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Loblaw Companies Limited

2020 Third Quarter Report to Shareholders

40 weeks ended October 3, 2020

2020 Third Quarter Report to Shareholders

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's third quarter 2020 unaudited interim period condensed consolidated financial statements and the accompanying notes included in this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended December 28, 2019 and the related annual MD&A included in the Company's 2019 Annual Report – Financial Review ("2019 Annual Report").

The Company's third 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. 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 when otherwise noted.

Management uses non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing consolidated and segment underlying 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. See Section 11 "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

A glossary of terms used throughout this Quarterly Report can be found on page 134 of the Company's 2019 Annual Report.

The information in this MD&A is current to November 11, 2020, unless otherwise noted.

1. 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 information technology ("IT") systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 3 "Consolidated Results of Operations", "Section 4.1 "Retail Segment" Other Retail Business Matters, Section 5 "Liquidity and Capital Resources" and Section 11 "Non-GAAP Financial Measures". Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "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 Section 9 "Enterprise Risks and Risk Management" of this MD&A, and the Company's 2019 Annual Information Form ("AIF") (for the year ended December 28, 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 the Company's e-commerce initiatives or to adapt its 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;
- 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; and
- changes to any of the laws, rules, regulations or policies applicable to the Company's business.

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 ("securities regulators") from time to time, including, without limitation, the section entitled "Risks" in the Company's 2019 AIF (for the year ended December 28, 2019), as well as COVID-19 related risks as described in the "Enterprise Risks and Risk Management" section 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 MD&A. 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.

2. Key Financial Performance Indicators[1]

Unless otherwise indicated, all financial information includes the impacts of the consolidation of franchises and COVID-19.

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

As at or for the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)
Consolidated:		
Revenue growth	**6.9 %**	2.3 %
Operating income	**$ 718**	$ 690
Adjusted EBITDA[2]	**1,524**	1,492
Adjusted EBITDA margin[2]	**9.7 %**	10.2 %
Net earnings	**$ 360**	$ 353
Net earnings attributable to shareholders of the Company	**345**	334
Net earnings available to common shareholders of the Company[i]	**342**	331
Adjusted net earnings available to common shareholders of the Company[2]	**464**	458
Diluted net earnings per common share ($)	**$ 0.96**	$ 0.90
Adjusted diluted net earnings per common share[2] ($)	**$ 1.30**	$ 1.25
Cash and cash equivalents and short term investments	**$ 1,844**	$ 1,022
Cash flows from operating activities	**1,063**	1,061
Free cash flow[2]	**121**	186
Financial Measures:		
Retail debt to rolling year retail adjusted EBITDA[2]	**2.9 x**	3.0 x
Rolling year adjusted return on equity[2]	**13.5 %**	13.4 %
Rolling year adjusted return on capital[2]	**7.9 %**	7.8 %
Retail Segment:		
Food retail same-store sales growth	**6.9 %**	0.1 %
Drug retail same-store sales growth	**6.1 %**	4.1 %
Operating income	**$ 674**	$ 655
Adjusted gross profit[2]	**4,534**	4,262
Adjusted gross profit %[2]	**29.3 %**	29.6 %
Adjusted EBITDA[2]	**$ 1,474**	$ 1,452
Adjusted EBITDA margin[2]	**9.5 %**	10.1 %
Financial Services Segment:		
Earnings before income taxes	**$ 21**	$ 15
Annualized yield on average quarterly gross credit card receivables	**13.4 %**	13.7 %
Annualized credit loss rate on average quarterly gross credit card receivables	**3.7 %**	3.4 %

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

3. Consolidated Results of Operations

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (16 weeks)	2019 (16 weeks)	$ Change	% Change	2020 (40 weeks)	2019 (40 weeks)	$ Change	% Change
Revenue	**$ 15,671**	$14,655	$ 1,016	6.9 %	**$ 39,428**	$36,447	$ 2,981	8.2 %
Operating income	**718**	690	28	4.1 %	**1,663**	1,729	(66)	(3.8)%
Adjusted EBITDA(2)	**1,524**	1,492	32	2.1 %	**3,709**	3,707	2	0.1 %
Adjusted EBITDA margin(2)	**9.7 %**	10.2 %			**9.4 %**	10.2 %		
Depreciation and amortization	**$ 795**	$ 775	$ 20	2.6 %	**$ 1,987**	$ 1,935	$ 52	2.7 %
Net interest expense and other financing charges	**228**	223	5	2.2 %	**576**	571	5	0.9 %
Income taxes	**130**	114	16	14.0 %	**289**	293	(4)	(1.4)%
Adjusted income taxes(2)	**174**	171	3	1.8 %	**409**	422	(13)	(3.1)%
Adjusted effective tax rate(2)	**26.5 %**	26.3 %			**26.6 %**	26.5 %		
Net earnings attributable to shareholders of the Company	**$ 345**	$ 334	$ 11	3.3 %	**$ 760**	$ 824	$ (64)	(7.8)%
Net earnings available to common shareholders of the Company(i)	**342**	331	11	3.3 %	**751**	815	(64)	(7.9)%
Adjusted net earnings available to common shareholders of the Company(2)	**464**	458	6	1.3 %	**1,082**	1,121	(39)	(3.5)%
Diluted net earnings per common share ($)	**$ 0.96**	$ 0.90	$ 0.06	6.7 %	**$ 2.09**	$ 2.20	$ (0.11)	(5.0)%
Adjusted diluted net earnings per common share(2) ($)	**$ 1.30**	$ 1.25	$ 0.05	4.0 %	**$ 3.01**	$ 3.03	$ (0.02)	(0.7)%
Diluted weighted average common shares outstanding (in millions)	**358.0**	366.2			**359.5**	369.7		

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

The COVID-19 pandemic continued to impact the Company's operations in the quarter, positively impacting sales in the Food Retail business, supported by significant investments to ensure the safety and security of customers and colleagues. Loblaw continued to make investments to enhance the overall value proposition for consumers, maintaining its promotional intensity through the pandemic to retain its share gains in conventional banners and further improve its positioning in discount banners.

Food Retail same-store sales continued at elevated levels, growing by 6.9% in the quarter, with the Company's Market division delivering strong growth of 9.7% and the Discount division delivering 4.7% growth. Drug Retail same-store sales also experienced growth in the quarter, growing by 6.1%, with pharmacy delivering strong growth of 10.3% and front store sales growing by 2.4%. The Company invested approximately $85 million in COVID-19 related costs in the quarter primarily to ensure the safety and security of customers and colleagues.

The COVID-19 pandemic has accelerated certain longer-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital, Connected Healthcare, and Payments and Rewards. The Company's investments in its Everyday Digital platforms enable it to offer Canadians a choice of shopping in-store or online with either home delivery or convenient pickup locations. The Company's e-commerce sales grew by 175% in the third quarter, across the Company's grocery, pharmacy, and apparel e-commerce platforms. The platform was expanded in the quarter to include front-store items from Shoppers Drug Mart and Pharmaprix pharmacies.

In September, the Company made two important announcements in its strategic growth areas of Payments and Rewards and Connected Health. The Company launched the *PC Money*™ Account, a simple no-fee way to do everyday banking, turning the act of paying bills and shopping into a way to receive *PC Optimum*™ rewards. As it continues to build out its Connected Health strategy, the Company also announced an investment in Maple Corporation and the launch of a *PC Health* app. Together, these two initiatives form part of the Company's next generation digital health platform that will provide Canadians with a new, personalized healthcare experience by leveraging the power of Loblaw's existing national healthcare network, extensive professional care services and world-class loyalty program to deliver a personalized healthcare solution for Canadians.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share Net earnings available to common shareholders of the Company in the third quarter of 2020 were $342 million ($0.96 per common share), an increase of $11 million ($0.06 per common share) compared to the third quarter of 2019. The increase in net earnings available to common shareholders of the Company included an improvement in underlying operating performance of $6 million and the favourable year-over year net impact of adjusting items totaling $5 million, as described below:

- the improvement in underlying operating performance of $6 million ($0.02 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment (excluding the impact of the consolidation of franchises) driven by an increase in adjusted gross profit(2), partially offset by an increase in selling, general and administrative expenses ("SG&A") and an increase in depreciation and amortization; and
  - an improvement in the underlying operating performance in the Financial Services segment.
- the favourable change in adjusting items totaling $5 million ($0.01 per common share) was primarily due to the following:
  - the year-over-year favourable impact of restructuring and other related costs of $5 million ($0.01 per common share);
  - the year-over-year favourable impact of the gain on sale of non-operating properties of $3 million ($0.01 per common share); and
  - the year-over-year favourable change in fair value adjustments on fuel and foreign currency contracts of $2 million ($0.01 per common share);

  partially offset by,
  - the unfavourable impact of the prior year reversal of certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart Corporation acquisition costs incurred in 2014 of $8 million ($0.02 per common share).
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares ($0.03 per common share).

Adjusted net earnings available to common shareholders of the Company(2) in the third quarter of 2020 were $464 million ($1.30 per common share), an increase of $6 million or 1.3%, compared to the third quarter of 2019. Adjusted diluted net earnings per common share(2) were $1.30 per common share, an increase of $0.05 or 4.0%. Adjusted diluted net earnings per common share(2) also included the favourable impact of the repurchase of common shares.

Year-to-date net earnings available to common shareholders of the Company were $751 million ($2.09 per common share), a decrease of $64 million ($0.11 per common share) or 7.9% compared to the same period in 2019. The decrease in net earnings available to common shareholders of the Company included a decline in underlying operating performance of $39 million and the unfavourable year-over year net impact of adjusting items totaling $25 million, as described below:

- the decline in underlying operating performance of $39 million ($0.10 per common share) was primarily due to the following:
  - a decline in the underlying operating performance in the Financial Services segment; and,
  - a decline in the underlying operating performance in the Retail segment (excluding the impact of the consolidation of franchises) mostly attributable to an increase in SG&A from COVID-19 related expenses and an increase in depreciation and amortization, partially offset by an increase in adjusted gross profit(2).
- the unfavourable year-over-year net impact of adjusting items totaling $25 million ($0.09 per common share) was primarily due to the following:
  - the unfavourable impact of the reversal of certain prior period items in 2019 of $11 million ($0.03 per common share);
  - the unfavourable impact of the prior year reversal of certain tax reserves following the completion of a tax audit that included a review of the Shoppers Drug Mart Corporation acquisition costs incurred in 2014 of $8 million ($0.02 per common share);
  - the year-over-year unfavourable change in fair value adjustments on fuel and foreign currency contracts of $5 million ($0.02 per common share);
  - the unfavourable impact of prior year statutory corporate income tax rate change of $4 million ($0.01 per common share);
  - the unfavourable impact of a prior year net gain on sale of non-operating properties of $2 million ($0.01 per common share); and
  - the unfavourable impact of fair value adjustments on investment properties of $2 million ($0.01 per common share);

  partially offset by,
  - the year-over-year favourable impact of prior year pension annuities and buy-outs of $7 million ($0.02 per common share).
- the decrease in diluted net earnings per common share also included the favourable impact of the repurchase of common shares ($0.08 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company[(2)] were $1,082 million ($3.01 per common share), a decrease of $39 million or 3.5% compared to the same period in 2019. Adjusted diluted net earnings per common share[(2)] were $3.01 per common share, a decrease of $0.02 or 0.7%. Adjusted diluted net earnings per common share[(2)] also included the favourable impact of the repurchase of common shares.

Revenue

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	$ Change	% Change	**2020 (40 weeks)**	2019 (40 weeks)	$ Change	% Change
Retail	**$ 15,464**	$ 14,420	$ 1,044	7.2 %	**$ 38,816**	$ 35,778	$ 3,038	8.5 %
Financial Services	**278**	309	(31)	(10.0)%	**777**	859	(82)	(9.5)%
Consolidation and Eliminations	**(71)**	(74)	3	4.1 %	**(165)**	(190)	25	13.2 %
Revenue	**$ 15,671**	$ 14,655	$ 1,016	6.9 %	**$ 39,428**	$ 36,447	$ 2,981	8.2 %

Revenue was $15,671 million in the third quarter of 2020, an increase of $1,016 million, or 6.9%, compared to the third quarter of 2019, primarily due to an increase in the Retail segment sales of $1,044 million. Excluding the consolidation of franchises, Retail segment sales increased by $939 million or 6.7%, due to positive same-store sales growth and a net increase in Retail square footage. The increase in Retail segment sales was partially offset by a decrease in Financial Services segment sales of $31 million, primarily driven by lower interest and lower interchange income due to lower customer spending due to COVID-19, partially offset by higher sales attributable to *The Mobile Shop*™.

Year-to-date revenue was $39,428 million in 2020, an increase of $2,981 million, or 8.2%, compared to the same period in 2019, primarily driven by an increase in Retail segment sales of $3,038 million. Excluding the consolidation of franchises, Retail segment sales increased by $2,647 million or 7.6%, due to positive same-store sales growth and a net increase in Retail square footage. The increase in Retail segment sales was partially offset by a decrease in Financial Services segment sales of $82 million, primarily driven by lower credit card related revenues from lower customer spending due to COVID-19 and lower sales attributable to the partial closure of *The Mobile Shop* kiosks due to COVID-19 in the second quarter of 2020.

Operating Income Operating income was $718 million in the third quarter of 2020, an increase of $28 million, or 4.1% compared to the third quarter of 2019. The increase in operating income included an improvement in underlying operating performance of $10 million, and the favourable year-over-year change in adjusting items totaling $18 million, as described below:

- the improvement in underlying operating performance of $10 million was primarily due to the following:
  - an improvement in underlying operating performance in the Financial Services segment; and
  - an improvement in the underlying operating performance of the Retail segment.
- the favourable change in adjusting items totaling $18 million was primarily due to the following:
  - the year-over-year favourable impact of restructuring and other related costs of $10 million;
  - the year-over-year favourable change in fair value adjustments on fuel and foreign currency contracts of $3 million; and
  - the year-over-year favourable impact of a prior year net gain on sale of non-operating properties of $3 million.

Year-to-date operating income was $1,663 million in 2020, a decrease of $66 million compared to the same period in 2019. The decrease in operating income included a decline in underlying operating performance of $50 million, and the unfavourable year-over-year change in adjusting items totaling $16 million, as described below:

- the decline in underlying operating performance of $50 million was primarily due to the following:
  - a decline in underlying operating performance of the Financial Services segment; and
  - a decline in the underlying operating performance of the Retail segment.
- the unfavourable change in adjusting items totaling $16 million was primarily due to the following:
  - the unfavourable impact of the reversal of certain prior period items in 2019 of $15 million;
  - the year-over-year unfavourable change in fair value adjustments on fuel and foreign currency contracts of $7 million;
  - the unfavourable impact of a prior year net gain on the sale of non-operating properties of $3 million; and
  - the year-over-year unfavourable change in fair value adjustment on investment properties of $3 million;

  partially offset by,
  - the year-over-year favourable impact of prior year pension annuities and buy-outs of $10 million; and
  - the year-over-year favourable impact of restructuring and other related costs of $2 million.

Adjusted EBITDA(2)

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	$ Change	% Change	**2020 (40 weeks)**	2019 (40 weeks)	$ Change	% Change
Retail	**$ 1,474**	$ 1,452	$ 22	1.5 %	**$ 3,612**	$ 3,565	$ 47	1.3 %
Financial Services	**50**	40	10	25.0 %	**97**	142	(45)	(31.7)%
Adjusted EBITDA(2)	**$ 1,524**	$ 1,492	$ 32	2.1 %	**$ 3,709**	$ 3,707	$ 2	0.1 %

Adjusted EBITDA(2) was $1,524 million in the third quarter of 2020, an increase of $32 million compared to the third quarter of 2019. The increase in adjusted EBITDA(2) in the third quarter of 2020 was primarily due to an increase in the Retail segment of $22 million. The increase in the Retail segment included the year-over-year favourable impact of consolidation of franchises of $8 million. The increase in adjusted EBITDA(2) was also due to an increase in the Financial Services segment of $10 million.

