other	22	38	16
Other liabilities	\$ 952	\$ 561	\$ 957

- (i) In 2019, Choice Properties sold 31 properties to third-parties consisting of Loblaw stand-alone retail properties and Loblaw distribution centres. On consolidation, the proceeds from the transactions were recognized as financial liabilities and as at June 13, 2020, \$4 million (June 15, 2019 – nil; December 31, 2019 – \$4 million) was recorded in trade payables and other liabilities and \$428 million (June 15, 2019 – nil; December 31, 2019 – \$431 million) was recorded in other liabilities.

## Note 16. 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 <sup>(i)</sup>	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital <sup>(i)</sup>
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 (note 19)	–	–	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 (note 19)	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 (note 7)	153,409,403		153,462,096		153,489,551		153,370,552	

- (i) Certain comparative figures have been restated to conform with current year presentation.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

**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 <sup>(i)</sup>
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

(i) Certain comparative figures have been restated to conform with current year presentation.

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 <sup>(i)</sup> :				
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.

## Note 17. Loblaw Capital Transactions

**LOBLAW PREFERRED SHARES** As at the end of the second quarter of 2020, the Second Preferred Shares, Series B in the amount of \$221 million net of \$4 million of after-tax issuance costs, and related cash dividends, were presented as a component of non-controlling interests in the Company's condensed consolidated balance sheet. In the second quarter of 2020 and year-to-date, Loblaw declared dividends of \$3 million (2019 – \$3 million) and \$6 million (2019 – \$6 million), respectively, related to the Second Preferred Shares, Series B.

**LOBLAW COMMON SHARES** The following table summarizes Loblaw's common share activity under its equity-based compensation arrangements and NCIB program, and includes the impact on the Company's unaudited interim period condensed consolidated financial statements 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
Issued (number of shares)	90,246	640,699	893,840	1,795,669
Purchased and held in trusts (number of shares)	–	–	(145,000)	(300,000)
Purchased and cancelled (number of shares)	–	(3,611,170)	(2,757,577)	(7,006,927)
	90,246	(2,970,471)	(2,008,737)	(5,511,258)
Cash consideration received (paid)				
Equity-based compensation	\$ 3	\$ 26	\$ 24	\$ 55
Purchased and held in trusts	–	–	(10)	(20)
Purchased and cancelled	–	(250)	(188)	(465)
	\$ 3	\$ (224)	\$ (174)	\$ (430)
Increase (decrease) in contributed surplus				
Equity-based compensation	\$ 1	\$ 8	\$ 12	\$ 19
Purchased and held in trusts	–	–	(3)	(5)
Purchased and cancelled	–	(72)	(49)	(36)
	\$ 1	\$ (64)	\$ (40)	\$ (22)

**NORMAL COURSE ISSUER BID** In the first quarter of 2020, the TSX accepted an amendment to Loblaw's NCIB. The amendment permitted Loblaw to purchase its common shares from GWL under Loblaw's NCIB, pursuant to an automatic disposition plan agreement among Loblaw's Broker, Loblaw and GWL, in order for GWL to maintain its proportionate ownership interest in Loblaw. As of June 13, 2020, 1,355,077 Loblaw common shares were purchased from GWL under the Loblaw NCIB for cancellation, for aggregate cash consideration of \$92 million.

In the second quarter of 2020, Loblaw renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 of Loblaw's common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, Loblaw may purchase its common shares from time to time at the then market price of such shares. As of June 13, 2020, Loblaw had not purchased any common shares for cancellation under its current NCIB.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## Note 18. Post-Employment and Other Long-Term Employee Benefits

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

(\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Post-employment benefit costs recognized in operating income <sup>(i)</sup>	\$ 43	\$ 36	\$ 83	\$ 89
Other long-term employee benefit costs recognized in operating income <sup>(ii)</sup>	8	9	16	14
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 5)	1	2	4	4
Actuarial (losses) gains before income taxes recognized in other comprehensive income	(65)	27	(16)	(76)

(i) Includes costs related to the Company's defined benefit plans, defined contribution pension plans and the multi-employer pension plans in which it participates. Also includes settlement charges in the year-to-date of 2019 of \$10 million.

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

The actuarial losses recognized in the second quarter and year-to-date of 2020 were primarily driven by a decrease in discount rates, partially offset by higher than expected returns on assets. The actuarial gains recognized in the second quarter of 2019 were primarily driven by higher than expected return on assets, partially offset by decline in discount rates. The actuarial losses recognized in the year-to-date of 2019 were primarily driven by a decrease in discount rates.

