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Second Quarter Report to Shareholders

24 weeks ended June 19, 2021

2021 Second 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 second quarter 2021 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 January 2, 2021 and the related annual MD&A included in the Company's 2020 Annual Report – Financial Review ("2020 Annual Report").

The Company's second quarter 2021 unaudited interim period condensed consolidated financial statements and the accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). 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.

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" for more information on the Company's non-GAAP financial measures.

A glossary of terms used throughout this Quarterly Report can be found at the back of the Company's 2020 Annual Report.

The information in this MD&A is current to July 27, 2021, 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, Section 5 "Liquidity and Capital Resources", Section 10 "Outlook" 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 2021 is based on certain assumptions including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company’s actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in the Company’s MD&A in the 2020 Annual Report, and the Company’s 2020 Annual Information Form (“AIF”) for the year ended January 2, 2021. 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 vendor operations, 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;
- 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 effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- 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 realize benefits from investments in the Company’s new IT systems;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- 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 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;
- reliance on the performance and retention of third party service providers, including those associated with the Company’s supply chain and apparel business and located in both advanced and developing markets;
- 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; 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 2020 AIF (for the year ended January 2, 2021). 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]

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 June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[4] (12 weeks)
Consolidated:		
Revenue growth	**4.5 %**	7.4 %
Operating income	**$ 752**	$ 404
Adjusted EBITDA[2]	**1,371**	1,008
Adjusted EBITDA margin[2]	**11.0 %**	8.4 %
Net earnings	**$ 434**	$ 162
Net earnings attributable to shareholders of the Company	**378**	172
Net earnings available to common shareholders of the Company[i]	**375**	169
Adjusted net earnings available to common shareholders of the Company[2]	**464**	260
Diluted net earnings per common share ($)	**$ 1.09**	$ 0.47
Adjusted diluted net earnings per common share[2] ($)	**$ 1.35**	$ 0.72
Cash and cash equivalents and short term investments	**$ 2,112**	$ 2,558
Cash flows from operating activities	**1,635**	935
Free cash flow[2]	**953**	334
Financial Measures:		
Retail debt to rolling year retail adjusted EBITDA[2]	**2.7 x**	3.0 x
Rolling year adjusted return on equity[2]	**16.0 %**	13.3 %
Rolling year adjusted return on capital[2]	**9.4 %**	7.9 %
Retail Segment:		
Food retail same-store sales (decline)/growth	**(0.1)%**	10.0 %
Drug retail same-store sales growth/(decline)	**9.6 %**	(1.1)%
Operating income	**$ 708**	$ 370
Adjusted gross profit[2]	**3,793**	3,484
Adjusted gross profit %[2]	**30.9 %**	29.6 %
Adjusted EBITDA[2]	**$ 1,316**	$ 969
Adjusted EBITDA margin[2]	**10.7 %**	8.2 %
Financial Services Segment:		
Earnings before income taxes	**$ 28**	$ 12
Annualized yield on average quarterly gross credit card receivables	**12.9 %**	13.8 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.9 %**	3.8 %