Year-to-date adjusted EBITDA(2) was $3,709 million in 2020, an increase of $2 million compared to the same period in 2019. The year-to-date increase in adjusted EBITDA(2) was primarily due to an increase in Retail segment of $47 million, and included the year-over-year favourable impact of consolidation of franchises of $24 million. This was partially offset by a decrease in the Financial Services Segment of $45 million.

Depreciation and Amortization Depreciation and amortization was $795 million in the third quarter of 2020, an increase of $20 million compared to the third quarter of 2019. Year-to-date depreciation and amortization was $1,987 million in 2020, an increase of $52 million compared to the same period in 2019. The increase in depreciation and amortization in the third quarter of 2020 and year-to-date was primarily driven by the consolidation of franchises and an increase in IT assets. Depreciation and amortization in the third quarter of 2020 and year-to-date included the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $155 million (2019 – $157 million) and $392 million (2019 – $392 million), respectively.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $228 million in the third quarter of 2020. When compared to the third quarter of 2019, this represented an increase of $5 million. Year-to-date net interest expense and other financing charges were $576 million in 2020. When compared to the same period in 2019, this represented an increase of $5 million. The increase in net interest expense and other financing charges in the third quarter of 2020 and year-to-date was primarily driven by higher interest expense in the Financial Services segment due to increased holdings in the liquid asset portfolio through higher debt issuances in response to the COVID-19 pandemic.

Income Taxes

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	$ Change	% Change	**2020 (40 weeks)**	2019 (40 weeks)	$ Change	% Change
Income taxes	**$ 130**	$ 114	$ 16	14.0 %	**$ 289**	$ 293	$ (4)	(1.4)%
Add (deduct) impact of the following:								
Tax impact of items included in adjusted earnings before taxes	**44**	49	(5)	(10.2)%	**120**	117	3	2.6 %
Reserve release related to 2014 tax audit	**—**	8	(8)	(100.0)%	**—**	8	(8)	(100.0)%
Statutory corporate income tax rate change	**—**	—	—	— %	**—**	4	(4)	(100.0)%
Adjusted income taxes(2)	**$ 174**	$ 171	$ 3	1.8 %	**$ 409**	$ 422	$ (13)	(3.1)%
Effective tax rate	**26.5 %**	24.4 %			**26.6 %**	25.3 %		
Adjusted effective tax rate(2)	**26.5 %**	26.3 %			**26.6 %**	26.5 %		

Income tax expense in the third quarter of 2020 was $130 million (2019 – $114 million) and the effective tax rate was 26.5% (2019 – 24.4%). Year-to-date income tax expense was $289 million (2019 – $293 million) and the effective tax rate was 26.6% (2019 – 25.3%). The increase in the quarterly effective tax rate was primarily attributable to the prior year reversal of certain tax reserves following the completion of a tax audit that included a review of Shoppers Drug Mart acquisition costs that were incurred in 2014, net of the impact of certain non-deductible items. The increase in the year-to-date effective tax rate was also impacted by the remeasurement of certain deferred tax balances due to the Alberta rate decrease that was substantively enacted in the second quarter of 2019.

Adjusted income tax expense(2) in the third quarter of 2020 was $174 million (2019 – $171 million) and the adjusted effective tax rate(2) was 26.5% (2019 – 26.3%). Year-to-date adjusted income tax expense(2) was $409 million (2019 – $422 million) and the adjusted income tax rate(2) was 26.6% (2019 – 26.5%). The increases to the quarterly and year-to-date adjusted effective tax rates(2) were primarily attributable to the impact of certain non-deductible items.

The Company 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 the Company 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, the Company 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. During the second quarter, on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of the Company reversing the decision of the Tax Court. In the third quarter, the Crown filed an application for leave to appeal to the Supreme Court of Canada ("Supreme Court"). Subsequent to the end of the third quarter, on October 29, 2020, the Supreme Court granted the Crown leave to appeal. The Company has not reversed any portion of the previously recorded charge.

Process and Efficiency In the third quarter of 2020, the Company recorded approximately $12 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the restructuring charges are $6 million of charges related to the closure of the two distribution centres in Laval and Ottawa, that were previously announced in the first quarter of 2020. The Company 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. The distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall and the Company expects to incur additional restructuring costs through to 2022 related to these closures. Year-to-date, the Company recorded approximately $48 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the year-to-date restructuring charges is $30 million related to the closure of the two distribution centres in Laval and Ottawa.

COVID-19 Update

General The COVID-19 pandemic had a significant impact on our colleagues, customers, suppliers and other stakeholders in the third quarter. As disclosed previously, starting in March, the Company reacted quickly to changing circumstances by ramping up investments in various areas.

In the four weeks following the end of the third quarter, the Company observed continued sales volatility and changes in sales mix as the pandemic impacted consumer behaviour. Food retail same-store sales trends and COVID-19 related costs were in line with third quarter results, however, Drug retail same-store sales have decelerated when compared to the third quarter.

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 28, 2019.

Liquidity The Company's liquidity position is supported by a strong balance sheet and the ability to generate significant cash flow from its operations. In September 2020, DBRS Morningstar upgraded Loblaw's credit rating from BBB to BBB (high). Subsequent to the end of the third quarter of 2020, the Company extended the maturity of its existing $1 billion credit facility to October 7, 2023. As at the end of the third quarter, the Company's consolidated cash and short-term investments balance was $1.8 billion. The aggregate available liquidity is approximately $3.8 billion including undrawn amounts under committed credit facilities. President's Choice Bank ("PC Bank") continues to maintain a level of liquidity well in excess of required regulatory minimums.

Risk Factor For more information on the risks presented to the Company by the COVID-19 pandemic, please see Section 9, "Enterprise Risks and Risk Management" of the Company's MD&A for the quarter ended October 3, 2020.

4. Reportable Operating Segments Results of Operations

The Company has two reportable operating segments, with all material operations carried out in Canada:

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base; and
- The Financial Services segment provides credit card and everyday banking services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

4.1 Retail Segment

Unless otherwise indicated, the following financial information includes the impacts of the consolidation of franchises and COVID-19.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	$ Change	% Change	**2020 (40 weeks)**	2019 (40 weeks)	$ Change	% Change
Sales	**$15,464**	$14,420	$ 1,044	7.2 %	**$38,816**	$ 35,778	$ 3,038	8.5 %
Operating income	**674**	655	19	2.9 %	**1,582**	1,602	(20)	(1.2)%
Adjusted gross profit(2)	**4,534**	4,262	272	6.4 %	**11,468**	10,622	846	8.0 %
Adjusted gross profit %(2)	**29.3 %**	29.6 %			**29.5 %**	29.7 %		
Adjusted EBITDA(2)	**$ 1,474**	$ 1,452	$ 22	1.5 %	**$ 3,612**	$ 3,565	$ 47	1.3 %
Adjusted EBITDA margin(2)	**9.5 %**	10.1 %			**9.3 %**	10.0 %		
Depreciation and amortization	**$ 789**	$ 771	$ 18	2.3 %	**$ 1,971**	$ 1,921	$ 50	2.6 %

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**		2019 (16 weeks)		**2020 (40 weeks)**		2019 (40 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 11,215**	**6.9 %**	$ 10,423	0.1 %	**$ 28,294**	**8.7 %**	$ 25,796	0.8 %
Drug retail	**4,249**	**6.1 %**	3,997	4.1 %	**10,522**	**5.3 %**	9,982	3.5 %
Pharmacy	**2,128**	**10.3 %**	1,929	5.3 %	**5,052**	**5.4 %**	4,790	3.9 %
Front store	**2,121**	**2.4 %**	2,068	3.1 %	**5,470**	**5.1 %**	5,192	3.2 %

Sales Retail segment sales in the third quarter of 2020 were $15,464 million, an increase of $1,044 million, or 7.2% compared to the third quarter of 2019. After excluding the consolidation of franchises, Retail segment sales increased by $939 million, or 6.7%, primarily driven by the following factors:

- Food retail same-store sales growth was 6.9% (2019 – 0.1%) for the quarter. Food same-store sales growth was positively impacted by COVID-19.
  - Sales growth in food was strong;
  - Sales growth in pharmacy was strong;
  - The Company's Food retail average article price was higher by 5.3% (2019 – 2.2%), which reflects the year over year growth in Food retail revenue over the average number of articles sold in the Company's stores in the quarter. The increase in average article price was due to sales mix.
  - Food retail basket size increased and traffic decreased in the quarter.
- Drug retail same-store sales growth was 6.1% (2019 – 4.1%).
  - Pharmacy same-store sales growth was 10.3% (2019 – 5.3%). The number of prescriptions dispensed increased by 5.0% (2019 – 3.1%). On a same-store basis, the number of prescriptions dispensed increased by 5.0% (2019 – 2.9%) and the average prescription value increased by 4.9% (2019 – 1.6%).
  - Front store same-store sales growth was 2.4% (2019 – 3.1%).

In the last 12 months, 16 food and drug stores were opened, and 6 food and drug stores were closed, resulting in a net increase in Retail square footage of 0.3 million square feet, or 0.4%.

On a year-to-date basis, retail sales were $38,816 million, an increase of $3,038 million, or 8.5%, compared to the same period in 2019. After excluding the consolidation of franchises, Retail segment sales increased by $2,647 million, or 7.6%. Year-to-date Food retail sales of $28,294 million increased by $2,498 million, or 9.7%. The increase was primarily due to year-to-date same-store sales growth of 8.7% (2019 – 0.8%). Drug retail sales of $10,522 million increased by $540 million, or 5.4%. Year-to-date Drug retail same-store sales growth was 5.3% (2019 – 3.5%), with pharmacy same-store sales growth of 5.4% (2019 – 3.9%) and Front store same-store sales growth of 5.1% (2019 – 3.2%).

Operating Income Operating income in the third quarter of 2020 was $674 million, an increase of $19 million compared to the third quarter of 2019. The increase in operating income was driven by an improvement in underlying operating performance of $2 million and the favourable year-over-year net impact of adjusting items totaling $17 million as described below:

- the improvement in underlying operating performance of $2 million was primarily due to an increase in adjusted gross profit[(2)], partially offset by an increase in SG&A and an increase in depreciation and amortization. The improvement in underlying operating performance included the unfavourable year-over-year contribution from consolidation of franchises of $1 million; and,
- the favourable change in adjusting items totaling $17 million was primarily due to the following:
  - the year-over-year favourable impact of restructuring and other related costs of $9 million;
  - the year-over-year favourable change in fair value adjustments on fuel and foreign currency contracts of $3 million; and,
  - the year-over-year favourable impact of a prior year net gain on sale of non-operating properties of $3 million.

Year-to-date operating income was $1,582 million, a decrease of $20 million compared to the same period in 2019. The decrease in operating income was driven by a decline in underlying operating performance of $3 million and the unfavourable change in adjusting items totaling $17 million, as described below:

- the decline in underlying operating performance of $3 million was primarily from an increase in SG&A due to an increase in COVID-19 related expenses and an increase in depreciation and amortization, partially offset by an increase in adjusted gross profit(2). The decline in underlying operating performance included the favourable year-over-year contribution from consolidation of franchises of $2 million; and,
- the unfavourable change in adjusting items totaling $17 million was primarily due to the following:
  - the unfavourable impact of the reversal of certain prior period items in 2019 of $15 million;
  - the year-over-year unfavourable change in fair value adjustments on fuel and foreign currency contracts of $7 million;
  - the unfavourable impact of a prior year net gain on the sale of non-operating properties of $3 million; and
  - the year-over-year unfavourable change in fair value adjustment on investment properties of $3 million;

  partially offset by,
  - the year-over-year favourable impact of prior year pension annuities and buy-outs of $10 million; and
  - the year-over-year favourable impact of restructuring and other related costs of $1 million.

Adjusted Gross Profit(2) Adjusted gross profit(2) in the third quarter of 2020 was $4,534 million, an increase of $272 million compared to the third quarter of 2019. Excluding the consolidation of franchises, adjusted gross profit(2) increased by $153 million. Adjusted gross profit percentage(2) of 29.3% decreased by 30 basis points compared to the third quarter of 2019. Adjusted gross profit percentage(2), excluding the consolidation of franchises, was 26.7%. This represented a decrease of 60 basis points compared to the third quarter of 2019. Food margins were negatively impacted as a result of COVID-19 related changes in sales mix, and pricing investments. Drug retail margins were negatively impacted as a result of COVID-19 related changes in prescription refill limits from 30 days back to 90 days.

Year-to-date adjusted gross profit(2) was $11,468 million, an increase of $846 million compared to the same period in 2019. Adjusted gross profit percentage(2) of 29.5% decreased by 20 basis points compared to 2019. Excluding the consolidation of franchises, adjusted gross profit(2) increased by $485 million. Adjusted gross profit percentage(2), excluding the consolidation of franchises, was 26.9%, a decrease of 70 basis points compared to the same period in 2019. Food and Drug retail margins were negatively impacted as a result of COVID-19 related changes in sales mix.

Adjusted EBITDA(2) Adjusted EBITDA(2) in the third quarter of 2020 was $1,474 million, an increase of $22 million compared to the third quarter of 2019. The increase included the year-over-year favourable impact of the consolidation of franchises of $8 million. Excluding the consolidation of franchises, the increase was driven by an increase in adjusted gross profit(2) of $153 million, partially offset by an increase in SG&A of $139 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 17.2%, a decrease of 10 basis points compared to the third quarter of 2019. The favourable decrease of 10 basis points was primarily related to sales leverage and process and efficiency gains which was partially offset by COVID-19 related costs and incremental e-commerce labour costs as a result of increased on-line sales.

Year-to-date adjusted EBITDA(2) was $3,612 million, an increase of $47 million compared to the same period in 2019. The increase included the year-over-year favourable impact of the consolidation of franchises of $24 million. Excluding the consolidation of franchises, the increase was driven by an increase in adjusted gross profit(2) of $485 million, partially offset by an increase in SG&A of $462 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 17.7%, flat compared to the same period in 2019, driven by sales leverage and process and efficiency gains which was offset by COVID-19 related costs and incremental e-commerce labour costs as a result of higher online sales.

In the third quarter of 2020, adjusted EBITDA(2) included gains of nil (2019 – $2 million) and nil year-to-date (2019 – $7 million) related to the sale and leaseback of properties to Choice Properties Real Estate Investment Trust.

Depreciation and Amortization Depreciation and amortization in the third quarter of 2020 was $789 million, an increase of $18 million compared to the third quarter of 2019. Year-to-date depreciation and amortization was $1,971 million, an increase of $50 million compared to the same period in 2019. The increase in depreciation and amortization in the third quarter of 2020 and year-to-date was primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization in the third quarter of 2020 and year-to-date is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $155 million (2019 – $157 million) and $392 million (2019 – $392 million), respectively.

Other Retail Business Matters

Consolidation of Franchises The Company has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2020, the Company 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.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars unless where otherwise indicated)	**2020 (16 weeks)**	2019[4] (16 weeks)	**2020 (40 weeks)**	2019[4] (40 weeks)
Number of consolidated franchise stores, beginning of period	**526**	424	**470**	400
Add: Net number of consolidated franchise stores in the period	**—**	20	**56**	44
Number of consolidated franchise stores, end of period[i]	**526**	444	**526**	444
Sales	**$ 532**	$ 427	**$ 1,427**	$ 1,036
Adjusted gross profit[2]	**554**	435	**1,399**	1,038
Adjusted EBITDA[2]	**59**	51	**146**	122
Depreciation and amortization	**33**	24	**80**	58
Operating income	**26**	27	**66**	64
Net earnings	**21**	17	**46**	41
Net income attributable to non-controlling interests	**15**	19	**38**	41

(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 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.