During the first half of 2019, Loblaw completed several annuity purchases and paid \$187 million from the impacted plans' assets to settle \$177 million of pension obligations and recorded settlement charges of \$10 million in SG&A. There were no annuity purchases during the first half of 2020.

## Note 19. Equity-Based Compensation

The Company's equity-based compensation arrangements include stock option plans, RSU plans, PSU plans, DSU plans, EDSU plans and Choice Properties' unit-based compensation plans. The Company's costs recognized in SG&A related to its equity-based compensation arrangements for the second quarter of 2020 and year-to-date were \$16 million (2019 - \$13 million) and \$30 million (2019 - \$35 million), respectively.

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

(\$ millions)	As at		
	Jun. 13, 2020	Jun. 15, 2019	Dec. 31, 2019
Trade payables and other liabilities	\$ 8	\$ 2	\$ 8
Other liabilities (note 15)	\$ 5	\$ 14	\$ 7
Contributed surplus	\$ 109	\$ 108	\$ 113

Details related to certain equity-based compensation plans of GWL and Loblaw are as follows:

**STOCK OPTION PLANS** The following is a summary of GWL's stock option plan activity:

	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Outstanding options, beginning of period	1,792,773	1,739,847	1,246,718	1,548,044
Granted	–	–	548,868	427,523
Exercised	–	(47,906)	(2,813)	(200,405)
Forfeited/cancelled	(16,202)	(34,315)	(16,202)	(37,279)
Expired	–	–	–	(80,257)
Outstanding options, end of period	1,776,571	1,657,626	1,776,571	1,657,626

There were no stock options exercised in the second quarter of 2020. In the second quarter of 2019, GWL issued common shares on the exercise of stock options with a weighted average market share price of \$100.66 per common share and received \$4 million of cash consideration. In the year-to-date of 2020, GWL issued common shares on the exercise of stock options with a weighted average market share price of \$89.60 (2019 - \$95.10), and received nominal cash consideration (2019 - \$14 million).

There were no stock options granted during the second quarter of 2020 and 2019.

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at the end of the second quarter of 2020 was 0.8% (2019 - 0.8%).

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

	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Outstanding options, beginning of period	7,648,714	8,205,716	6,317,922	7,509,631
Granted	12,690	78,438	1,815,577	1,540,321
Exercised	(59,711)	(619,566)	(479,007)	(1,316,397)
Forfeited/cancelled	(43,439)	(240,178)	(96,238)	(309,145)
Outstanding options, end of period	7,558,254	7,424,410	7,558,254	7,424,410

During the second quarter of 2020, Loblaw issued common shares on the exercise of stock options with a weighted average market share price of \$68.33 (2019 - \$69.49) per common share and received cash consideration of \$3 million (2019 - \$26 million). In the year-to-date of 2020, Loblaw issued common shares on the exercise of stock options with a weighted average market share price of \$68.04 (2019 - \$67.74) per common share and received cash consideration of \$24 million (2019 - \$55 million).

## Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

During the second quarter of 2020, Loblaw granted stock options with a weighted average exercise price of \$69.14 (2019 – \$67.22) per common share and a nominal fair value (2019 – \$1 million). In the year-to-date of 2020, Loblaw granted stock options with a weighted average exercise price of \$70.05 (2019 – \$65.64) per common share and a \$13 million fair value (2019 – \$12 million). The assumptions used to measure the grant date fair value of the Loblaw options granted during the periods ended as indicated under the Black-Scholes stock option valuation model were as follows:

	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Expected dividend yield	1.8%	1.9%	1.8%	1.8%
Expected share price volatility	18.4% - 19.4%	14.7% - 15.3%	13.5% - 19.4%	14.7% - 15.7%
Risk-free interest rate	0.3% - 0.4%	1.6%	0.3% - 1.2%	1.6% - 1.8%
Expected life of options	3.7 - 6.2 years			

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at the end of the second quarter of 2020 was 8.0% (2019 – 9.0%).

**RESTRICTED SHARE UNIT PLANS** The following is a summary of GWL's RSU plan activity:

(Number of awards)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Outstanding RSUs, beginning of period	129,197	143,891	136,788	166,034
Granted	1,127	5,070	37,728	34,293
Reinvested	694	735	1,374	1,386
Settled	(2,057)	(3,748)	(44,596)	(49,377)
Forfeited	(675)	(3,034)	(3,008)	(9,422)
Outstanding RSUs, end of period	128,286	142,914	128,286	142,914

During the second quarter of 2020, the fair value of GWL's RSUs granted was nominal (2019 – nominal). In the year-to-date of 2020, the fair value of GWL's RSUs was \$4 million (2019 – \$3 million).