(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

As at or for the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020(4) (12 weeks)	$ Change	% Change	2021 (24 weeks)	2020(4) (24 weeks)	$ Change	% Change
Revenue	**$ 12,491**	$ 11,957	$ 534	4.5 %	**$ 24,363**	$ 23,757	$ 606	2.6 %
Operating income	**752**	404	348	86.1 %	**1,369**	945	424	44.9 %
Adjusted EBITDA(2)	**1,371**	1,008	363	36.0 %	**2,589**	2,173	416	19.1 %
Adjusted EBITDA margin(2)	**11.0 %**	8.4 %			**10.6 %**	9.1 %		
Depreciation and amortization	**$ 614**	$ 598	$ 16	2.7 %	**$ 1,224**	$ 1,192	$ 32	2.7 %
Net interest expense and other financing charges	**161**	176	(15)	(8.5)%	**321**	348	(27)	(7.8)%
Income taxes	**157**	66	91	137.9 %	**279**	159	120	75.5 %
Adjusted income taxes(2)	**190**	99	91	91.9 %	**341**	232	109	47.0 %
Adjusted effective tax rate(2)	**26.6 %**	28.1 %			**26.7 %**	26.7 %		
Net earnings (loss) attributable to non-controlling interests	56	$ (10)	$ 66	660.0 %	75	23	$ 52	226.1 %
Net earnings attributable to shareholders of the Company	**$ 378**	$ 172	$ 206	119.8 %	**$ 694**	$ 415	$ 279	67.2 %
Net earnings available to common shareholders of the Company(i)	**375**	169	206	121.9 %	**688**	409	279	68.2 %
Adjusted net earnings available to common shareholders of the Company(2)	**464**	260	204	78.5 %	**856**	609	247	40.6 %
Diluted net earnings per common share ($)	**$ 1.09**	$ 0.47	$ 0.62	131.9 %	**$ 1.99**	$ 1.14	$ 0.85	74.6 %
Adjusted diluted net earnings per common share(2) ($)	**$ 1.35**	$ 0.72	$ 0.63	87.5 %	**$ 2.48**	$ 1.69	$ 0.79	46.7 %
Diluted weighted average common shares outstanding (in millions)	**342.9**	359.5			**345.3**	360.3		

(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.

In the second quarter of 2021, Loblaw delivered strong financial performance while lapping the heightened sales and significant COVID-related costs experienced at the beginning of the pandemic in 2020.

Grocery demand continued to benefit from elevated eat-at-home trends in the quarter. Across Loblaw's grocery stores, the Company continued to deliver superior value through its unmatched network of stores and online pick-up or delivery options. This was reflected as the Company recorded volume share gains in the second quarter, continuing its positive momentum in the grocery business. The drug store division continued to see variability in its prescription business and reduced consumer demand for high-value items like cosmetics in its front-store business due to lockdowns. The Company has experienced higher food and convenience sales during the pandemic, with muted acute-prescription and beauty sales. This trend is showing signs of rebalancing as economies re-open across Canada. With a heightened focus on its core retail businesses, including improved promotional effectiveness and cost control, Loblaw delivered another quarter of operational and financial improvements.

Loblaw continues to believe that through its everyday business decisions it has an opportunity and responsibility to have a positive effect in the communities in which it operates. That long-standing sense of responsibility has led the Company to be a corporate responsibility leader and drive change in areas that matter to Canadians. The publication of the Company's 14th annual Corporate Social Responsibility ("CSR") report in the second quarter marks a transition to begin reporting its corporate responsibility actions under an Environmental, Social and Governance ("ESG") framework. The 2020 CSR report contains new disclosures and targets that demonstrate the Company's commitment to ESG transparency, leadership and risk management.

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 second quarter of 2021 were $375 million ($1.09 per common share). When compared to the second quarter of 2020, this represented an increase of $206 million ($0.62 per common share). The increase included improvements in the underlying operating performance of $204 million and the favourable change in adjusting items totaling $2 million, as described below:

- the improvement in underlying operating performance of $204 million ($0.55 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment driven by an increase in adjusted gross profit[2], a decrease in selling, general and administrative ("SG&A") which was partially offset by 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 $2 million ($0.01 per common share) primarily due to the year-over-year favourable change in restructuring and other related costs of $1 million ($— per common share); and
- diluted net earnings per common share also included the favourable impact of the repurchase of common shares over the last 12 months ($0.06 per common share).

Adjusted net earnings available to common shareholders of the Company[2] in the second quarter of 2021 were $464 million. When compared to the second quarter of 2020, this represented an increase of $204 million. Adjusted net earnings per common share[2] in the second quarter of 2021 were $1.35. When compared to the second quarter of 2020, this represented an increase of $0.63 or 87.5%. The increase includes the favourable impact of the repurchase of common shares. The two year adjusted diluted net earnings per common share Compound Average Growth Rate ("CAGR")[5] was 15.0%.