4.2 Financial Services Segment

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	$ Change	% Change	**2020 (40 weeks)**	2019 (40 weeks)	$ Change	% Change
Revenue	**$ 278**	$ 309	$ (31)	(10.0)%	**$ 777**	$ 859	$ (82)	(9.5)%
Earnings before income taxes	**21**	15	6	40.0 %	**14**	67	(53)	(79.1)%

(millions of Canadian dollars except where otherwise indicated)	**As at October 3, 2020**	As at October 5, 2019	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,179**	$ 3,217	$ (38)	(1.2)%
Credit card receivables	**3,008**	3,263	(255)	(7.8)%
Allowance for credit card receivables	**247**	188	59	31.4 %
Annualized yield on average quarterly gross credit card receivables	**13.4 %**	13.7 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**3.7 %**	3.4 %		

Revenue Revenue in the third quarter of 2020 was $278 million. Compared to the third quarter of 2019, this represented a decrease of $31 million, primarily driven by:

- lower interest income attributable to a lower volume of credit card receivables; and
- lower interchange income and credit card related fees primarily driven by lower customer spending;

partially offset by,

- higher sales attributable to *The Mobile Shop*.

Year-to-date revenue was $777 million. Compared to the same period in 2019, this represented a decrease of $82 million, primarily driven by:

- lower credit card related revenues as described above; and
- lower sales attributable to the partial closure of *The Mobile Shop* kiosks during the second quarter of 2020.

Earnings before income taxes Earnings before income taxes in the third quarter of 2020 were $21 million. When compared to the third quarter of 2019, this represented an increase in earnings of $6 million, primarily driven by:

- lower credit losses and expected credit losses primarily driven by lower customer spending which resulted in a decline in related receivables; and
- lower customer acquisition costs;

partially offset by,

- lower revenue, as described above.

Year-to-date earnings before income taxes were $14 million. Compared to the same period in 2019, this represented a decrease of $53 million. The decrease was primarily driven by:

- lower revenue, as described above;
- higher credit losses from the increase in expected credit losses attributable to the recessionary environment; and
- higher interest expenses;

partially offset by,

- lower customer acquisition costs.

Credit Card Receivables As at October 3, 2020, credit card receivables were $3,008 million. When compared to October 5, 2019, this represented a decrease of $255 million. This decrease was primarily driven by lower customer spending and higher payment rate. The allowance for credit card receivables increased to $247 million, an increase of $59 million compared to October 5, 2019.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	$ Change	% Change	**2020 (40 weeks)**	2019 (40 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 2,197**	$ 1,151	$ 1,046	90.9 %	**$ 1,133**	$ 1,065	$ 68	6.4 %
Cash flows from (used in):								
Operating activities	**$ 1,063**	$ 1,061	$ 2	0.2 %	**$ 3,811**	$ 2,972	$ 839	28.2 %
Investing activities	**(331)**	(423)	92	21.7 %	**(1,101)**	49	(1,150)	(2,346.9)%
Financing activities	**(1,431)**	(846)	(585)	(69.1)%	**(2,342)**	(3,144)	802	25.5 %
Effect of foreign currency exchange rate changes on cash and cash equivalents	**1**	1	—	— %	**(2)**	2	(4)	(200.0)%
Change in cash and cash equivalents	**$ (698)**	$ (207)	$ (491)	(237.2)%	**$ 366**	$ (121)	$ 487	402.5 %
Cash and cash equivalents, end of period	**$ 1,499**	$ 944	$ 555	58.8 %	**$ 1,499**	$ 944	$ 555	58.8 %

Cash Flows from Operating Activities Cash flows from operating activities in the third quarter of 2020 were $1,063 million, an increase of $2 million compared to the third quarter of 2019. The increase in cash flows from operating activities was primarily due to lower income taxes paid, an increase in cash earnings and a favourable change in provisions, partially offset by an increase in credit card receivables. While the overall customer spending on credit cards decreased significantly this year due to COVID-19, during this quarter, there was an increase in spend relative to the change in spend in the same period of prior year.

Year-to-date cash flows from operating activities were $3,811 million in 2020, an increase of $839 million compared to the same period in 2019. The increase in cash flows from operating activities was primarily due to a decrease in credit card receivables as a result of reduced customer spending due to COVID-19 and lower income taxes paid.

Cash Flows used in Investing Activities Cash flows used in investing activities in the third quarter of 2020 were $331 million, a decrease of $92 million compared to the third quarter of 2019. The decrease in cash flows used in investing activities was primarily due to a decrease in short term investments and a favourable change in security deposits, partially offset by the investment in Maple Corporation.

Year-to-date cash flows used in investing activities were $1,101 million in 2020, an increase of $1,150 million compared to the same period in 2019. The increase in cash flows used in investing activities was primarily due to the release of $800 million in security deposits in the prior year to repay $800 million of the Company's debentures and an increase in short term investments.

Capital Investments and Store Activity

As at or for the periods ended October 3, 2020 and October 5, 2019	**2020 (40 weeks)**	2019 (40 weeks)	% Change
Corporate square footage (in millions)	**35.6**	35.6	— %
Franchise square footage (in millions)	**16.5**	16.4	0.6 %
Associate-owned drug store square footage (in millions)	**18.8**	18.6	1.1 %
Total retail square footage (in millions)	**70.9**	70.6	0.4 %
Number of corporate stores	**551**	548	0.5 %
Number of franchise stores	**540**	539	0.2 %
Number of Associate-owned drug stores	**1,347**	1,341	0.4 %
Total number of stores	**2,438**	2,428	0.4 %
Percentage of corporate real estate owned	**7 %**	8 %	
Percentage of franchise real estate owned	**4 %**	4 %	
Percentage of Associate-owned drug store real estate owned	**1 %**	1 %	
Average store size (square feet)			
Corporate	**64,600**	65,000	(0.6)%
Franchise	**30,600**	30,400	0.7 %
Associate-owned drug store	**14,000**	13,900	0.7 %

Capital Investments Capital investments in the third quarter of 2020 were $396 million, a decrease of $1 million or 0.3% compared to the third quarter of 2019. Year-to-date capital investments were $806 million, an increase of $26 million or 3.3% compared to the same period in 2019.

Cash Flows used in Financing Activities Cash flows used in financing activities in the third quarter of 2020 were $1,431 million, an increase of $585 million compared to the third quarter of 2019. The increase in cash flows used in financing activities was primarily due to the repayment of $350 million of debentures and $250 million of *Eagle Credit Card Trust*® ("*Eagle*") notes, and an increase in share buybacks, partially offset by lower repayment of short term debt.

Year-to-date cash flows used in financing activities were $2,342 million in 2020, a decrease of $802 million compared to the same period in 2019. The decrease in cash flows used in financing activities was primarily due to a net issuance of long term debt in the current year of $108 million compared to a net repayment of long term debt of $399 million in the prior year. The net repayment of long term debt in the prior year includes a repayment of $800 million of debentures released from security deposit, partially offset by an issuance of $250 million of *Eagle* notes. The Company did not repurchase any common shares under its Normal Course Issuer Bid ("NCIB") during the second quarter of 2020, resulting in less share buybacks year-to-date.

The Company's significant long term debt transactions are set out in Section "5.3 Components of Total Debt".

Free Cash Flow(2)

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	$ Change	% Change	**2020 (40 weeks)**	2019 (40 weeks)	$ Change	% Change
Cash flows from operating activities	**$ 1,063**	$ 1,061	$ 2	0.2 %	**$ 3,811**	$ 2,972	$ 839	28.2 %
Less:								
Capital investments	**396**	397	(1)	(0.3)%	**806**	780	26	3.3 %
Interest paid	**106**	104	2	1.9 %	**265**	275	(10)	(3.6)%
Lease payments, net	**440**	374	66	17.6 %	**1,099**	979	120	12.3 %
Free cash flow(2)	**$ 121**	$ 186	$ (65)	(34.9)%	**$ 1,641**	$ 938	$ 703	74.9 %

Free cash flow(2) in the third quarter of 2020 was $121 million, a decrease of $65 million compared to the third quarter of 2019. The decrease in free cash flow(2) was primarily due to an increase in credit card receivables, partially offset by lower income taxes paid. While the overall customer spending on credit cards decreased significantly this year due to COVID-19, during this quarter, there was an increase in spend relative to the change in spend in the same period of prior year.

Year-to-date free cash flow(2) was $1,641 million in 2020, an increase of $703 million compared to the same period in 2019. The increase in free cash flow(2) was primarily due to a decrease in credit card receivables as a result of reduced customer spending due to COVID-19 and lower income taxes paid.

5.2 Liquidity and Capital Structure

The Company 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 the Company 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.

PC Bank expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle* notes and Guaranteed Investment Certificates.

The Company manages its capital structure on a segmented basis to ensure that each of the reportable operating segments is employing a capital structure that is appropriate for the industry in which it operates. The following table presents total debt, as monitored by management, by reportable operating segment:

		As at October 3, 2020			As at October 5, 2019			As at December 28, 2019	
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total	Retail	Financial Services	Total
Bank indebtedness	**$ 193**	**$ —**	**$ 193**	$ 152	$ —	$ 152	$ 18	$ —	$ 18
Short term debt	**—**	**500**	**500**	—	550	550	—	725	725
Long term debt due within one year	**—**	**683**	**683**	350	644	994	350	777	1,127
Long term debt	**4,784**	**1,747**	**6,531**	4,422	1,683	6,105	4,437	1,534	5,971
Certain other liabilities	**71**	**—**	**71**	56	—	56	65	—	65
Total debt excluding lease liabilities	**$ 5,048**	**$ 2,930**	**$ 7,978**	$ 4,980	$ 2,877	$ 7,857	$ 4,870	$ 3,036	$ 7,906
Lease liabilities due within one year	**1,331**	**—**	**1,331**	1,306	—	1,306	1,419	—	1,419
Lease liabilities	**7,542**	**—**	**7,542**	7,706	—	7,706	7,691	—	7,691
Total debt including total lease liabilities	**$ 13,921**	**$ 2,930**	**$ 16,851**	$13,992	$ 2,877	$16,869	$13,980	$ 3,036	$17,016

Retail The Company manages its capital structure with the objective of maintaining Retail segment credit metrics consistent with those of investment grade retailers. The Company monitors the Retail segment's debt to retail adjusted EBITDA(2) ratio as a measure of the leverage being employed.

	As at October 3, 2020	As at October 5, 2019	As at December 28, 2019
Retail debt to rolling year retail adjusted EBITDA(2)	**2.9 x**	3.0 x	3.0 x

The Retail debt to rolling year retail adjusted EBITDA(2) ratio as at October 3, 2020 decreased compared to October 5, 2019 and December 28, 2019, primarily due to an improvement in adjusted EBITDA(2) and decrease in Retail debt.

President's Choice Bank PC Bank's 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 ("OSFI").

Covenants and Regulatory Requirements The Company is required to comply with certain financial covenants for various debt instruments. As at October 3, 2020 and throughout the third quarter, the Company was in compliance with such covenants. As at October 3, 2020 and throughout the third quarter, PC Bank has met all applicable regulatory requirements.

5.3 Components of Total Debt

Debentures In the third quarter of 2020, the Company redeemed $350 million aggregate principal amount of 5.22% Medium Term Notes, Series 2-B on June 18, 2020. On a year-to-date basis in 2020, the Company issued $350 million aggregate principal amount of senior unsecured notes bearing interest at 2.284% per annum with a maturity date of May 7, 2030. In connection with this issuance, the Company settled a bond forward with a notional value of $350 million, resulting in a realized fair value loss of $34 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned notes. This settlement also resulted in a net effective interest rate of 3.34% on the notes issued.

In the third quarter of 2019, there were no debentures issued or repaid. On a year-to-date basis in 2019, the Company redeemed, at par, $800 million of 3.75% debentures with an original maturity date of March 12, 2019.

Committed Credit Facility The Company has a $1.0 billion committed credit facility with a maturity date of June 10, 2021, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants. On a year-to-date basis in 2020, the Company withdrew and repaid $350 million under this facility. As at October 3, 2020, October 5, 2019 and December 28, 2019, there were no amounts drawn under this facility. Subsequent to the end of the third quarter of 2020, the Company amended its committed credit facility and extended the maturity date to October 7, 2023.

Independent Securitization Trusts The Company, through PC Bank, participates in various securitization programs that provide a source of funds for the operation of its credit card business. PC Bank maintains and monitors a co-ownership interest in credit card receivables with independent securitization trusts, including *Eagle* and Other Independent Securitization Trusts, in accordance with its financing requirements.

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

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust*®	**$ 1,050**	$ 1,000	$ 1,000
Securitized to other independent securitization trusts	**500**	550	725
Total securitized to independent securitization trusts	**$ 1,550**	$ 1,550	$ 1,725

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 October 3, 2020 and throughout the three quarters of 2020.

During the third quarter of 2020, *Eagle* issued $300 million of senior and subordinated term notes with a maturity date of July 17, 2025 at a weighted average interest rate of 1.34%. In connection with this issuance, $200 million of bond forward agreements were settled, resulting in a realized fair value loss of $11 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.07% on the *Eagle* notes issued. In addition, $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23%, previously issued by *Eagle*, matured and were repaid on September 17, 2020. As a result, during the third quarter of 2020, there was a net change in the balances related to *Eagle* notes of $50 million.

During the third quarter of 2019, *Eagle* issued $250 million of senior and subordinated term notes with a maturity date of July 17, 2024 at a weighted average interest rate of 2.28%. In connection with this issuance, $250 million of bond forward agreements were settled, resulting in a realized fair value loss of $8 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.94% on the *Eagle* notes issued.

Independent Funding Trusts As at October 3, 2020, the independent funding trust had drawn $494 million (October 5, 2019 – $501 million; December 28, 2019 – $505 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts. As at October 3, 2020, the Company provided a credit enhancement of $64 million (October 5, 2019 and December 28, 2019 – $64 million) for the benefit of the independent funding trusts representing not less than 10% (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.

5.4 Financial Condition

Rolling Year Adjusted Return on Equity(2) and Rolling Year Adjusted Return on Capital(2)

	As at October 3, 2020	As at October 5, 2019	As at December 28, 2019
Rolling year adjusted return on equity(2)	**13.5 %**	13.4 %	13.7 %
Rolling year adjusted return on capital(2)	**7.9 %**	7.8 %	7.8 %

Rolling year adjusted return on equity(2) as at October 3, 2020 increased compared to October 5, 2019 primarily due to the decrease in retained earnings as a result of common share repurchases. Rolling year adjusted return on equity(2) as at October 3, 2020 decreased compared to December 28, 2019 primarily due to a decline in underlying operating performance of the Retail Segment and Financial Services segment due to COVID-19 and an increase in depreciation and amortization.

Rolling year adjusted return on capital(2) as at October 3, 2020 increased compared to October 5, 2019 and December 28, 2019 primarily due to an increase in cash and cash equivalents.

5.5 Credit Ratings

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

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

In the third quarter of 2020, Dominion Bond Rating Service upgraded the credit ratings of the Company from BBB (mid) to BBB (high) with a stable trend. In the third quarter of 2020, Standard and Poor's reaffirmed the credit ratings and outlook of the Company.