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

(Number of awards)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Outstanding RSUs, beginning of period	1,050,032	1,046,883	1,032,832	1,024,275
Granted	1,774	54,743	232,784	305,372
Reinvested	4,838	4,506	9,668	8,221
Settled	(26,422)	(16,680)	(233,506)	(240,151)
Forfeited	(5,704)	(65,066)	(17,260)	(73,331)
Outstanding RSUs, end of period	1,024,518	1,024,386	1,024,518	1,024,386

During the second quarter of 2020, the fair value of Loblaw's RSUs granted was nominal (2019 – \$4 million). In the year-to-date of 2020, the fair value of Loblaw's RSUs was \$16 million (2019 – \$20 million).

**PERFORMANCE SHARE UNIT PLANS** The following is a summary of GWL's PSU plan activity:

(Number of awards)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Outstanding PSUs, beginning of period	<b>153,478</b>	116,280	<b>114,473</b>	89,656
Granted	–	–	<b>58,555</b>	69,951
Reinvested	<b>824</b>	629	<b>1,404</b>	940
Settled	<b>(170)</b>	(1,079)	<b>(18,684)</b>	(39,826)
Forfeited	<b>(1,763)</b>	(1,627)	<b>(3,379)</b>	(6,518)
Outstanding PSUs, end of period	<b>152,369</b>	114,203	<b>152,369</b>	114,203

There were no PSUs granted in the second quarter of 2020 and 2019. In the year-to-date of 2020, the fair value of GWL's PSUs granted were \$6 million (2019 – \$6 million).

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

(Number of awards)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Outstanding PSUs, beginning of period	<b>701,166</b>	688,568	<b>662,695</b>	674,945
Granted	<b>5,390</b>	11,151	<b>231,626</b>	251,191
Reinvested	<b>3,239</b>	3,068	<b>6,318</b>	5,377
Settled	<b>(4,113)</b>	(4,453)	<b>(181,327)</b>	(227,919)
Forfeited	<b>(1,037)</b>	(32,707)	<b>(14,667)</b>	(37,967)
Outstanding PSUs, end of period	<b>704,645</b>	665,627	<b>704,645</b>	665,627

During the second quarter of 2020, the fair value of Loblaw's PSUs granted were nominal (2019 – \$1 million). In the year-to-date of 2020, the fair value of Loblaw's PSUs granted were \$16 million (2019 – \$15 million).

**SETTLEMENT OF AWARDS FROM SHARES HELD IN TRUSTS** The following table summarizes GWL's settlement of RSUs and PSUs from shares held in trusts for the periods ended as indicated:

(Number of awards)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020	Jun. 15, 2019	Jun. 13, 2020	Jun. 15, 2019
Settled	<b>2,227</b>	4,827	<b>63,280</b>	89,203
Released from trusts (note 16)	<b>2,227</b>	4,353	<b>58,236</b>	88,729

The settlement of awards from shares held in trusts in the second quarter of 2020 and year-to-date resulted in a nominal increase (2019 – \$2 million) and \$6 million increase (2019 – \$10 million) in retained earnings, respectively. There were nominal increases in share capital in the second quarter and year-to-date 2020 (second quarter 2019 - nominal, year-to-date 2019 - \$1 million) related to these settlements.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## Note 20. Financial Instruments

The following table presents the fair values and fair value hierarchy of the Company's financial instruments and excludes financial instruments measured at amortized cost that are short term in nature. The carrying values of the Company's financial instruments approximate their fair values except for long-term debt.

(\$ millions)	Jun. 13, 2020				As at Jun. 15, 2019				Dec. 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>												
Amortized cost:												
Franchise loans receivable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49	\$ 49	\$ -	\$ -	\$ 19	\$ 19
Certain other assets <sup>(i)</sup>	-	-	142	142	-	-	105	105	-	-	116	116
Fair value through other comprehensive income:												
Certain long-term investments and other assets <sup>(i)</sup>	117	19	-	136	60	44	-	104	50	21	-	71
Fair value through profit and loss:												
Security deposits	148	-	-	148	78	-	-	78	76	-	-	76
Certain other assets <sup>(i)</sup>	-	-	84	84	-	-	114	114	-	-	86	86
Derivatives included in accounts receivable	-	2	-	2	1	2	-	3	1	2	-	3
Derivatives included in prepaid expenses and other assets	-	4	-	4	1	4	-	5	5	-	1	6
Derivatives included in other assets	-	573	-	573	-	495	-	495	-	537	-	537
<b>Financial liabilities</b>												
Amortized cost:												
Long-term debt	-	16,731	-	16,731	-	15,893	-	15,893	-	15,839	-	15,839
Certain other liabilities <sup>(i)</sup>	-	-	440	440	-	-	12	12	-	-	444	444
Fair value through other comprehensive income:												
Derivatives included in trade payables and other liabilities	-	22	-	22	-	19	-	19	-	5	-	5
Fair value through profit and loss:												
Trust Unit liability	3,359	-	-	3,359	3,607	-	-	3,607	3,601	-	-	3,601
Derivatives included in trade payables and other liabilities	19	1	1	21	4	2	-	6	-	5	-	5