Year-to-date net earnings available to common shareholders of the Company were $688 million ($1.99 per common share), an increase of $279 million ($0.85 per common share) or 68.2% compared to the same period in 2020. The increase included improvements in the underlying operating performance of $247 million and the favourable year-over year impact of adjusting items totaling $32 million, as described below:

- the improvement in underlying operating performance of $247 million ($0.68 per common share) was primarily due to the following:
  - an improvement in the underlying operating performance in the Retail segment was driven by an increase in adjusted gross profit(2), partially offset by an increase in SG&A and depreciation and amortization; and
  - an improvement in the underlying operating performance in the Financial Services segment;
- the favourable year-over-year impact of adjusting items totaling $32 million ($0.07 per common share) was primarily due to the following:
  - the year-over-year favourable impact of fair value adjustments on fuel and foreign currency contracts of $17 million ($0.04 per common share);
  - the year-over-year favourable change in restructuring and other related costs of $9 million ($0.03 per common share); and
  - the year-over-year favourable change in net gain on the sale of non-operating properties of $4 million ($0.01 per common share).
- diluted net earnings per common share also includes the favourable impact of the repurchase of common shares ($0.10 per common share).

Year-to-date adjusted net earnings available to common shareholders of the Company(2) were $856 million, an increase of $247 million or 40.6% compared to the same period in 2020. Adjusted diluted net earnings per common share(2) were $2.48 per common share, an increase of $0.79 or 46.7%. The increase includes the favourable impact of the repurchase of common shares. The two year year-to-date adjusted diluted net earnings per common share CAGR(5) was 19.0%.

Revenue

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020 (12 weeks)	$ Change	% Change	**2021 (24 weeks)**	2020 (24 weeks)	$ Change	% Change
Retail	**$ 12,282**	$ 11,768	$ 514	4.4 %	**$ 23,952**	$ 23,352	$ 600	2.6 %
Financial Services	**272**	233	39	16.7 %	**525**	499	26	5.2 %
Consolidation and Eliminations	**(63)**	(44)	(19)	(43.2)%	**(114)**	(94)	(20)	(21.3)%
Revenue	**$ 12,491**	$ 11,957	$ 534	4.5 %	**$ 24,363**	$ 23,757	$ 606	2.6 %

Revenue was $12,491 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $534 million, or 4.5%. The increase was primarily driven by an increase in Retail segment sales of $514 million due to positive same-store sales growth specifically from Drug retail and a net increase in Retail square footage. Furthermore, there was an improvement in Financial Services segment sales of $39 million compared to the second quarter of 2020.

Year-to-date revenue was $24,363 million in 2021, an increase of $606 million, or 2.6%, compared to the same period in 2020, primarily driven by an increase in Retail segment sales of $600 million due to positive same-store sales growth and a net increase in Retail square footage. Furthermore, there was an improvement in Financial Services segment sales of $26 million between the same two periods.

Operating Income Operating income was $752 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $348 million. The increase included improvements in the underlying operating performance of $346 million and a favourable change in adjusting items totaling $2 million, as described below:

- the improvement in underlying operating performance of $346 million was primarily due to the following:
    - an improvement in the underlying operating performance of the Retail segment due to an increase in adjusted gross profit[(2)] and a decrease in SG&A which was partially offset by 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 $2 million was primarily due to the year-over-year favourable change in restructuring and other related costs of $1 million.

Year-to-date operating income was $1,369 million, an increase of $424 million compared to 2020. The increase in operating income was driven by improvements in the underlying operating performance of $381 million and a favourable impact of certain adjusting items totaling $43 million as described below:

- improvements in the underlying operating performance of $381 million, primarily due to the following:
    - an improvement in the underlying operating performance of the Retail segment due to an increase in adjusted gross profit[(2)], partially offset by an increase in SG&A and depreciation and amortization; and
    - an improvement in the underlying operating performance of the Financial Services segment.
- the favourable year-over-year impact of certain adjusting items totaling $43 million including:
    - the year-over-year favourable impact of fair value adjustments on fuel and foreign currency contracts of $23 million;
    - the year-over-year favourable change in restructuring and other related costs of $12 million; and
    - the year-over-year unfavourable change in net gain on sale of non-operating properties of $5 million.