5.6 Share Capital

Common Shares (authorized – unlimited) Common shares issued are fully paid and have no par value. The activities in the common shares issued and outstanding during the periods were as follows:

	October 3, 2020 (16 weeks)		October 5, 2019 (16 weeks)		**October 3, 2020 (40 weeks)**		October 5, 2019 (40 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**357,785,905**	**$ 7,038**	366,100,437	$ 7,163	**360,064,475**	**$ 7,065**	371,790,967	$ 7,177
Issued for settlement of stock options	**107,427**	**7**	519,984	28	**586,434**	**34**	1,836,381	91
Purchased and cancelled	**(5,045,210)**	**(100)**	(4,313,300)	(84)	**(7,802,787)**	**(154)**	(11,320,227)	(161)
Issued and outstanding, end of period	**352,848,122**	**$ 6,945**	362,307,121	$ 7,107	**352,848,122**	**$ 6,945**	362,307,121	$ 7,107
Shares held in trust, beginning of period	**(843,469)**	**$ (16)**	(555,455)	$ (10)	**(1,113,302)**	**$ (21)**	(734,727)	$ (15)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**(145,000)**	**(3)**	(300,000)	(5)
Released for settlement of RSUs and PSUs	**106,692**	**2**	23,798	—	**521,525**	**10**	503,070	10
Shares held in trust, end of period	**(736,777)**	**$ (14)**	(531,657)	$ (10)	**(736,777)**	**$ (14)**	(531,657)	$ (10)
Issued and outstanding, net of shares held in trust, end of period	**352,111,345**	**$ 6,931**	361,775,464	$ 7,097	**352,111,345**	**$ 6,931**	361,775,464	$ 7,097
Weighted average outstanding, net of shares held in trust	**355,524,589**		364,201,921		**356,855,392**		366,718,947	

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

	October 3, 2020[(i)] (16 weeks)	October 5, 2019 (16 weeks)	October 3, 2020 (40 weeks)	October 5, 2019 (40 weeks)
Dividends declared per share ($)				
Common Share	**$ 0.315**	$ 0.315	**$ 0.945**	$ 0.925
Second Preferred Share, Series B	**$ 0.33125**	$ 0.33125	**$ 0.99375**	$ 0.99375

(i) The third quarter dividends for 2020 of $0.315 per share declared on Common Shares had a payment date of October 1, 2020. The third quarter dividends for 2020 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of September 30, 2020.

(millions of Canadian dollars)	October 3, 2020 (16 weeks)	October 5, 2019 (16 weeks)	October 3, 2020 (40 weeks)	October 5, 2019 (40 weeks)
Dividends declared				
Common Share	**$ 111**	$ 117	**$ 336**	$ 341
Second Preferred Share, Series B	**3**	3	**9**	9
Total dividends declared	**$ 114**	$ 120	**$ 345**	$ 350

Subsequent to the end of the third quarter of 2020, the Board of Directors declared a quarterly dividend of $0.335 per common share, payable on December 30, 2020 to shareholders of record on December 15, 2020 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on December 31, 2020 to shareholders of record on December 15, 2020.

Normal Course Issuer Bid Activities under the Company's NCIB during the periods were as follows:

(millions of Canadian dollars except where otherwise indicated)	October 3, 2020 (16 weeks)	October 5, 2019 (16 weeks)	October 3, 2020 (40 weeks)	October 5, 2019 (40 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**5,045,210**	4,313,300	**7,802,787**	11,320,227
Cash consideration paid[(i)]	**$ 350**	$ 309	**$ 538**	$ 774
Premium charged to retained earnings	**250**	225	**384**	428
Reduction in common share capital	**100**	84	**154**	161
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	—	**145,000**	300,000
Cash consideration paid	**$ —**	$ —	**$ 10**	$ 20
Premium charged to retained earnings	**—**	—	**7**	15
Reduction in common share capital	**—**	—	**3**	5

(i) In the first quarter of 2019, cash consideration paid included $185 million paid for common shares related to the automatic share purchase plan as described below.

In the first quarter of 2020, the Toronto Stock Exchange ("TSX") accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from George Weston Limited ("Weston") under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company. In the second quarter of 2020, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 of the Company's 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 at October 3, 2020, the Company had purchased 5,045,210 common shares for cancellation under its current NCIB.

During the third quarter of 2020, 5,045,210 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $350 million, including 2,439,210 common shares purchased from Weston, for aggregate cash consideration of $169 million. On a year-to-date basis, 7,802,787 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $538 million, including 3,794,287 common shares purchased from Weston, for aggregate cash consideration of $261 million.

In the first quarter of 2019, the Company completed an automatic share purchase plan ("ASPP") that was initiated in the fourth quarter of 2018 to facilitate the repurchase of the Company's common shares under its NCIB. Under the ASPP, the Company's broker purchased 2,927,733 common shares for approximately $185 million.

5.7 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 was no significant changes to these off-balance sheet arrangements during the third quarter of 2020. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2019 Annual Report.

6. Financial Derivative Instruments

The Company uses derivative instruments to offset certain of its financial risks. The Company uses bond forwards to manage its anticipated exposure to fluctuations in interest rates on future debt issuances.

During the second quarter, the Company settled the bond forward that was entered into in 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") bearing interest at 2.284% per annum. The Company has concluded that this hedge was effective as at the settlement date. Accordingly, the accumulated other comprehensive income associated with this bond forward will continue to be amortized over the term of the 2030 Notes as net interest expense and other financing charges within the financial statements, resulting in an effective annual interest rate of approximately 3.34%.

In the third quarter of 2020, PC Bank settled the bond forward of $200 million. The purpose of the bond forward was to hedge the interest rate risk for the $300 million *Eagle* notes issued during the third quarter of 2020. The Company has concluded that this hedge was effective as at the settlement date (see Section 5.3 Components of Total Debt "Independent Securitization Trusts" of this MD&A).

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. For further details on the impact of these instruments during the third quarter of 2020 see Section 11 "Non-GAAP financial Measures" of the MD&A.

7. Results by Quarter

Under an accounting convention common in the retail industry, the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. Fiscal years 2019 and 2018 were 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.

Summary of Consolidated Quarterly Results 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:

	Third Quarter		Second Quarter		First Quarter		Fourth Quarter	
(millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	**2019 (16 weeks)**	2020 (12 weeks)	2019 (12 weeks)	2020 (12 weeks)	2019 (12 weeks)	2019 (12 weeks)	2018 (12 weeks)
Revenue	**$ 15,671**	**$14,655**	$ 11,957	$11,133	$ 11,800	$10,659	$ 11,590	$11,218
Adjusted EBITDA[(2)]	**1,524**	**1,492**	1,016	1,175	1,169	1,040	1,205	895
Net earnings available to common shareholders of the Company	**342**	**331**	169	286	240	198	254	221
Continuing Operations	**342**	**331**	169	286	240	198	254	228
Discontinuing Operations	**—**	**—**	—	—	—	—	—	(7)
Adjusted net earnings available to common shareholders of the Company[(2)]	**$ 464**	**$ 458**	$ 266	$ 373	$ 352	$ 290	$ 395	$ 402
Continuing Operations	**464**	**458**	266	373	352	290	395	388
Discontinuing Operations	**—**	**—**	—	—	—	—	—	14
Net earnings per common share:								
Basic ($)	**$ 0.96**	**$ 0.91**	$ 0.47	$ 0.78	$ 0.67	$ 0.54	$ 0.70	$ 0.59
Continuing Operations	**$ 0.96**	**$ 0.91**	$ 0.47	$ 0.78	$ 0.67	$ 0.54	$ 0.70	$ 0.61
Discontinuing Operations	**$ —**	**$ —**	$ —	$ —	$ —	$ —	$ —	$ (0.02)
Diluted ($)	**$ 0.96**	**$ 0.90**	$ 0.47	$ 0.77	$ 0.66	$ 0.53	$ 0.70	$ 0.59
Continuing Operations	**$ 0.96**	**$ 0.90**	$ 0.47	$ 0.77	$ 0.66	$ 0.53	$ 0.70	$ 0.61
Discontinuing Operations	**$ —**	**$ —**	$ —	$ —	$ —	$ —	$ —	$ (0.02)
Adjusted diluted net earnings per common share [(2)] ($)	**$ 1.30**	**$ 1.25**	$ 0.74	$ 1.01	$ 0.97	$ 0.78	$ 1.09	$ 1.07
Continuing Operations	**$ 1.30**	**$ 1.25**	$ 0.74	$ 1.01	$ 0.97	$ 0.78	$ 1.09	$ 1.03
Discontinuing Operations	**$ —**	**$ —**	$ —	$ —	$ —	$ —	$ —	$ 0.04
Food retail same-store sales growth	**6.9 %**	**0.1 %**	10.0 %	0.6 %	9.6 %	2.0 %	1.9 %	0.8 %
Drug retail same-store sales (decline)/growth	**6.1 %**	**4.1 %**	(1.1)%	4.0 %	10.7 %	2.2 %	3.9 %	1.9 %

Revenue Revenue for the last eight quarters was impacted by various factors including the following:

- COVID-19 pandemic related impacts;
- seasonality, which was greatest in the fourth quarter and least in the first quarter. In the first, second and third quarter of 2020 revenue was unusually high compared to the same periods of 2019 due to COVID-19;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices;
- consolidation of franchises; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.7 million square feet to 70.9 million square feet.

Net Earnings Available to Common Shareholders of the Company and Diluted Net Earnings Per Common Share 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;
- seasonality, which was greatest in the fourth quarter and least in the first quarter. The Company's financial results for the 40 weeks ended October 3, 2020 show increased revenue, driven by increased demands for essential items due to COVID-19. SG&A also increased as a result of the incremental cost of COVID–19 related investments to benefit and protect colleagues and customers;
- the timing of holidays;
- the impact of the Company's store closure plan;
- improvements in the underlying operating performance of the Company; and
- the impact of adjusting items, as set out in Section 11 "Non-GAAP Financial Measures", including:
  - restructuring and other related charges;
  - asset impairments, net of recoveries;
  - the gain and loss on sale of non-operating properties; and
  - certain prior period items.

The consolidation of franchises does not significantly impact net earnings available to common shareholders of the Company as the related earnings are largely attributable to Non-Controlling Interests.

8. 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 International Financial Reporting Standards.

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 third quarter of 2020 that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

9. Enterprise Risks and Risk Management

COVID-19 The duration and impact of the COVID-19 pandemic on the Company 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. The Company continues 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 colleagues, customers, suppliers or other stakeholders, as necessary. The Company 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.

Changes in the Company's operations in response to COVID-19, could materially impact financial results and may include temporary closures of facilities, 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 outbreak 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 generally. 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 outbreak 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 AIF for the year ended December 28, 2019 and the Company's MD&A in the Company's 2019 Annual Report, which are hereby incorporated by reference. The Company's 2019 Annual Report and AIF are available online on www.sedar.com.

10. Accounting Standards

New Significant Accounting Policy

Investment Accounted for Under the Equity Method The Company owns an investment in an entity ("investee") in which the Company has significant influence, but not control, over its financial and operating policies. Interest in the investee is accounted for using the equity method. The investment is initially recognized in the consolidated balance sheets at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the investee. The Company's share of the investee's profit or loss is recognized in the Company's operating income. An investment is considered to be impaired if there are objective evidences of impairments, as a result of one or more events that occurred after the initial recognition, and those events have negative impacts on the future cash flows of the investee that can be reliably estimated. The investment is reviewed at each balance sheet date to determine whether there are any indicators of impairment.

11. Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted effective tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share, free cash flow; retail debt to rolling year retail adjusted EBITDA; rolling year adjusted return on equity; and rolling year adjusted return on capital. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

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

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

Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to revenue and cost of merchandise inventories sold measures as reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as Retail segment adjusted gross profit divided by Retail segment revenue.

				2020 (16 weeks)				2019 (16 weeks)
For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 15,464**	**$ 278**	**$ (71)**	**$ 15,671**	$ 14,420	$ 309	$ (74)	$ 14,655
Cost of merchandise inventories sold	**10,930**	**52**	**—**	**10,982**	10,158	47	—	10,205
Gross profit	**$ 4,534**	**$ 226**	**$ (71)**	**$ 4,689**	$ 4,262	$ 262	$ (74)	$ 4,450
Adjusted gross profit	**$ 4,534**	**$ 226**	**$ (71)**	**$ 4,689**	$ 4,262	$ 262	$ (74)	$ 4,450

				2020 (40 weeks)				2019 (40 weeks)
For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 38,816**	**$ 777**	**$ (165)**	**$ 39,428**	$ 35,778	$ 859	$ (190)	$ 36,447
Cost of merchandise inventories sold	**27,348**	**99**	**—**	**27,447**	25,156	117	—	25,273
Gross profit	**$ 11,468**	**$ 678**	**$ (165)**	**$ 11,981**	$ 10,622	$ 742	$ (190)	$ 11,174
Adjusted gross profit	**$ 11,468**	**$ 678**	**$ (165)**	**$ 11,981**	$ 10,622	$ 742	$ (190)	$ 11,174

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile adjusted operating income and adjusted EBITDA to operating income, which is reconciled to net earnings attributable to shareholders of the Company as reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenue.

			2020 (16 weeks)			2019 (16 weeks)
For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Consolidated**	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 345**			$ 334
Add impact of the following:						
Non-controlling interests			**15**			19
Net interest expense and other financing charges			**228**			223
Income taxes			**130**			114
Operating income	**$ 674**	**$ 44**	**$ 718**	$ 655	$ 35	$ 690
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**155**	**—**	**155**	157	—	157
Restructuring and other related costs	**12**	**—**	**12**	21	1	22
Fair value adjustment on fuel and foreign currency contracts	**—**	**—**	**—**	3	—	3
(Gain)/loss on sale of non-operating properties	**(1)**	**—**	**(1)**	2	—	2
Adjusting Items	**$ 166**	**$ —**	**$ 166**	$ 183	$ 1	$ 184
Adjusted operating income	**$ 840**	**$ 44**	**$ 884**	$ 838	$ 36	$ 874
Depreciation and amortization	**789**	**6**	**795**	771	4	775
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(155)**	**—**	**(155)**	(157)	—	(157)
Adjusted EBITDA	**$ 1,474**	**$ 50**	**$ 1,524**	$ 1,452	$ 40	$ 1,492

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	2020 (40 weeks) Retail	Financial Services	Consolidated	2019 (40 weeks) Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 760**			$ 824
Add impact of the following:						
Non-controlling interests			**38**			41
Net interest expense and other financing charges			**576**			571
Income taxes			**289**			293
Operating income	**$ 1,582**	**$ 81**	**$ 1,663**	$ 1,602	$ 127	$ 1,729
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 392**	**$ —**	**$ 392**	$ 392	$ —	$ 392
Restructuring and other related costs	**48**	**—**	**48**	49	1	50
Fair value adjustment on fuel and foreign currency contracts	**12**	**—**	**12**	5	—	5
Pension annuities and buy-outs	**—**	**—**	**—**	10	—	10
Fair value adjustment on investment properties	**—**	**—**	**—**	(3)	—	(3)
Certain prior period items	**—**	**—**	**—**	(15)	—	(15)
(Gain)/loss on sale of non-operating properties	**(1)**	**—**	**(1)**	(4)	—	(4)
Adjusting Items	**$ 451**	**$ —**	**$ 451**	$ 434	$ 1	$ 435
Adjusted operating income	**$ 2,033**	**$ 81**	**$ 2,114**	$ 2,036	$ 128	$ 2,164
Depreciation and amortization	**1,971**	**16**	**1,987**	1,921	14	1,935
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(392)**	**—**	**(392)**	(392)	—	(392)
Adjusted EBITDA	**$ 3,612**	**$ 97**	**$ 3,709**	$ 3,565	$ 142	$ 3,707

In addition to the items described in the Retail segment adjusted gross profit section above, adjusted EBITDA was impacted by the following:

Amortization of intangible assets acquired with Shoppers Drug Mart The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately $500 million until 2024 and will decrease thereafter.

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

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, 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.

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.

Gain/loss on sale of non-operating properties In the third quarter of 2020, the Company disposed a non-operating property to a third party and recorded a gain of $1 million. In the third quarter of 2019, the Company disposed of vacant land to a third party and recorded a loss of $2 million related to the sale.