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

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

During the second quarter of 2020 and year-to-date, a loss of \$4 million (2019 – gain of \$3 million) and a gain of \$3 million (2019 – gain of \$2 million), respectively, was recognized in operating income on financial instruments designated as amortized cost. In addition, during the second quarter of 2020 and year-to-date, a net loss of \$268 million (2019 – net loss of \$47 million) and a net gain of \$245 million (2019 – net loss of \$664 million) was recognized in earnings before income taxes on financial instruments required to be classified as fair value through profit or loss.

**Cash and Cash Equivalents, Short-Term Investments and Security Deposits** As at the end of the second quarter of 2020, the Company had cash and cash equivalents, short-term investments and security deposits of \$3,556 million (June 15, 2019 – \$2,214 million; December 31, 2019 – \$2,139 million), including U.S. dollars of \$121 million (June 15, 2019 – \$76 million; December 31, 2019 – \$68 million).

During the second quarter of 2020 and year-to-date, a loss of \$66 million (2019 – loss of \$3 million) and a gain of \$47 million (2019 – loss of \$22 million), respectively, was recognized in other comprehensive income related to the effect of foreign currency translation on the Company's U.S. net investment in foreign operations.

In addition, during the second quarter of 2020 and year-to-date, a nominal gain (2019 – nominal loss) and a nominal gain (2019 – loss of \$1 million), respectively, was recorded in operating income related to the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short-term investments held by foreign operations that have the same functional currency as that of the Company.

**Franchise Loans Receivable** As at the end of the second quarter of 2020, the value of Loblaw franchise loans receivable of nil (June 15, 2019 – \$49 million; December 31, 2019 – \$19 million) was recorded in the unaudited interim period condensed consolidated balance sheets. During the second quarter of 2020 and year-to-date, Loblaw recorded nil (2019 – gain of \$1 million) and nil (2019 – gain of \$1 million) in operating income related to these loans receivable.

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

In the second quarter of 2020 and year-to-date, a gain of \$7 million (2019 – gain of \$1 million) and a loss of \$2 million (2019 – gain of \$3 million), respectively, was recognized in operating income related to these derivatives. In addition, a corresponding \$1 million liability was included in trade payables and other liabilities as at June 13, 2020 (June 15, 2019 – nominal liability; December 31, 2019 – \$1 million asset included in prepaid expenses and other assets). As at June 13, 2020, a 1% increase (decrease) in foreign currency exchange rates would result in a gain (loss) in fair value of \$1 million.

**Equity Derivative Contracts** As at the end of the first quarter of 2020, Weston Holdings Limited ("WHL"), a subsidiary of GWL, held an outstanding equity forward sale agreement based on 9.6 million Loblaw common shares at an initial forward sale price of \$48.50 per Loblaw common share. 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) per Loblaw common share. In the second quarter of 2020 and year-to-date, a fair value gain of \$3 million (2019 – loss of \$41 million) and a fair value gain of \$13 million (2019 – loss of \$84 million) was recorded in net interest expense and other financing charges related to this agreement (see note 5).

**Trust Unit Liability** In the second quarter of 2020 and year-to-date, a fair value loss of \$257 million (2019 – loss of \$2 million) and a fair value gain of \$247 million (2019 – loss of \$584 million) was recorded in net interest expense and other financing charges (see note 5).

## Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

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

(\$ millions)	Jun. 13, 2020				
	12 Weeks Ended			24 Weeks Ended	
	Net asset (liability) fair value	Gain/ (loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/ (loss) recorded in OCI	Gain/(loss) recorded in operating income
<b>Derivatives designated as cash flow hedges</b>					
Interest Rate Risk - Bond Forwards <sup>(i)</sup>	(10)	(18)	–	(43)	(1)
Interest Rate Risk - Interest Rate Swaps <sup>(ii)</sup>	(11)	–	(2)	(8)	(2)
<b>Total derivatives designated as cash flow hedges</b>	<b>\$ (21)</b>	<b>\$ (18)</b>	<b>\$ (2)</b>	<b>\$ (51)</b>	<b>\$ (3)</b>
<b>Derivatives not designated in a formal hedging relationship</b>					
Foreign Exchange and Other Forwards	\$ 5	\$ –	\$ (22)	\$ –	\$ 23
Other Non-Financial Derivatives	(19)	–	1	–	(37)
<b>Total derivatives not designated in a formal hedging relationship</b>	<b>\$ (14)</b>	<b>\$ –</b>	<b>\$ (21)</b>	<b>\$ –</b>	<b>\$ (14)</b>
<b>Total derivatives</b>	<b>\$ (35)</b>	<b>\$ (18)</b>	<b>\$ (23)</b>	<b>\$ (51)</b>	<b>\$ (17)</b>

- (i) PC Bank uses bond forwards, with a notional value of \$200 million, to manage its interest risk related to future debt issuances. The fair value of these derivatives are included in trade payables and other liabilities.
- (ii) PC Bank uses interest rate swaps, with a notional value of \$300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities. Choice Properties uses interest rate swaps, with a notional value of \$259 million, to manage its interest risk related to variable rate mortgages. The fair value of the derivatives is included in other assets or other liabilities.

During the second quarter of 2020, Loblaw settled a bond forward with a notional value of \$350 million that was entered into during the first quarter of 2020. The purpose of the bond forward was to hedge the interest rate risk in the appropriate Government of Canada yield curve that corresponded to the term of the May 7, 2030 senior unsecured notes ("2030 Notes") issuance bearing interest at 2.284% per annum. Loblaw concluded that this hedge was effective as at the settlement date. Accordingly, the accumulated other comprehensive income associated with this bond forward will amortize over the term of the 2030 Notes as net interest expense and other financing charges within the consolidated statements of earnings, resulting in an effective annual interest rate of approximately 3.34%.

	12 Weeks Ended			24 Weeks Ended		
	Net asset (liability) fair value	Gain/ (loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/ (loss) recorded in OCI	Gain/(loss) recorded in operating income	
(\$ millions)						
<b>Derivatives designated as cash flow hedges</b>						
Foreign Exchange Currency Risk - Foreign Exchange Forwards <sup>(i)</sup>	\$ –	\$ (1)	\$ –	\$ (1)	\$ –	
Interest Rate Risk - Bond Forwards <sup>(ii)</sup>	(11)	(2)	–	(8)	–	
Interest Rate Risk - Interest Rate Swaps <sup>(iii)</sup>	(8)	(1)	–	(6)	–	
<b>Total derivatives designated as cash flow hedges</b>	<b>\$ (19)</b>	<b>\$ (4)</b>	<b>\$ –</b>	<b>\$ (15)</b>	<b>\$ –</b>	
<b>Derivatives not designated in a formal hedging relationship</b>						
Foreign Exchange and Other Forwards	\$ 4	\$ –	\$ (3)	\$ –	\$ (6)	
Other Non-Financial Derivatives	(3)	–	(2)	–	7	
<b>Total derivatives not designated in a formal hedging relationship</b>	<b>\$ 1</b>	<b>\$ –</b>	<b>\$ (5)</b>	<b>\$ –</b>	<b>\$ 1</b>	
<b>Total derivatives</b>	<b>\$ (18)</b>	<b>\$ (4)</b>	<b>\$ (5)</b>	<b>\$ (15)</b>	<b>\$ 1</b>	

- (i) PC Bank uses foreign exchange forwards, with a notional value of \$5 million USD, to manage its foreign exchange currency risk related to certain U.S. payables. The fair value of the derivatives is included in prepaid expenses and other assets.
- (ii) PC Bank uses bond forwards, with a notional value of \$389 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.
- (iii) PC Bank uses interest rate swaps, with a notional value of \$300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities. Choice Properties uses interest rate swaps, with a notional value of \$277 million, to manage its interest risk related to variable rate mortgages. The fair value of the derivatives is included in other assets or other liabilities.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## Note 21. Contingent Liabilities