Adjusted EBITDA[(2)]

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021** (12 weeks)	2020[(4)] (12 weeks)	$ Change	% Change	**2021** (24 weeks)	2020[(4)] (24 weeks)	$ Change	% Change
Retail	**$ 1,316**	$ 969	$ 347	35.8 %	**$ 2,461**	$ 2,126	$ 335	15.8 %
Financial Services	**55**	39	16	41.0 %	**128**	47	81	172.3 %
Adjusted EBITDA[(2)]	**$ 1,371**	$ 1,008	$ 363	36.0 %	**$ 2,589**	$ 2,173	$ 416	19.1 %

Adjusted EBITDA[(2)] was $1,371 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $363 million. The increase in adjusted EBITDA[(2)] was primarily due to an increase in the Retail segment of $347 million and an increase in the Financial Services segment of $16 million.

Year-to-date adjusted EBITDA[(2)] was $2,589 million in 2021, an increase of $416 million compared to 2020. The increase was primarily due to an increase in the Retail segment of $335 million and an increase in the Financial Services segment of $81 million.

Depreciation and Amortization Depreciation and amortization was $614 million in the second quarter of 2021, an increase of $16 million compared to the second quarter of 2020. Year-to-date depreciation and amortization was $1,224 million in 2021, an increase of $32 million compared to the same period in 2020. The increase in depreciation and amortization in the second quarter of 2021 and year-to-date was primarily driven by an increase in depreciation of IT and leased assets and an increase in depreciation in the Financial Services segment due to the launch of the *PC Money*™ Account. Depreciation and amortization in the second quarter of 2021 and year-to-date included the amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") of $117 million (2020 – $118 million) and $234 million (2020 – $237 million), respectively.

Net Interest Expense and Other Financing Charges Net interest expense and other financing charges were $161 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented a decrease of $15 million. Year-to-date net interest expense and other financing charges were $321 million. When compared to the same period in 2020, this represented a decrease of $27 million. The decreases in net interest expense and other financing charges were primarily driven by a reduction in interest expense from lease liabilities and lower interest expense in the Financial Services segment.

Income Taxes

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[4] (12 weeks)	$ Change	% Change	**2021 (24 weeks)**	2020[4] (24 weeks)	$ Change	% Change
Income taxes	**$ 157**	$ 66	$ 91	137.9 %	**$ 279**	$ 159	$ 120	75.5 %
Add (deduct) impact of the following:								
Tax impact of items included in adjusted earnings before taxes	**33**	33	—	— %	**62**	73	(11)	(15.1)%
Adjusted income taxes[2]	**$ 190**	$ 99	$ 91	91.9 %	**$ 341**	$ 232	$ 109	47.0 %
Effective tax rate	**26.6 %**	28.9 %			**26.6 %**	26.6 %		
Adjusted effective tax rate[2]	**26.6 %**	28.1 %			**26.7 %**	26.7 %		

Income tax expense in the second quarter of 2021 was $157 million (2020 – $66 million) and the effective tax rate was 26.6% (2020 – 28.9%). The decrease to the effective tax rate was primarily attributable to the timing of the impact of certain non-deductible items. Year-to-date income tax expense was $279 million (2020 – $159 million) and the effective tax rate was 26.6% (2020 – 26.6%). The year-to-date effective tax rate was consistent compared to the same period in 2020.

Adjusted income tax expense[2] in the second quarter of 2021 was $190 million (2020[4] – $99 million) and the adjusted effective tax rate[2] was 26.6% (2020[4] – 28.1%). The decrease to the adjusted effective tax rate was primarily attributable to the timing of the impact of certain non-deductible items. Year-to-date adjusted income tax expense[2] was $341 million (2020[4] – $232 million) and the adjusted effective tax rate[2] was 26.7% (2020[4] – 26.7%). The year-to-date adjusted effective tax rate[2] was consistent compared to the same period in 2020.