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.

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

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges as reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	**2020** **(16 weeks)**	2019 (16 weeks)	**2020** **(40 weeks)**	2019 (40 weeks)
Net interest expense and other financing charges	**$ 228**	$ 223	**$ 576**	$ 571
Adjusted net interest expense and other financing charges	**$ 228**	$ 223	**$ 576**	$ 571

Adjusted Income Taxes and Adjusted Effective Tax Rate The following table reconciles adjusted income taxes to income taxes as reported in the condensed consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

Adjusted effective tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest expense and other financing charges.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020** **(16 weeks)**	2019 (16 weeks)	**2020** **(40 weeks)**	2019 (40 weeks)
Adjusted operating income(i)	**$ 884**	$ 874	**$ 2,114**	$ 2,164
Adjusted net interest expense and other financing charges(i)	**228**	223	**576**	571
Adjusted earnings before taxes	**$ 656**	$ 651	**$ 1,538**	$ 1,593
Income taxes	**$ 130**	$ 114	**$ 289**	$ 293
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(ii)	**44**	49	**120**	117
Reserve release related to 2014 tax audit	**—**	8	**—**	8
Statutory corporate income tax rate change	**—**	—	**—**	4
Adjusted income taxes	**$ 174**	$ 171	**$ 409**	$ 422
Effective tax rate	**26.5 %**	24.4 %	**26.6 %**	25.3 %
Adjusted effective tax rate	**26.5 %**	26.3 %	**26.6 %**	26.5 %

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

(ii) See the adjusted operating income, adjusted EBITDA and adjusted EBITDA margin table and the adjusted net interest expense and other financing charges table above for a complete list of items included in adjusted earnings before taxes.

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

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

In the second quarter of 2019, the Government of Alberta announced and substantively enacted a gradual decrease in the provincial statutory corporate income tax rate from 12% to 8% by 2022. The Company recorded a tax recovery of $4 million in the second quarter of 2019 and year-to-date related to the remeasurement of its deferred income tax balances.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share The 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 for the periods ended as indicated. 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.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)	**2020 (40 weeks)**	2019 (40 weeks)
Net earnings attributable to shareholders of the Company	**$ 345**	$ 334	**$ 760**	$ 824
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(9)**	(9)
Net earnings available to common shareholders of the Company	**$ 342**	$ 331	**$ 751**	$ 815
Net earnings attributable to shareholders of the Company	**$ 345**	$ 334	**$ 760**	$ 824
Adjusting items (refer to the following table)	**122**	127	**331**	306
Adjusted net earnings attributable to shareholders of the Company	**$ 467**	$ 461	**$ 1,091**	$ 1,130
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(9)**	(9)
Adjusted net earnings available to common shareholders of the Company	**$ 464**	$ 458	**$ 1,082**	$ 1,121
Diluted weighted average common shares outstanding (millions)	**358.0**	366.2	**359.5**	369.7

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

	2020 (16 weeks)		2019 (16 weeks)		**2020 (40 weeks)**		2019 (40 weeks)	
For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars/Canadian dollars)	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share	**Net Earnings Available to Common Shareholders of the Company**	**Diluted Net Earnings Per Common Share**	Net Earnings Available to Common Shareholders of the Company	Diluted Net Earnings Per Common Share
As reported	**$ 342**	**$ 0.96**	$ 331	$ 0.90	**$ 751**	**$ 2.09**	$ 815	$ 2.20
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 113**	**$ 0.31**	$ 116	$ 0.31	**$ 287**	**$ 0.79**	$ 287	$ 0.78
Restructuring and other related costs	**10**	**0.03**	15	0.04	**36**	**0.10**	36	0.10
Fair value adjustment on fuel and foreign currency contracts	**—**	**—**	2	0.01	**9**	**0.03**	4	0.01
Pension annuities and buy-outs	**—**	**—**	—	—	**—**	**—**	7	0.02
Fair value adjustment on investment properties	**—**	**—**	—	—	**—**	**—**	(2)	(0.01)
Statutory corporate income tax rate change	**—**	**—**	—	—	**—**	**—**	(4)	(0.01)
Certain prior period items	**—**	**—**	—	—	**—**	**—**	(11)	(0.03)
Reserve release related to 2014 tax audit	**—**	**—**	(8)	(0.02)	**—**	**—**	(8)	(0.02)
(Gain)/loss on sale of non-operating properties	**(1)**	**—**	2	0.01	**(1)**	**—**	(3)	(0.01)
Adjusting items	**$ 122**	**$ 0.34**	$ 127	$ 0.35	**$ 331**	**$ 0.92**	$ 306	$ 0.83
Adjusted	**$ 464**	**$ 1.30**	$ 458	$ 1.25	**$ 1,082**	**$ 3.01**	$ 1,121	$ 3.03

Free Cash Flow The following table reconciles free cash flow to cash flows from operating activities as reported in the condensed consolidated statements of cash flows for the periods ended as indicated. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	**2020 (16 weeks)**	2019 (16 weeks)	**2020 (40 weeks)**	2019 (40 weeks)
Cash flows from operating activities	**$ 1,063**	$ 1,061	**$ 3,811**	$ 2,972
Less:				
Capital investments	**396**	397	**806**	780
Interest paid	**106**	104	**265**	275
Lease payments, net	**440**	374	**1,099**	979
Free cash flow	**$ 121**	$ 186	**$ 1,641**	**$ 938**

Retail Debt to Rolling Year Retail Adjusted EBITDA, Rolling Year Adjusted Return on Equity and Rolling Year Adjusted Return on Capital The Company uses the following metrics to measure its leverage and profitability. The definitions of these ratios are presented below.

- ***Retail Debt to Rolling Year Retail Adjusted EBITDA*** Retail segment total debt divided by Retail segment adjusted EBITDA for the last four quarters.
- ***Rolling Year Adjusted Return on Equity*** Adjusted net earnings available to common shareholders of the Company for the last four quarters divided by average total equity attributable to common shareholders of the Company.
- ***Rolling Year Adjusted Return on Capital*** Tax-effected adjusted operating income for the last four quarters divided by average capital where capital is defined as total debt, plus equity attributable to shareholders of the Company, less cash and cash equivalents, and short term investments.

12. 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 sedar.com and with OSFI as the primary regulator for the Company's subsidiary, PC Bank.

November 11, 2020
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 134 of the Company's 2019 Annual Report.
(2) See Section 11 "Non-GAAP Financial Measures", which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
(3) To be read in conjunction with Section 1 "Forward-Looking Statements".
(4) Certain figures have been restated to conform with current year presentation.

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	October 3, 2020 (16 weeks)	October 5, 2019 (16 weeks)	October 3, 2020 (40 weeks)	October 5, 2019 (40 weeks)
Revenue	**$ 15,671**	$ 14,655	**$ 39,428**	$ 36,447
Cost of merchandise inventories sold	**10,982**	10,204	**27,447**	25,273
Selling, general and administrative expenses	**3,971**	3,761	**10,318**	9,445
Operating income	**$ 718**	$ 690	**$ 1,663**	$ 1,729
Net interest expense and other financing charges (note 4)	**228**	223	**576**	571
Earnings before income taxes	**$ 490**	$ 467	**$ 1,087**	$ 1,158
Income taxes (note 5)	**130**	114	**289**	293
Net earnings	**$ 360**	$ 353	**$ 798**	$ 865
Attributable to:				
Shareholders of the Company	**$ 345**	$ 334	**$ 760**	$ 824
Non-controlling interests	**15**	19	**38**	41
Net earnings	**$ 360**	$ 353	**$ 798**	$ 865
Net earnings per common share ($) (note 6)				
Basic	**$ 0.96**	$ 0.91	**$ 2.10**	$ 2.22
Diluted	**$ 0.96**	$ 0.90	**$ 2.09**	$ 2.20
Weighted average common shares outstanding (millions) (note 6)				
Basic	**355.5**	364.2	**356.9**	366.7
Diluted	**358.0**	366.2	**359.5**	369.7

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Net earnings	**$ 360**	$ 353	**$ 798**	$ 865
Other comprehensive income (loss), net of taxes				
Items that are or may be subsequently reclassified to profit or loss:				
Foreign currency translation adjustment gains (losses)	**$ —**	$ 2	**$ 1**	$ 2
Gains (losses) on cash flow hedges (note 17)	**11**	1	**(30)**	(5)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 16)	**(27)**	(4)	**(37)**	(61)
Other comprehensive income (loss)	**$ (16)**	$ (1)	**$ (66)**	$ (64)
Total comprehensive income	**$ 344**	$ 352	**$ 732**	$ 801
Attributable to:				
Shareholders of the Company	**$ 329**	$ 333	**$ 694**	$ 760
Non-controlling interests	**15**	19	**38**	41
Total comprehensive income	**$ 344**	$ 352	**$ 732**	$ 801

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

Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance as at December 28, 2019	$7,044	$ 221	**$7,265**	**$3,822**	**$ 100**	$ 37	$ (6)	$ 16	**$ 47**	**$ 87**	**$ 11,321**
Net earnings	$ —	$ —	**$ —**	**$ 760**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 38**	**$ 798**
Other comprehensive income (loss)	—	—	**—**	**(37)**	**—**	1	(30)	—	**(29)**	**—**	**(66)**
Total comprehensive income (loss)	$ —	$ —	**$ —**	**$ 723**	**$ —**	$ 1	$ (30)	$ —	**$ (29)**	**$ 38**	**$ 732**
Common shares purchased and cancelled (note 14)	(154)	—	**(154)**	**(384)**	**—**	—	—	—	**—**	**—**	**(538)**
Net effect of equity-based compensation (notes 14 and 15)	34	—	**34**	**—**	**1**	—	—	—	**—**	**—**	**35**
Shares purchased and held in trust (note 14)	(3)	—	**(3)**	**(7)**	**—**	—	—	—	**—**	**—**	**(10)**
Shares released from trust (note 14 and 15)	10	—	**10**	**19**	**—**	—	—	—	**—**	**—**	**29**
Dividends declared per common share – $0.945 (note 14)	—	—	**—**	**(336)**	**—**	—	—	—	**—**	**—**	**(336)**
Dividends declared per preferred share – $0.99375 (note 14)	—	—	**—**	**(9)**	**—**	—	—	—	**—**	**—**	**(9)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(31)**	**(31)**
	$ (113)	$ —	**$ (113)**	**$ 6**	**$ 1**	$ 1	$ (30)	$ —	**$ (29)**	**$ 7**	**$ (128)**
Balance as at October 3, 2020	$6,931	$ 221	**$7,152**	**$3,828**	**$ 101**	$ 38	$ (36)	$ 16	**$ 18**	**$ 94**	**$ 11,193**

(millions of Canadian dollars except where otherwise indicated) (unaudited)	Common Share Capital	Preferred Share Capital	**Total Share Capital**	**Retained Earnings**	**Contributed Surplus**	Foreign Currency Translation Adjustment	Cash Flow Hedges	Adjustment to fair value on transfer of investment properties	**Accumulated Other Comprehensive Income**	**Non-Controlling Interests**	**Total Equity**
Balance as at December 29, 2018	$7,162	$ 221	**$7,383**	**$4,580**	**$ 107**	$ 34	$ (1)	$ 16	**$ 49**	**$ 59**	**$ 12,178**
Impact of adopting IFRS 16	—	—	**—**	**(798)**	**—**	—	—	—	**—**	**—**	**(798)**
Restated balance as at December 30, 2018	$7,162	$ 221	**$7,383**	**$3,782**	**$ 107**	$ 34	$ (1)	$ 16	**$ 49**	**$ 59**	**$ 11,380**
Net earnings	$ —	$ —	**$ —**	**$ 824**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 41**	**$ 865**
Other comprehensive income (loss)	—	—	**—**	**(61)**	**—**	2	(5)	—	**(3)**	**—**	**(64)**
Total comprehensive income (loss)	$ —	$ —	**$ —**	**$ 763**	**$ —**	$ 2	$ (5)	$ —	**$ (3)**	**$ 41**	**$ 801**
Common shares purchased and cancelled (note 14)	(161)	—	**(161)**	**(428)**	**—**	—	—	—	**—**	**—**	**(589)**
Net effect of equity-based compensation (notes 14 and 15)	91	—	**91**	**—**	**(13)**	—	—	—	**—**	**—**	**78**
Shares purchased and held in trust (note 14)	(5)	—	**(5)**	**(15)**	**—**	—	—	—	**—**	**—**	**(20)**
Shares released from trust (note 14 and 15)	10	—	**10**	**19**	**—**	—	—	—	**—**	**—**	**29**
Dividends declared per common share – $0.925 (note 14)	—	—	**—**	**(341)**	**—**	—	—	—	**—**	**—**	**(341)**
Dividends declared per preferred share – $0.99375 (note 14)	—	—	**—**	**(9)**	**—**	—	—	—	**—**	**—**	**(9)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(17)**	**(17)**
	$ (65)	$ —	**$ (65)**	**$ (11)**	**$ (13)**	$ 2	$ (5)	$ —	**$ (3)**	**$ 24**	**$ (68)**
Balance as at October 5, 2019	$7,097	$ 221	**$7,318**	**$3,771**	**$ 94**	$ 36	$ (6)	$ 16	**$ 46**	**$ 83**	**$ 11,312**

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	As at October 3, 2020	As at October 5, 2019	As at December 28, 2019[(i)]
Assets			
Current assets			
Cash and cash equivalents (note 7)	**$ 1,499**	$ 944	$ 1,133
Short term investments (note 7)	**345**	78	57
Accounts receivable	**971**	1,071	1,104
Credit card receivables (note 8)	**3,008**	3,263	3,624
Inventories (note 9)	**5,332**	4,824	5,076
Income tax recoverable	**—**	4	—
Prepaid expenses and other assets	**283**	149	211
Assets held for sale (note 10)	**111**	123	105
Total current assets	**$ 11,549**	$ 10,456	$ 11,310
Fixed assets	**5,388**	5,372	5,490
Right-of-use assets	**7,213**	7,377	7,362
Investment properties	**158**	160	172
Intangible assets	**6,980**	7,419	7,322
Goodwill	**3,948**	3,944	3,946
Deferred income tax assets	**128**	187	169
Franchise loans receivable (note 17)	**—**	33	19
Other assets (note 11)	**504**	515	519
Total assets	**$ 35,868**	$ 35,463	$ 36,309
Liabilities			
Current liabilities			
Bank indebtedness	**$ 193**	$ 152	$ 18
Trade payables and other liabilities	**5,218**	4,601	5,321
Loyalty liability	**232**	238	191
Provisions	**124**	102	119
Income taxes payable	**79**	—	27
Short term debt (note 8)	**500**	550	725
Long term debt due within one year (note 12)	**683**	994	1,127
Lease liabilities due within one year	**1,331**	1,306	1,419
Associate interest	**315**	257	280
Total current liabilities	**$ 8,675**	$ 8,200	$ 9,227
Provisions	**109**	99	102
Long term debt (note 12)	**6,531**	6,105	5,971
Lease liabilities	**7,542**	7,706	7,691
Deferred income tax liabilities	**1,366**	1,578	1,539
Other liabilities (note 13)	**452**	463	458
Total liabilities	**$ 24,675**	$ 24,151	$ 24,988
Equity			
Share capital (note 14)	**$ 7,152**	$ 7,318	$ 7,265
Retained earnings	**3,828**	3,771	3,822
Contributed surplus (note 15)	**101**	94	100
Accumulated other comprehensive income	**18**	46	47
Total equity attributable to shareholders of the Company	**$ 11,099**	$ 11,229	$ 11,234
Non-controlling interests	**94**	83	87
Total equity	**$ 11,193**	$ 11,312	$ 11,321
Total liabilities and equity	**$ 35,868**	$ 35,463	$ 36,309

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

Contingent Liabilities (note 18).