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

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

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

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

In 2017, the Company and Loblaw announced actions taken to address their role in an industry-wide price-fixing arrangement involving certain packaged bread products. The arrangement involved the coordination of retail and wholesale prices of certain packaged bread products over a period extending from late 2001 to March 2015. Under the arrangement, the participants regularly increased prices on a coordinated basis. Class action lawsuits have been commenced against the Company and Loblaw as well as a number of other major grocery retailers and another bread wholesaler. In December 2019, a proposed class action on behalf of independent distributors was commenced against the Company and Weston Foods. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Loblaw believes that the ultimate resolution of such legal proceedings will have a material adverse impact on its financial condition or prospects. The Company's cash balances far exceed any realistic damages scenario and therefore it does not anticipate any impacts on its or Loblaw's dividend, dividend policy or share buyback plan. The Company has not recorded any amounts related to the potential civil liability associated with the class action lawsuits in 2020 or prior on the basis that a reliable estimate of the liability cannot be determined at this time. The Company will continue to assess whether a provision for civil liability associated with the class action lawsuits can be reliably estimated and will record an amount in the period at the earlier of when a reliable estimate of liability can be determined or the matter is ultimately resolved. As a result of admission of participation in the arrangement and cooperation in the Competition Bureau's investigation, the Company and Loblaw will not face criminal charges or penalties.

In August 2018, the Province of British Columbia filed a class action against numerous opioid manufacturers and distributors, including Loblaw and its subsidiaries, Shoppers Drug Mart Inc. and Sanis Health Inc. The claim contains allegations of breach of the Competition Act, fraudulent misrepresentation and deceit and negligence, and seeks damages (unquantified) for the expenses incurred by the province in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in British Columbia. In May 2019, two further opioid-related class actions were commenced in each of Ontario and Quebec against a large group of defendants, including Sanis Health Inc. In February 2020, a further opioid-related class action was commenced in British Columbia against a large group of defendants, including Sanis Health Inc., Shoppers Drug Mart Inc. and Loblaw. The allegations in the Ontario, Quebec and the civil British Columbia class actions are similar to the allegations against manufacturer defendants in the Province of British Columbia class action, except that these May 2019 and February 2020 claims seek recovery of damages on behalf of opioid users directly. Loblaw believes these proceedings are without merit and is vigorously defending them. Loblaw does not currently have any significant accruals or provisions for these matters recorded in the unaudited interim period condensed consolidated financial statements.

Loblaws has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron, a wholly owned Barbadian subsidiary of Loblaws 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 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, Loblaws filed a Notice of Appeal with the Federal Court of Appeal. On October 15, 2019, the appeal was heard by the Federal Court of Appeal and on April 23, 2020, the Federal Court of Appeal released its decision and reversed 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 the decision of the Federal Court of Appeal with the Supreme Court of Canada. Loblaws has not reversed any portion of the previously recorded charges.

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

## **Note 22. Related Party Transactions**

**Venture Fund** During the second quarter of 2020, GWL, Loblaws and a wholly-owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington (the "Venture Fund"). A wholly-owned subsidiary of Wittington is the general partner of the Venture Fund, which hired an external fund manager to oversee the Venture Fund. The purpose of the Venture Fund is to pursue venture capital investing in innovative businesses that are in technology-oriented companies at all stages of the start-up life cycle that operate in commerce, healthcare, and food sectors and are based in North America. Each of the three limited partners have a 33% interest in the Venture Fund. The Company participates in the Venture Fund's Investment Committee which, among other items, approves the initial investments. The Company uses the equity method of accounting to record its consolidated 66% interest in the Venture Fund. The Company has a consolidated capital commitment of \$66 million over a 10-year period. Subsequent to the second quarter of 2020, on a consolidated basis, the Company invested \$14 million in the Venture Fund.

**Transaction between Choice Properties and Wittington** During the second quarter of 2020, Loblaws recognized \$65 million of right-of-use assets and lease liabilities related to leases of retail stores and a corporate office with a joint venture formed between Choice Properties and Wittington.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

## Note 23. Segment Information

The Company has three reportable operating segments: Loblaw, Choice Properties and Weston Foods. Other and Intersegment includes eliminations, intersegment adjustments related to the consolidation, cash and short-term investments held by the Company and all other company level activities that are not allocated to the reportable operating segments, as further illustrated below.

The accounting policies of the reportable operating segments are the same as those described herein and in the Company's 2019 audited annual consolidated financial statements. The Company measures each reportable operating segment's performance based on adjusted EBITDA<sup>(i)</sup> and adjusted operating income<sup>(ii)</sup>. No reportable operating segment is reliant on any single external customer.