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

Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars) (unaudited)	October 3, 2020 (16 weeks)	October 5, 2019 (16 weeks)	October 3, 2020 (40 weeks)	October 5, 2019 (40 weeks)
Operating activities				
Net earnings	**$ 360**	$ 353	**$ 798**	$ 865
Add (Deduct):				
Income taxes (note 5)	**130**	114	**289**	293
Net interest expense and other financing charges (note 4)	**228**	223	**576**	571
Adjustment to fair value of investment properties	**—**	3	**—**	—
Depreciation and amortization	**795**	775	**1,987**	1,935
Asset impairments, net of recoveries	**—**	1	**14**	4
Change in provisions	**3**	(32)	**12**	(62)
	$ 1,516	$ 1,437	**$ 3,676**	$ 3,606
Change in non-cash working capital	**(131)**	(128)	**(177)**	(174)
Change in credit card receivables (note 8)	**(174)**	(20)	**616**	46
Income taxes paid	**(155)**	(227)	**(347)**	(524)
Interest received	**3**	5	**6**	11
Interest received from finance leases	**1**	2	**3**	4
Other	**3**	(8)	**34**	3
Cash flows from operating activities	**$ 1,063**	$ 1,061	**$ 3,811**	$ 2,972
Investing activities				
Fixed asset purchases	**$ (274)**	$ (279)	**$ (470)**	$ (500)
Intangible asset additions	**(106)**	(118)	**(270)**	(280)
Cash assumed on initial consolidation of franchises (note 3)	**—**	6	**14**	15
Change in short term investments (note 7)	**16**	(39)	**(288)**	16
Change in security deposits	**71**	—	**—**	800
Proceeds from disposal of assets	**7**	32	**51**	91
Lease payments received from finance leases	**4**	2	**7**	6
Other	**(49)**	(27)	**(145)**	(99)
Cash flows (used in) from investing activities	**$ (331)**	$ (423)	**$ (1,101)**	$ 49
Financing activities				
Change in bank indebtedness	**$ 60**	$ 63	**$ 175**	$ 96
Change in short term debt (note 8)	**(25)**	(240)	**(225)**	(365)
Long term debt (note 12)				
Issued	**362**	379	**1,333**	553
Repayments	**(730)**	(52)	**(1,225)**	(952)
Interest paid	**(106)**	(104)	**(265)**	(275)
Cash rent paid on lease liabilities - Interest	**(111)**	(119)	**(285)**	(299)
Cash rent paid on lease liabilities - Principal	**(334)**	(259)	**(824)**	(690)
Dividends paid on common and preferred shares	**(229)**	(235)	**(460)**	(460)
Common share capital				
Issued (note 15)	**5**	25	**29**	80
Purchased and held in trust (note 14)	**—**	—	**(10)**	(20)
Purchased and cancelled (note 14)	**(350)**	(309)	**(538)**	(774)
Other	**27**	5	**(47)**	(38)
Cash flows used in financing activities	**$ (1,431)**	$ (846)	**$ (2,342)**	$ (3,144)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 1**	$ 1	**$ (2)**	$ 2
Change in cash and cash equivalents	**$ (698)**	$ (207)	**$ 366**	$ (121)
Cash and cash equivalents, beginning of period	**2,197**	1,151	**1,133**	1,065
Cash and cash equivalents, end of period	**$ 1,499**	$ 944	**$ 1,499**	$ 944

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

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)

Note 1. Nature and Description of the Reporting Entity

Loblaw Companies Limited is a Canadian public company incorporated in 1956 and is Canada's food and pharmacy leader, and the nation's largest retailer. Loblaw Companies Limited provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services, and wireless mobile products and services. Its registered office is located at 22 St. Clair Avenue East, Toronto, Canada M4T 2S7. Loblaw Companies Limited and its subsidiaries are together referred to, in these unaudited interim period condensed consolidated financial statements, as the "Company" or "Loblaw".

The Company's controlling shareholder is George Weston Limited ("Weston"), which owns approximately 52.2% of the Company's outstanding common shares. The Company's ultimate parent is Wittington Investments Limited ("Wittington"). The remaining common shares are widely held.

The Company has two reportable operating segments: Retail and Financial Services (see note 20).

The Company's business is affected by seasonality and timing of holidays, relative to the Company's interim periods. Accordingly, quarterly performance is not necessarily indicative of annual performance. Historically, the Company has earned more revenue in the fourth quarter relative to the preceding quarters in the Company's fiscal year.

The COVID-19 pandemic continued to have a significant impact on the Company. The Company's financial results for the 40 weeks ended October 3, 2020 show increased revenue, driven by increased demand for the Company's products, as well as increased cost of merchandise inventories sold. In addition, selling, general and administrative expenses ("SG&A") also increased as a result of the incremental cost of COVID-19 related investments to benefit and protect colleagues and customers.

Note 2. Significant Accounting Policies

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, with the exception of the new significant accounting policy described below. 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 ("Board") on November 11, 2020.

New Significant Accounting Policy

Investment Accounted for Under the Equity Method The Company owns an investment in an entity ("investee") in which the Company has significant influence, but not control, over its financial and operating policies. Interest in the investee is accounted for using the equity method. The investment is initially recognized in the consolidated balance sheets at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the investee. The Company's share of the investee's profit or loss is recognized in the Company's operating income. An investment is considered to be impaired if there are objective evidences of impairments, as a result of one or more events that occurred after the initial recognition, and those events have negative impacts on the future cash flows of the investee that can be reliably estimated. The investment is reviewed at each balance sheet date to determine whether there are any indicators of impairment.

Note 3. Business Acquisitions

Consolidation of Franchises The Company 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 the Company. 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 are included in the Company's results of operations from the date of acquisition.

The Company has more than 500 franchise food retail stores in its network. As at the end of the first quarter of 2020, the Company 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, the liabilities assumed and the non-controlling interests recognized at the acquisition dates:

(millions of Canadian dollars)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Net assets acquired:				
Cash and cash equivalents	**$ —**	$ 6	**$ 14**	$ 15
Inventories	**—**	14	**42**	38
Fixed assets	**—**	22	**44**	49
Trade payables and other liabilities[(i)]	**—**	(14)	**(54)**	(38)
Other liabilities[(i)]	**—**	(22)	**(30)**	(52)
Non-controlling interests	**—**	(6)	**(16)**	(12)
Total net assets acquired	**$ —**	$ —	**$ —**	$ —

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

Note 4. Net Interest Expense and Other Financing Charges

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

(millions of Canadian dollars)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Interest expense and other financing charges				
Lease liabilities	**$ 111**	$ 119	**$ 285**	$ 299
Long term debt	**95**	86	**242**	227
Borrowings related to credit card receivables	**17**	16	**37**	33
Post-employment and other long term employee benefits (note 16)	**3**	3	**6**	6
Independent funding trusts	**3**	6	**11**	15
Bank indebtedness	**2**	2	**3**	6
	$ 231	$ 232	**$ 584**	$ 586
Interest income				
Accretion income	**$ (1)**	$ (5)	**$ (3)**	$ (7)
Short term interest income	**(2)**	(4)	**(5)**	(8)
	$ (3)	$ (9)	**$ (8)**	$ (15)
Net interest expense and other financing charges	**$ 228**	$ 223	**$ 576**	$ 571

Note 5. Income Taxes

Income tax expense in the third quarter of 2020 was $130 million (2019 – $114 million) and the effective tax rate was 26.5% (2019 – 24.4%). Year-to-date income tax expense was $289 million (2019 – $293 million) and the effective tax rate was 26.6% (2019 – 25.3%). The increase in the quarterly effective tax rate was primarily attributable to the prior year reversal of certain tax reserves following the completion of a tax audit that included a review of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") acquisition costs that were incurred in 2014, net of the impact of certain non-deductible items. The increase in the year-to-date effective tax rate was also impacted by the remeasurement of certain deferred tax balances due to the Alberta rate decrease that was substantively enacted in the second quarter of 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 the Company reversing the decision of the Tax Court of Canada ("Tax Court"). In the third quarter, the Crown filed an application for leave to appeal to the Supreme Court of Canada ("Supreme Court"). Subsequent to the end of the third quarter, on October 29, 2020, the Supreme Court granted the Crown leave to appeal. The Company has not reversed any portion of the previously recorded charge (see note 18).

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Net earnings attributable to shareholders of the Company	**$ 345**	$ 334	**$ 760**	$ 824
Dividends on Preferred Shares in equity (note 14)	**(3)**	(3)	**(9)**	(9)
Net earnings available to common shareholders	**$ 342**	$ 331	**$ 751**	$ 815
Weighted average common shares outstanding (in millions) (note 14)	**355.5**	364.2	**356.9**	366.7
Dilutive effect of equity-based compensation (in millions)	**1.5**	2.0	**1.6**	2.3
Dilutive effect of certain other liabilities (in millions)	**1.0**	—	**1.0**	0.7
Diluted weighted average common shares outstanding (in millions)	**358.0**	366.2	**359.5**	369.7
Basic net earnings per common share ($)	**$ 0.96**	$ 0.91	**$ 2.10**	$ 2.22
Diluted net earnings per common share ($)	**$ 0.96**	$ 0.90	**$ 2.09**	$ 2.20

In the third quarter of 2020, 3,204,434 (2019 – 1,510,873) and year-to-date 3,204,434 (2019 – 1,524,239) potentially dilutive instruments were excluded from the computation of diluted net earnings per common share as they were anti-dilutive.

Note 7. Cash and Cash Equivalents and Short Term Investments

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

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Cash	**$ 720**	$ 466	$ 549
Cash equivalents			
Government treasury bills	**323**	292	161
Bankers' acceptances	**435**	155	348
Corporate commercial paper	**—**	31	75
Guaranteed investment certificates	**21**	—	—
Total cash and cash equivalents	**$ 1,499**	$ 944	$ 1,133

Short Term Investments

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Government treasury bills	**$ 325**	$ 61	$ 44
Bankers' acceptances	**11**	1	10
Corporate commercial paper	**3**	16	3
Other	**6**	—	—
Total short term investments	**$ 345**	$ 78	$ 57

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Gross credit card receivables	**$ 3,255**	$ 3,451	$ 3,820
Allowance for credit card receivables	**(247)**	(188)	(196)
Credit card receivables	**$ 3,008**	$ 3,263	$ 3,624
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust®* (note 12)	**$ 1,050**	$ 1,000	$ 1,000
Securitized to Other Independent Securitization Trusts	**500**	550	725
Total securitized to independent securitization trusts	**$ 1,550**	$ 1,550	$ 1,725

The Company, 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 Credit Card Trust® ("Eagle")* and Other Independent Securitization Trusts, in accordance with its financing requirements.

The associated liability of *Eagle* is recorded in long term debt (see note 12). The associated liabilities of credit card receivables securitized to the Other Independent Securitization Trusts are recorded in short term debt.

During the third quarter of 2020, *Eagle* issued $300 million of senior and subordinated term notes with a maturity date of July 17, 2025 at a weighted average interest rate of 1.34%. In connection with this issuance, $200 million of bond forward agreements were settled, resulting in a realized fair value loss of $11 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.07% on the *Eagle* notes issued. In addition, $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23%, previously issued by *Eagle*, matured and were repaid on September 17, 2020. As a result, during the third quarter of 2020, there was a net change in the balances related to *Eagle* notes of $50 million.

During the third quarter of 2019, *Eagle* issued $250 million of senior and subordinated term notes with a maturity date of July 17, 2024 at a weighted average interest rate of 2.28%. In connection with this issuance, $250 million of bond forward agreements were settled, resulting in a realized fair value loss of $8 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned *Eagle* notes. This settlement also resulted in a net effective interest rate of 2.94% on the *Eagle* notes issued.

On a year-to-date basis in 2020, PC Bank recorded a $225 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 October 3, 2020, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was $45 million (October 5, 2019 – $50 million; December 28, 2019 – $70 million), which represented 9% (October 5, 2019 – 9%; December 28, 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 October 3, 2020 and throughout the three quarters of 2020.

Note 9. Inventories

For inventories recorded as at October 3, 2020, the Company recorded an inventory provision of $34 million (October 5, 2019 – $31 million; December 28, 2019 – $33 million) for the write-down of inventories below cost to net realizable value. The write-down was included in cost of merchandise inventories sold. There were no reversals of previously recorded write-downs of inventories during the quarter and year-to-date ended October 3, 2020 and October 5, 2019.

Note 10. Assets Held for Sale

The Company 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 the Company's retail business segment. In the third quarter of 2020, the Company recorded a gain of $1 million (December 28, 2019 – loss of $2 million) from the sale of these assets. On a year-to-date basis, the Company recorded a net gain of $1 million (December 28, 2019 – net gain of $4 million) from the sale of these assets. No impairment charges were recognized on these properties year-to-date in 2020 (2019 – nil).

Note 11. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Sundry investments and other receivables	**$ 32**	$ 67	$ 22
Accrued benefit plan asset	**169**	171	229
Finance lease receivable	**96**	118	114
Investment accounted for under the equity method	**61**	—	—
Other	**146**	159	154
Total other assets	**$ 504**	$ 515	$ 519

Investment Accounted for Under the Equity Method During the third quarter of 2020, the Company announced that its wholly owned subsidiary Shoppers Drug Mart will invest a total of $75 million in Maple Corporation ("Maple"), the leading virtual care provider in Canada, in exchange for a material minority stake. This investment is an important step as Shoppers Drug Mart looks to make virtual care services more accessible, with a goal to provide a seamless experience for patients as they move between virtual and in-person care.

The investments will be made in two tranches. As at October 3, 2020, tranche one has been executed and the Company invested $61 million in exchange for approximately 24% of the ownership interest in Maple. Tranche two investment is expected to be executed in the third quarter of 2021.

Note 12. Long Term Debt

The components of long term debt were as follows:

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Debentures	**$ 4,304**	$ 4,285	$ 4,296
Guaranteed investment certificates	**1,380**	1,327	1,311
Independent securitization trusts (note 8)	**1,050**	1,000	1,000
Independent funding trusts	**494**	501	505
Transaction costs and other	**(14)**	(14)	(14)
Total long term debt	**$ 7,214**	$ 7,099	$ 7,098
Long term debt due within one year	**683**	994	1,127
Long term debt	**$ 6,531**	$ 6,105	$ 5,971

The Company is required to comply with certain financial covenants for various debt instruments. As at October 3, 2020 and throughout the three quarters of 2020, the Company was in compliance with the financial covenants.

Debentures In the third quarter of 2020, the Company redeemed $350 million aggregate principal amount of 5.22% Medium Term Notes, Series 2-B on June 18, 2020. On a year-to-date basis in 2020, the Company issued $350 million aggregate principal amount of senior unsecured notes bearing interest at 2.284% per annum with a maturity date of May 7, 2030. In connection with this issuance, the Company settled a bond forward with a notional value of $350 million, resulting in a realized fair value loss of $34 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to settlement. The loss will be reclassified to the statements of earnings over the life of the aforementioned notes. This settlement also resulted in a net effective interest rate of 3.34% on the notes issued.

In the third quarter of 2019, there were no debentures issued or repaid. On a year-to-date basis in 2019, the Company redeemed, at par, $800 million of 3.75% debentures with an original maturity date of March 12, 2019.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the periods ended October 3, 2020 and October 5, 2019:

(millions of Canadian dollars)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Balance, beginning of period	**$ 1,452**	$ 1,225	**$ 1,311**	$ 1,141
GICs issued	**58**	154	**344**	338
GICs matured	**(130)**	(52)	**(275)**	(152)
Balance, end of period	**$ 1,380**	$ 1,327	**$ 1,380**	$ 1,327

Independent Funding Trusts The Company provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts in the amount of $64 million (October 5, 2019 and December 28, 2019 – $64 million), representing not less than 10% (October 5, 2019 and December 28, 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.