(\$ millions)	12 Weeks Ended									
	Jun. 13, 2020					Jun. 15, 2019				
	Loblaw	Choice Properties	Weston Foods	Other and Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other and Intersegment	Total
<b>Revenue</b>	\$ 11,957	\$ 315	\$ 412	\$ (327)	\$ 12,357	\$ 11,133	\$ 324	\$ 479	\$ (333)	\$ 11,603
Operating income (loss)	\$ 402	\$ (29)	\$ (49)	\$ 77	\$ 401	\$ 586	\$ 226	\$ 12	\$ (54)	\$ 770
Net interest expense (income) and other financing charges	176	67	(1)	279	521	175	(13)	–	146	308
<b>Earnings (loss) before income taxes</b>	\$ 226	\$ (96)	\$ (48)	\$ (202)	\$ (120)	\$ 411	\$ 239	\$ 12	\$ (200)	\$ 462
<b>Operating income (loss)</b>	\$ 402	\$ (29)	\$ (49)	\$ 77	\$ 401	\$ 586	\$ 226	\$ 12	\$ (54)	\$ 770
Depreciation and amortization	598	–	44	(76)	566	580	1	35	(82)	534
Adjusting items <sup>(ii)</sup>	14	230	12	(136)	120	7	6	2	(6)	9
Adjusted EBITDA <sup>(i)</sup>	\$ 1,014	\$ 201	\$ 7	\$ (135)	\$ 1,087	\$ 1,173	\$ 233	\$ 49	\$ (142)	\$ 1,313
Depreciation and amortization <sup>(iii)</sup>	480	–	34	(76)	438	464	1	33	(82)	416
<b>Adjusted operating income (loss)<sup>(ii)</sup></b>	\$ 534	\$ 201	\$ (27)	\$ (59)	\$ 649	\$ 709	\$ 232	\$ 16	\$ (60)	\$ 897

- (i) Certain items are excluded from operating income (loss) to derive adjusted EBITDA<sup>(i)</sup>. Adjusted EBITDA<sup>(i)</sup> is used internally by management when analyzing segment underlying operating performance.
- (ii) 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

(\$ millions)	Jun. 13, 2020					Jun. 15, 2019				
	Loblaw	Choice Properties	Weston Foods	Other and Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other and Intersegment	Total
<b>Revenue</b>	<b>\$ 23,757</b>	<b>\$ 640</b>	<b>\$ 947</b>	<b>\$ (654)</b>	<b>\$ 24,690</b>	<b>\$ 21,792</b>	<b>\$ 647</b>	<b>\$ 995</b>	<b>\$ (658)</b>	<b>\$ 22,776</b>
Operating income (loss)	\$ 941	\$ 48	\$ (48)	\$ 58	\$ 999	\$ 1,035	\$ 449	\$ 22	\$ (150)	\$ 1,356
Net interest expense (income) and other financing charges	348	(189)	(2)	106	263	348	1,112	–	(280)	1,180
<b>Earnings (loss) before income taxes</b>	<b>\$ 593</b>	<b>\$ 237</b>	<b>\$ (46)</b>	<b>\$ (48)</b>	<b>\$ 736</b>	<b>\$ 687</b>	<b>\$ (663)</b>	<b>\$ 22</b>	<b>\$ 130</b>	<b>\$ 176</b>
<b>Operating income (loss)</b>	<b>\$ 941</b>	<b>\$ 48</b>	<b>\$ (48)</b>	<b>\$ 58</b>	<b>\$ 999</b>	<b>\$ 1,035</b>	<b>\$ 449</b>	<b>\$ 22</b>	<b>\$ (150)</b>	<b>\$ 1,356</b>
Depreciation and amortization	1,192	1	87	(154)	1,126	1,160	1	67	(159)	1,069
Adjusting items <sup>(i)</sup>	48	379	20	(181)	266	16	13	6	11	46
Adjusted EBITDA <sup>(i)</sup>	\$ 2,181	\$ 428	\$ 59	\$ (277)	\$ 2,391	\$ 2,211	\$ 463	\$ 95	\$ (298)	\$ 2,471
Depreciation and amortization <sup>(ii)</sup>	955	1	68	(154)	870	925	1	65	(159)	832
<b>Adjusted operating income (loss)<sup>(i)</sup></b>	<b>\$ 1,226</b>	<b>\$ 427</b>	<b>\$ (9)</b>	<b>\$ (123)</b>	<b>\$ 1,521</b>	<b>\$ 1,286</b>	<b>\$ 462</b>	<b>\$ 30</b>	<b>\$ (139)</b>	<b>\$ 1,639</b>

- (i) Certain items are excluded from operating income (loss) to derive adjusted EBITDA<sup>(i)</sup>. Adjusted EBITDA<sup>(i)</sup> is used internally by management when analyzing segment underlying operating performance.
- (ii) 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.

# Notes to the Unaudited Interim Period Condensed Consolidated Financial Statements

Other and Intersegment includes the following items:

(\$ millions)	12 Weeks Ended					
	Jun. 13, 2020			Jun. 15, 2019		
	Revenue	Operating Income	Net Interest Expense and Other Financing Charges	Revenue	Operating Income	Net Interest Expense and Other Financing Charges
Elimination of internal lease arrangements	\$ (125)	\$ (36)	\$ (32)	\$ (133)	\$ (44)	\$ (42)
Elimination of cost recovery	(53)	–	–	(53)	–	–
Recognition of depreciation on Choice Properties' investment properties classified as fixed assets by the Company and measured at cost	–	(14)	–	–	(10)	–
Fair value adjustment on investment properties	–	137	–	–	4	–
Fair value adjustment on Choice Properties' Exchangeable Units	–	–	70	–	–	149
Fair value adjustment on Trust Unit liability	–	–	257	–	–	2
Unit distributions on Exchangeable Units paid by Choice Properties to GWL	–	–	(72)	–	–	(72)
Unit distributions on Trust Units paid by Choice Properties, excluding amounts paid to GWL	–	–	48	–	–	46
Intercompany sales	(146)	–	–	(145)	–	–
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	–	–	(3)	–	–	41
Choice Properties issuance costs	–	–	–	–	–	14
Other	(3)	(10)	11	(2)	(4)	8
<b>Total Consolidated</b>	<b>\$ (327)</b>	<b>\$ 77</b>	<b>\$ 279</b>	<b>\$ (333)</b>	<b>\$ (54)</b>	<b>\$ 146</b>

(\$ millions)	24 Weeks Ended					
	Jun. 13, 2020			Jun. 15, 2019		
	Revenue	Operating Income	Net Interest Expense and Other Financing Charges	Revenue	Operating Income	Net Interest Expense and Other Financing Charges
Elimination of internal lease arrangements	\$ (256)	\$ (84)	\$ (64)	\$ (272)	\$ (98)	\$ (83)
Elimination of cost recovery	(109)	–	–	(106)	–	–
Loblaw's net gain on sale leaseback of property to Choice Properties	–	–	–	–	(5)	–
Recognition of depreciation on Choice Properties' investment properties classified as fixed assets by the Company and measured at cost	–	(26)	–	–	(23)	–
Fair value adjustment on investment properties	–	183	–	–	(12)	–
Fair value adjustment on Choice Properties' Exchangeable Units	–	–	456	–	–	(842)
Fair value adjustment on Trust Unit liability	–	–	(247)	–	–	584
Unit distributions on Exchangeable Units paid by Choice Properties to GWL	–	–	(144)	–	–	(144)
Unit distributions on Trust Units paid by Choice Properties, excluding amounts paid to GWL	–	–	96	–	–	89
Intercompany sales	(289)	–	–	(280)	–	–
Foreign currency translation <sup>(i)</sup>	–	–	–	–	(1)	–
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	–	–	(13)	–	–	84
Choice Properties issuance costs	–	–	–	–	–	14
Gain on sale of Loblaw shares	–	(21)	–	–	–	–
Other	–	6	22	–	(11)	18
<b>Total Consolidated</b>	<b>\$ (654)</b>	<b>\$ 58</b>	<b>\$ 106</b>	<b>\$ (658)</b>	<b>\$ (150)</b>	<b>\$ (280)</b>

(i) Represents the effect of foreign currency translation on a portion of the U.S. dollar denominated cash and cash equivalents and short-term investments held by foreign operations.

(\$ millions)	Jun. 13, 2020	As at	
		Jun. 15, 2019	Dec. 31, 2019
Total Assets			
Loblaw	\$ 36,275	\$ 35,576	\$ 36,451
Choice Properties	15,146	15,988	15,575
Weston Foods	4,303	3,871	4,261
Other <sup>(i)</sup>	29	362	28
Intersegment	(8,075)	(8,823)	(8,502)
Consolidated	\$ 47,678	\$ 46,974	\$ 47,813

(i) Other includes cash and cash equivalents and short-term investments held by foreign operations.

(\$ millions)	12 Weeks Ended		24 Weeks Ended	
	Jun. 13, 2020 <sup>(i)</sup>	Jun. 15, 2019	Jun. 13, 2020 <sup>(i)</sup>	Jun. 15, 2019
Additions to Fixed Assets, Investment Properties and Intangible Assets				
Loblaw	\$ 199	\$ 209	\$ 410	\$ 383
Choice Properties	20	50	69	81
Weston Foods	33	38	57	69
Other	—	—	2	—
Consolidated	\$ 252	\$ 297	\$ 538	\$ 533

(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.