Committed Credit Facility The Company has a $1.0 billion committed credit facility with a maturity date of June 10, 2021, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants. On a year-to-date basis in 2020, the Company withdrew and repaid $350 million under this facility. As at October 3, 2020, October 5, 2019 and December 28, 2019, there were no amounts drawn under this facility. Subsequent to the end of the third quarter of 2020, the Company amended its committed credit facility and extended the maturity date to October 7, 2023.

Long Term Debt Due Within One Year The following table summarizes long term debt due within one year:

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Loblaw Companies Limited notes	**$ —**	$ 350	$ 350
Guaranteed investment certificates	**683**	394	527
Independent securitization trusts	**—**	250	250
Long term debt due within one year	**$ 683**	$ 994	$ 1,127

Reconciliation of Long Term Debt The following table reconciles the changes in cash flows from (used in) long term debt financing activities:

(millions of Canadian dollars)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Long term debt, beginning of period	**$ 7,583**	$ 6,773	**$ 7,098**	$ 8,026
Reclassification of finance lease obligations due to IFRS 16	**—**	—	**—**	(535)
Long term debt after reclassification, beginning of period	**$ 7,583**	$ 6,773	**$ 7,098**	$ 7,491
Long term debt issuances(i)	**$ 362**	$ 379	**$ 1,333**	$ 553
Long term debt repayments	**(730)**	(52)	**(1,225)**	(952)
Total cash flow from (used in) long term debt financing activities	**$ (368)**	$ 327	**$ 108**	$ (399)
Other non-cash changes	**$ (1)**	$ (1)	**$ 8**	$ 7
Long term debt, end of period	**$ 7,214**	$ 7,099	**$ 7,214**	$ 7,099

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

Note 13. Other Liabilities

The components of other liabilities were as follows:

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Net defined benefit plan obligation	**$ 321**	$ 332	$ 320
Other long term employee benefit obligation	**115**	108	119
Equity-based compensation liabilities (note 15)	**3**	2	3
Other	**13**	21	16
Total other liabilities	**$ 452**	$ 463	$ 458

Note 14. Share Capital

Common Shares (authorized – unlimited) Common shares issued are fully paid and have no par value. The activities in the common shares issued and outstanding during the periods were as follows:

	October 3, 2020 (16 weeks)		October 5, 2019 (16 weeks)		**October 3, 2020 (40 weeks)**		October 5, 2019 (40 weeks)	
(millions of Canadian dollars except where otherwise indicated)	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital	**Number of Common Shares**	**Common Share Capital**	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	**357,785,905**	**$ 7,038**	366,100,437	$ 7,163	**360,064,475**	**$ 7,065**	371,790,967	$ 7,177
Issued for settlement of stock options	**107,427**	**7**	519,984	28	**586,434**	**34**	1,836,381	91
Purchased and cancelled	**(5,045,210)**	**(100)**	(4,313,300)	(84)	**(7,802,787)**	**(154)**	(11,320,227)	(161)
Issued and outstanding, end of period	**352,848,122**	**$ 6,945**	362,307,121	$ 7,107	**352,848,122**	**$ 6,945**	362,307,121	$ 7,107
Shares held in trust, beginning of period	**(843,469)**	**$ (16)**	(555,455)	$ (10)	**(1,113,302)**	**$ (21)**	(734,727)	$ (15)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**(145,000)**	**(3)**	(300,000)	(5)
Released for settlement of RSUs and PSUs (note 15)	**106,692**	**2**	23,798	—	**521,525**	**10**	503,070	10
Shares held in trust, end of period	**(736,777)**	**$ (14)**	(531,657)	$ (10)	**(736,777)**	**$ (14)**	(531,657)	$ (10)
Issued and outstanding, net of shares held in trust, end of period	**352,111,345**	**$ 6,931**	361,775,464	$ 7,097	**352,111,345**	**$ 6,931**	361,775,464	$ 7,097
Weighted average outstanding, net of shares held in trust (note 6)	**355,524,589**		364,201,921		**356,855,392**		366,718,947	

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

		October 3, 2020[(i)] (16 weeks)		October 5, 2019 (16 weeks)		October 3, 2020 (40 weeks)		October 5, 2019 (40 weeks)
Dividends declared per share ($)								
Common Share	**$**	**0.315**	$	0.315	**$**	**0.945**	$	0.925
Second Preferred Share, Series B	**$**	**0.33125**	$	0.33125	**$**	**0.99375**	$	0.99375

(i) The third quarter dividends for 2020 of $0.315 per share declared on Common Shares had a payment date of October 1, 2020. The third quarter dividends for 2020 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of September 30, 2020.

(millions of Canadian dollars)		October 3, 2020 (16 weeks)		October 5, 2019 (16 weeks)		October 3, 2020 (40 weeks)		October 5, 2019 (40 weeks)
Dividends declared								
Common Share	**$**	**111**	$	117	**$**	**336**	$	341
Second Preferred Share, Series B (note 6)		**3**		3		**9**		9
Total dividends declared	**$**	**114**	$	120	**$**	**345**	$	350

Subsequent to the end of the third quarter of 2020, the Board declared a quarterly dividend of $0.335 per common share, payable on December 30, 2020 to shareholders of record on December 15, 2020 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on December 31, 2020 to shareholders of record on December 15, 2020.

Normal Course Issuer Bid Activities under the Company's Normal Course Issuer Bid ("NCIB") during the periods were as follows:

(millions of Canadian dollars except where otherwise indicated)		October 3, 2020 (16 weeks)		October 5, 2019 (16 weeks)		October 3, 2020 (40 weeks)		October 5, 2019 (40 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)		**5,045,210**		4,313,300		**7,802,787**		11,320,227
Cash consideration paid[(i)]	**$**	**350**	$	309	**$**	**538**	$	774
Premium charged to retained earnings		**250**		225		**384**		428
Reduction in common share capital		**100**		84		**154**		161
Common shares repurchased under the NCIB and held in trust (number of shares)		**—**		—		**145,000**		300,000
Cash consideration paid	**$**	**—**	$	—	**$**	**10**	$	20
Premium charged to retained earnings		**—**		—		**7**		15
Reduction in common share capital		**—**		—		**3**		5

(i) In the first quarter of 2019, cash consideration paid included $185 million paid for common shares related to the automatic share purchase plan as described below.

In the first quarter of 2020, the Toronto Stock Exchange ("TSX") accepted an amendment to the Company's NCIB. The amendment permitted the Company to purchase its common shares from Weston under its NCIB, pursuant to an automatic disposition plan agreement among the Company's broker, the Company and Weston, in order for Weston to maintain its proportionate ownership interest in the Company. In the second quarter of 2020, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,888,888 of the Company's 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 at October 3, 2020, the Company had purchased 5,045,210 common shares for cancellation under its current NCIB.

During the third quarter of 2020, 5,045,210 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $350 million, including 2,439,210 common shares purchased from Weston, for aggregate cash consideration of $169 million. On a year-to-date basis, 7,802,787 common shares were purchased under the NCIB for cancellation, for aggregate cash consideration of $538 million, including 3,794,287 common shares purchased from Weston, for aggregate cash consideration of $261 million.

In the first quarter of 2019, the Company completed an automatic share purchase plan ("ASPP") that was initiated in the fourth quarter of 2018 to facilitate the repurchase of the Company's common shares under its NCIB. Under the ASPP, the Company's broker purchased 2,927,733 common shares for approximately $185 million.

Note 15. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Loblaw Stock Option, Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), Director Deferred Share Unit ("DSU") and Executive Deferred Share Unit ("EDSU") plans was $16 million for the third quarter of 2020 (2019 – $15 million) and $38 million year-to-date (2019 – $34 million). The expense was recognized in SG&A.

The carrying amounts of the Company's equity-based compensation arrangements including Loblaw Stock Option, RSU, PSU, DSU and EDSU plans were recorded on the unaudited interim period condensed consolidated balance sheets as follows:

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Other liabilities (note 13)	**$ 3**	$ 2	$ 3
Contributed surplus	**101**	94	100

The following are details related to the equity-based compensation plans of the Company:

Stock Option Plan The following is a summary of the Company's stock option plan activity:

(number of options)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Outstanding options, beginning of period	**7,558,254**	7,424,410	**6,317,922**	7,509,631
Granted	**27,268**	8,229	**1,842,845**	1,548,550
Exercised	**(107,427)**	(745,304)	**(586,434)**	(2,061,701)
Forfeited/Cancelled	**(158,667)**	(61,437)	**(254,905)**	(370,582)
Outstanding options, end of period	**7,319,428**	6,625,898	**7,319,428**	6,625,898

During the third quarter of 2020, the Company granted stock options with a weighted average exercise price of $69.86 (2019 – $68.42) and $70.05 year-to-date (2019 – $65.65). In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the third quarter of 2020 of $69.18 (2019 – $72.61) and $68.25 year-to-date (2019 – $69.12) and received cash consideration of $5 million (2019 – $25 million) and $29 million year-to-date (2019 – $80 million).

The fair value of stock options granted during the third quarter of 2020 was nominal (2019 – nominal) and $13 million year-to-date (2019 – $12 million). The assumptions used to measure the fair value of options granted during 2020 and 2019 under the Black-Scholes valuation model at date of grant were as follows:

	October 3, 2020 (16 weeks)	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Expected dividend yield	**1.8 %**	1.8 %	**1.8 %**	1.8 %
Expected share price volatility	**18.6% – 19.9%**	14.1% – 15.3%	**13.5% – 19.9%**	14.1% – 15.7%
Risk-free interest rate	**0.3%**	1.5%	**0.3% – 1.2%**	1.5% – 1.8%
Expected life of options	**3.7 – 6.2 years**	3.7 – 6.2 years	**3.7 – 6.2 years**	3.7 – 6.2 years

Estimated forfeiture rates are incorporated into the measurement of stock option plan expense. The forfeiture rate applied as at October 3, 2020 was 8.0% (October 5, 2019 – 9.0%).

Restricted Share Unit Plan The following is a summary of the Company's RSU plan activity:

(number of awards)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Restricted share units, beginning of period	**1,024,518**	1,024,386	**1,032,832**	1,024,275
Granted	**8,857**	26,671	**241,641**	332,043
Reinvested	**9,136**	8,904	**18,804**	17,125
Settled	**(88,136)**	(17,596)	**(321,642)**	(257,747)
Forfeited	**(12,972)**	(9,966)	**(30,232)**	(83,297)
Restricted share units, end of period	**941,403**	1,032,399	**941,403**	1,032,399

The fair value of RSUs granted during the third quarter of 2020 was $1 million (2019 – $2 million) and $17 million year-to-date (2019 – $22 million).

Performance Share Unit Plan The following is a summary of the Company's PSU plan activity:

(number of awards)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Performance share units, beginning of period	**704,645**	665,627	**662,695**	674,945
Granted	**3,847**	1,923	**235,473**	253,114
Reinvested	**6,450**	5,887	**12,768**	11,264
Settled	**(19,013)**	(6,202)	**(200,340)**	(234,121)
Forfeited	**(10,711)**	(5,098)	**(25,378)**	(43,065)
Performance share units, end of period	**685,218**	662,137	**685,218**	662,137

The fair value of PSUs granted during the third quarter of 2020 was $1 million (2019 – nominal) and $17 million year-to-date (2019 – $15 million).

Settlement of Awards from Shares Held in Trust During the third quarter of 2020, the Company settled RSUs and PSUs totaling 107,149 (2019 – 23,798) and 521,982 year-to-date (2019 – 491,868), of which 106,692 (2019 – 23,798) and 521,525 (2019 – 491,868), respectively, were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 14).

The settlements in the third quarter of 2020 and year-to-date resulted in a $3 million and $19 million increase to retained earnings, respectively (third quarter of 2019 – $1 million and year-to-date – $19 million) and a $2 million and $10 million increase to common share capital, respectively (third quarter of 2019 – nominal and year-to-date – $10 million).

Note 16. Post-Employment and Other Long Term Employee Benefits

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

(millions of Canadian dollars)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Post-employment benefit costs recognized in operating income(i)	**$ 54**	$ 48	**$ 130**	$ 131
Other long term employee benefits costs recognized in operating income(ii)	**7**	12	**21**	25
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	**3**	3	**6**	6
Actuarial losses before income taxes recognized in other comprehensive income	**(36)**	(5)	**(50)**	(82)

(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 third quarter and year-to-date of 2020 and 2019 were primarily driven by a decrease in discount rates, partially offset by higher than expected returns on assets.

On a year-to-date basis in 2019, the Company 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 on a year-to-date basis in 2020.

Note 17. Financial Instruments

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

				As at October 3, 2020				As at October 5, 2019				As at December 28, 2019
(millions of Canadian dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets												
Amortized cost:												
Franchise loans receivable	**$ —**	**$ —**	**$ —**	**$ —**	$ —	$ —	$ 33	$ 33	$ —	$ —	$ 19	$ 19
Certain other assets[i]	**—**	**—**	**—**	**—**	—	—	8	8	—	—	14	14
Fair value through other comprehensive income:												
Certain long term investments and other assets[i]	**117**	**—**	**—**	**117**	50	—	—	50	50	—	—	50
Derivatives included in prepaid expenses and other assets	**—**	**—**	**—**	**—**	—	—	—	—	—	—	—	—
Fair value through profit and loss:												
Certain other assets[i]	**—**	**—**	**7**	**7**	—	—	—	—	—	—	—	—
Derivatives included in prepaid expenses and other assets	**—**	**2**	**1**	**3**	—	2	—	2	5	—	1	6
Financial liabilities												
Amortized cost:												
Long term debt	**$ —**	**$8,461**	**$ —**	**$8,461**	$ —	$8,144	$ —	$8,144	$ —	$8,079	$ —	$8,079
Certain other liabilities[i]	**—**	**—**	**5**	**5**	—	—	9	9	—	—	9	9
Fair value through other comprehensive income:												
Derivatives included in trade payables and other liabilities	**—**	**1**	**—**	**1**	—	3	—	3	—	2	—	2
Fair value through profit and loss:												
Derivatives included in trade payables and other liabilities	**15**	**1**	**—**	**16**	—	4	—	4	—	5	—	5

(i) Certain other assets, certain other long term investments and other assets, 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 levels of the fair value hierarchy during the periods presented.

During the third quarter of 2020, the Company recognized a loss of \$1 million (2019 – loss of \$4 million) and a gain of \$2 million (2019 – loss of \$2 million) year-to-date in operating income on financial instruments designated as amortized cost. In addition, during the third quarter of 2020, a net loss of \$6 million (2019 – net loss of \$2 million) and a net loss of \$19 million (2019 – nominal gain) year-to-date were recorded in earnings before income taxes related to financial instruments required to be classified as fair value through profit or loss.

Franchise Loans Receivable The value of Loblaw franchise loans receivable of nil (October 5, 2019 – \$33 million; December 28, 2019 – \$19 million) was recorded in the unaudited interim period condensed consolidated balance sheets. During the third quarter of 2020, the Company recorded nil (2019 – nominal gain) and nil (2019 – gain of \$1 million) year-to-date in operating income related to these loans receivable.

Embedded Derivatives The Company's level 3 financial instruments classified as fair value through profit or loss consist of 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 could result in a significantly higher (lower) fair value measurement.

During the third quarter of 2020, a gain of $2 million (2019 – nominal loss) and a nominal gain (2019 – gain of $3 million) year-to-date were recorded in operating income related to these derivatives. In addition, a corresponding $1 million asset was included in prepaid expense and other assets as at October 3, 2020 (October 5, 2019 – nominal liability; December 28, 2019 – $1 million asset). As at October 3, 2020, a 1% increase (decrease) in foreign currency exchange rates would result in a gain (loss) in fair value of $1 million.

Securities Investments PC Bank holds investments which are considered part of the liquid securities required to be held to meet its Liquidity Coverage Ratio. As at October 3, 2020, the fair value through other comprehensive income securities of $117 million (October 5, 2019 – $50 million; December 28, 2019 – $50 million) was included in other assets. During the third quarter of 2020, PC Bank recorded a nominal unrealized fair value gain (2019 – nominal unrealized fair value gain) and a nominal unrealized fair value gain (2019 – nominal unrealized fair value gain) year-to-date in other comprehensive income related to these investments.

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 sheets and the net realized and unrealized gains (losses) before income taxes related to the Company's other derivatives:

					3 October 2020
			(16 weeks)		(40 weeks)
(millions of Canadian dollars)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges					
Bond Forwards(i)	$ —	$ 1	$ (2)	$ (42)	$ (3)
Interest Rate Swaps(ii)	(1)	2	(1)	—	(3)
Total derivatives designated as cash flow hedges	$ (1)	$ 3	$ (3)	$ (42)	$ (6)
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	$ 1	$ —	$ (7)	$ —	$ 11
Other Non-Financial Derivatives	(15)	—	(1)	—	(31)
Total derivatives not designated in a formal hedging relationship	$ (14)	$ —	$ (8)	$ —	$ (20)
Total derivatives	**$ (15)**	**$ 3**	**$ (11)**	**$ (42)**	**$ (26)**

(i) PC Bank settled $200 million of bond forward in the third quarter of 2020 (see note 8). The purpose of the bond forward was to hedge the interest rate risk for the $300 million *Eagle* notes issued during the third quarter of 2020. The Company has concluded that this hedge was effective as at the settlement date.

(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.

				October 5, 2019	
			(16 weeks)		(40 weeks)
(millions of Canadian dollars)	Net asset/ (liability) fair value	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income	Gain/(loss) recorded in OCI	Gain/(loss) recorded in operating income
Derivatives designated as cash flow hedges					
Foreign Exchange Forwards(i)	$ —	$ —	$ 1	$ (1)	$ 1
Bond Forwards(ii)	(1)	2	—	(6)	—
Interest Rate Swaps(iii)	(2)	—	(1)	(1)	(1)
Total derivatives designated as cash flow hedges	$ (3)	$ 2	$ —	$ (8)	$ —
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	$ (3)	$ —	$ (5)	$ —	$ (10)
Other Non-Financial Derivatives	—	—	4	—	8
Total derivatives not designated in a formal hedging relationship	$ (3)	$ —	$ (1)	$ —	$ (2)
Total derivatives	$ (6)	$ 2	$ (1)	$ (8)	$ (2)

(i) PC Bank uses foreign exchange forwards, with a notional value of $3 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 $90 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.

Note 18. 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 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. The Company believes this claim is without merit and is vigorously defending it. The Company does not currently have any significant accruals or provisions for this matter recorded in the unaudited interim period condensed consolidated financial statements.

In 2017, the Company and Weston 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 Weston as well as a number of other major grocery retailers and another bread wholesaler. It is too early to predict the outcome of such legal proceedings. Neither the Company nor Weston 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 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 Weston 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 the Company 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 the Company. 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. The Company believes these proceedings are without merit and is vigorously defending them. The Company does not currently have any significant accruals or provisions for these matters recorded in the unaudited interim period condensed consolidated financial statements.

The Company 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 the Company 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, the Company 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. In the third quarter, the Crown filed an application for leave to appeal to the Supreme Court. Subsequent to the end of the third quarter, on October 29, 2020, the Supreme Court granted the Crown leave to appeal. The Company 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 19. Related Party Transactions

Disposition of Properties to Choice Properties Real Estate Investment Trust In the third quarter of 2020, the Company did not dispose of any properties to Choice Properties Real Estate Trust ("Choice Properties"). On a year-to-date basis in 2020, the Company disposed of a development property to Choice Properties for proceeds of $8 million. The proceeds were equivalent to the carrying amount of the property. This property was not leased back by the Company.

In the third quarter of 2019, the Company disposed of one property to Choice Properties for proceeds of $23 million and recognized a gain of $2 million. On a year-to-date basis in 2019, the Company disposed of three properties to Choice Properties for proceeds of $59 million and recognized a gain of $7 million. These properties were leased back by the Company.

In the third quarter of 2019, Choice Properties disposed of 30 properties, leased by the Company, to a third party purchaser. As part of the transaction, the Company extended certain lease terms with Choice Properties immediately prior to the sale where the Company believed it was reasonably certain to use the premises, which resulted in a lease modification impact of approximately $52 million to right-of-use assets and lease liabilities. Furthermore, the Company was waived of certain future capital recovery charges by Choice Properties.

Venture Fund During the second quarter of 2020, Loblaw, Weston and a wholly owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington (the "Venture Fund"). The 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 33% interest in the Venture Fund. The Company has a total capital commitment of $33 million over a 10-year period. In the third quarter of 2020, the Company invested $7 million in the Venture Fund.

Note 20. Segment Information

The Company has two reportable operating segments, with all material operations carried out in Canada:

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program. This segment is comprised of several operating segments that are aggregated primarily due to similarities in the nature of products and services offered for sale in the retail operations and the customer base; and
- The Financial Services segment provides credit card and everyday banking services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

The Company's chief operating decision maker evaluates segment performance on the basis of adjusted EBITDA(2) and adjusted operating income(2), as reported to internal management, on a periodic basis.

Information for each reportable operating segment is included below:

	October 3, 2020 (16 weeks)				October 5, 2019 (16 weeks)			
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$15,464**	**$ 278**	**$ (71)**	**$15,671**	$14,420	$ 309	$ (74)	$14,655
Operating income	$ 674	$ 44	$ —	$ 718	$ 655	$ 35	$ —	$ 690
Net interest expense and other financing charges	205	23	—	228	203	20	—	223
Earnings before income taxes	**$ 469**	**$ 21**	**$ —**	**$ 490**	$ 452	$ 15	$ —	$ 467
Operating income	**$ 674**	**$ 44**	**$ —**	**$ 718**	$ 655	$ 35	$ —	$ 690
Depreciation and amortization	789	6	—	795	771	4	—	775
Adjusting items(iii)	166	—	—	166	183	1	—	184
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(155)	—	—	(155)	(157)	—	—	(157)
Adjusted EBITDA(iii)	$ 1,474	$ 50	$ —	$ 1,524	$ 1,452	$ 40	$ —	$ 1,492
Depreciation and amortization(iv)	634	6	—	640	614	4	—	618
Adjusted operating income	**$ 840**	**$ 44**	**$ —**	**$ 884**	$ 838	$ 36	$ —	$ 874

(i) Eliminations includes the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

(ii) Included in Financial Services revenue is $107 million (October 5, 2019 – $123 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA(2). Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $155 million (October 5, 2019 – $157 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

(millions of Canadian dollars)	October 3, 2020 (40 weeks) Retail	Financial Services	Eliminations(i)	Total	October 5, 2019 (40 weeks) Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$ 38,816**	**$ 777**	**$ (165)**	**$ 39,428**	$ 35,778	$ 859	$ (190)	$ 36,447
Operating income	$ 1,582	$ 81	$ —	$ 1,663	$ 1,602	$ 127	$ —	$ 1,729
Net interest expense and other financing charges	509	67	—	576	511	60	—	571
Earnings before income taxes	**$ 1,073**	**$ 14**	**$ —**	**$ 1,087**	$ 1,091	$ 67	$ —	$ 1,158
Operating income	**$ 1,582**	**$ 81**	**$ —**	**$ 1,663**	$ 1,602	$ 127	$ —	$ 1,729
Depreciation and amortization	1,971	16	—	1,987	1,921	14	—	1,935
Adjusting items(iii)	451	—	—	451	434	1	—	435
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(392)	—	—	(392)	(392)	—	—	(392)
Adjusted EBITDA(iii)	$ 3,612	$ 97	$ —	$ 3,709	$ 3,565	$ 142	$ —	$ 3,707
Depreciation and amortization(iv)	1,579	16	—	1,595	1,529	14	—	1,543
Adjusted operating income	**$ 2,033**	**$ 81**	**$ —**	**$ 2,114**	$ 2,036	$ 128	$ —	$ 2,164

(i) Eliminations includes the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

(ii) Included in Financial Services revenue is $349 million (October 5, 2019 – $353 million) of interest income.

(iii) Certain items are excluded from operating income to derive adjusted EBITDA(2). Adjusted EBITDA(2) is used internally by management when analyzing segment underlying performance.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $392 million (October 5, 2019 – $392 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

The Company's revenue, by type of goods or services, is reconciled to the Company's segment revenue:

(millions of Canadian dollars)	**October 3, 2020 (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020 (40 weeks)**	October 5, 2019 (40 weeks)
Food retail	**$ 11,215**	$ 10,423	**$ 28,294**	$ 25,796
Drug retail				
Pharmacy	**$ 2,128**	$ 1,929	**$ 5,052**	$ 4,790
Front store	**2,121**	2,068	**5,470**	5,192
	$ 4,249	$ 3,997	**$ 10,522**	$ 9,982
Retail total	**$ 15,464**	$ 14,420	**$ 38,816**	$ 35,778
Financial Services	**278**	309	**777**	859
Eliminations[(i)]	**(71)**	(74)	**(165)**	(190)
Total	**$ 15,671**	$ 14,655	**$ 39,428**	$ 36,447

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

(millions of Canadian dollars)	**As at October 3, 2020**	As at October 5, 2019	As at December 28, 2019
Total assets			
Retail	**$ 31,284**	$ 31,068	$ 31,661
Financial Services	**4,584**	4,395	4,648
	$ 35,868	$ 35,463	$ 36,309

(millions of Canadian dollars)	**October 3, 2020[(i)] (16 weeks)**	October 5, 2019 (16 weeks)	**October 3, 2020[(i)] (40 weeks)**	October 5, 2019 (40 weeks)
Additions to fixed assets and intangible assets				
Retail	**$ 389**	$ 395	**$ 781**	$ 748
Financial Services	**7**	12	**25**	42
	$ 396	$ 407	**$ 806**	$ 790

(i) Additions to fixed assets in the retail segment included prepayments that were made in 2019 and transferred from other assets in 2020 of $16 million in the third quarter of 2020 and $66 million year-to-date. Additions to fixed assets in the retail segment included prepayments that were made in 2018 and transferred from other assets in 2019 of $10 million in the third quarter of 2019 and year-to-date.

Financial Summary[1]

Unless otherwise indicated, the following financial summary includes the impacts of the consolidation of franchises and COVID-19:

As at or for the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (16 weeks)**	2019 (16 weeks)
Consolidated Results of Operations		
Revenue	**$ 15,671**	$ 14,655
Revenue growth	**6.9 %**	2.3 %
Operating income	**$ 718**	$ 690
Adjusted EBITDA[2]	**1,524**	1,492
Adjusted EBITDA margin[2]	**9.7 %**	10.2 %
Net interest expense and other financing charges	**$ 228**	$ 223
Adjusted net interest expense and other financing charges[2]	**228**	223
Net earnings	**360**	353
Net earnings attributable to shareholders of the Company	**345**	334
Net earnings available to common shareholders of the Company	**342**	331
Adjusted net earnings available to common shareholders of the Company[2]	**464**	458
Consolidated Per Common Share ($)		
Diluted net earnings	**$ 0.96**	$ 0.90
Adjusted diluted net earnings[2]	**$ 1.30**	$ 1.25
Consolidated Financial Position and Cash Flows		
Cash and cash equivalents and short term investments	**$ 1,844**	$ 1,022
Cash flows from operating activities	**1,063**	1,061
Capital investments	**396**	397
Free cash flow[2]	**121**	186
Financial Measures		
Retail debt to rolling year retail adjusted EBITDA[2]	**2.9 x**	3.0 x
Rolling year adjusted return on equity[2]	**13.5 %**	13.4 %
Rolling year adjusted return on capital[2]	**7.9 %**	7.8 %

Financial Summary[1]

As at or for the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (16 weeks)	2019 (16 weeks)
Retail Results of Operations		
Sales	**$ 15,464**	$ 14,420
Operating income	**674**	655
Adjusted gross profit[2]	**4,534**	4,262
Adjusted gross profit %[2]	**29.3 %**	29.6 %
Adjusted EBITDA[2]	**$ 1,474**	$ 1,452
Adjusted EBITDA margin[2]	**9.5 %**	10.1 %
Depreciation and amortization	**$ 789**	$ 771
Retail Operating Statistics		
Food retail same-store sales growth	**6.9 %**	0.1 %
Drug retail same-store sales growth	**6.1 %**	4.1 %
Total retail square footage (in millions)	**70.9**	70.6
Number of corporate stores	**551**	548
Number of franchise stores	**540**	539
Number of Associate-owned drug stores	**1,347**	1,341
Financial Services Results of Operations		
Revenue	**$ 278**	$ 309
Earnings before income taxes	**21**	15
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	**$ 3,179**	$ 3,217
Credit card receivables	**3,008**	3,263
Allowance for credit card receivables	**247**	188
Annualized yield on average quarterly gross credit card receivables	**13.4 %**	13.7 %
Annualized credit loss rate on average quarterly gross credit card receivables	**3.7 %**	3.4 %

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 134 of the Company's 2019 Annual Report.

(2) See Section 11 "Non-GAAP Financial Measures" of the Company's Management's Discussion and Analysis for the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.

Corporate Profile

Loblaw Companies Limited ("Loblaw") is Canada's food and pharmacy leader, and the nation's largest retailer. Loblaw provides Canadians with grocery, pharmacy, health and beauty, apparel, general merchandise, financial services and wireless mobile products and services. With more than 2,400 corporate, franchised and Associate-owned locations, Loblaw, its franchisees and associate-owners employ more than 190,000 full- and part-time employees, making it one of Canada's largest private sector employers.

Loblaw's purpose - *Live Life Well*® - puts first the needs and well-being of Canadians who make one billion transactions annually in the company's stores. Loblaw is positioned to meet and exceed those needs in many ways: convenient locations; more than 1,050 grocery stores that span the value spectrum from discount to specialty; full-service pharmacies at nearly 1,400 *Shoppers Drug Mart*® and *Pharmaprix*® locations and close to 500 Loblaw locations; *PC Financial*® services; affordable *Joe Fresh*® fashion and family apparel; and four of Canada's top-consumer brands in *Life Brand*®, *Farmer's Market*™, *no name*® and *President's Choice*®.

Trademarks

Loblaw Companies Limited and its subsidiaries own a number of trademarks. Several subsidiaries are licensees of additional trademarks. These trademarks are the exclusive property of Loblaw Companies Limited or the licensor and where used in this report, are in italics.

Shareholder Information

Registrar and Transfer Agent

Computershare Investor Services Inc.	Toll free: 1-800-564-6253 (Canada and U.S)
100 University Avenue	Fax: (416) 263-9394
Toronto, Canada	Toll free fax: 1-888-453-0330
M5J 2Y1	International direct dial: (514) 982-7555

To change your address or eliminate multiple mailings or for other shareholder account inquiries, please contact Computershare Investor Services Inc.

Investor Relations

Investor inquiries, contact:	Media inquiries, contact:
Roy MacDonald	Kevin Groh
Vice President, Investor Relations	Senior Vice President, Corporate Affairs and Communication
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Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the "Investors" section of the Company's website at loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on November 12, 2020 at 10:00 a.m. (ET).

To access via tele-conference, please dial (647) 427-7450 or (888) 231-8191. The playback will be made available approximately two hours after the event at (416) 849-0833 or (855) 859-2056, access code: 9959726. To access via audio webcast, please go to the "Investors" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

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