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. On October 15, 2019, the matter was heard by the Federal Court of Appeal, and on April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron case in favour of the Company and reversed the decision of the Tax Court. On October 29, 2020, the Supreme Court of Canada ("Supreme Court") granted the Crown leave to appeal and on May 13, 2021, the Supreme Court heard the Crown's appeal, reserving judgment until a later date. The Company has not reversed any portion of the $367 million of charges recorded during the third quarter of 2018, of which $176 million was recorded in interest and $191 million was recorded in income taxes.

Net earnings attributable to non-controlling interests Net earnings attributable to non-controlling interests were $56 million in the second quarter of 2021. Non-controlling interests represent the franchise's earnings in Food Retail. When compared to the second quarter of 2020, this represented an increase of $66 million, or 660.0%. Year-to-date net earnings attributable to non-controlling interests were $75 million which represents an increase of $52 million or 226.1%. The increases in non-controlling interests were primarily driven by higher franchise earnings in comparison to the same period in 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 stores 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

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[4] (12 weeks)	$ Change	% Change	**2021 (24 weeks)**	2020[4] (24 weeks)	$ Change	% Change
Sales	**$12,282**	$ 11,768	$ 514	4.4 %	**$23,952**	$23,352	$ 600	2.6 %
Operating income	**708**	370	338	91.4 %	**1,261**	908	353	38.9 %
Adjusted gross profit[2]	**3,793**	3,484	309	8.9 %	**7,326**	6,934	392	5.7 %
Adjusted gross profit %[2]	**30.9 %**	29.6 %			**30.6 %**	29.7 %		
Adjusted EBITDA[2]	**$ 1,316**	$ 969	$ 347	35.8 %	**$ 2,461**	$ 2,126	$ 335	15.8 %
Adjusted EBITDA margin[2]	**10.7 %**	8.2 %			**10.3 %**	9.1 %		
Depreciation and amortization	**$ 603**	$ 593	$ 10	1.7 %	**$ 1,204**	$ 1,182	$ 22	1.9 %

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**		2020 (12 weeks)		**2021 (24 weeks)**		2020 (24 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales	**Sales**	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 8,878**	**(0.1)%**	$ 8,747	10.0 %	**$ 17,357**	**0.0 %**	$ 17,079	9.8 %
Drug retail	**3,404**	**9.6 %**	3,021	(1.1)%	**6,595**	**3.8 %**	6,273	4.7 %
Pharmacy	**1,656**	**17.2 %**	1,361	(6.2)%	**3,270**	**10.0 %**	2,924	2.1 %
Front store	**1,748**	**3.6 %**	1,660	3.3 %	**3,325**	**(1.4)%**	3,349	6.9 %

Sales Retail segment sales were $12,282 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $514 million, or 4.4%, primarily driven by the following factors:

- Food retail same-store sales declined by 0.1% (2020 – grew by 10.0%) for the quarter. The decline was mainly driven by the lapping of the strong surge in sales in the second quarter of 2020. The two year Food Retail sales CAGR(5) was 6.3%.
  - Sales growth in food was flat;
  - Sales growth in pharmacy was strong;
  - The Company's Food Retail average article price was higher by 1.4% (2020 – 4.6%), 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; and
  - Food Retail basket size decreased and traffic increased in the quarter, as compared to the second quarter of 2020.
- Drug retail same-store sales grew by 9.6% (2020 – declined by 1.1%). The pharmacy same store sales growth benefited from the lapping of government mandated 30-day supply restrictions in the second quarter of 2020. The two year Drug Retail sales CAGR(5) was 5.7%.
  - Pharmacy same-store sales growth was 17.2% (2020 – declined by 6.2%). The number of prescriptions dispensed increased by 1.9% (2020 – 4.3%). On a same-store basis, the number of prescriptions dispensed increased by 0.3% (2020 – 4.3%) and year-over-year, the average prescription value increased by 18.3% (2020 – decreased by 11.2%); and
  - Front store same-store sales increased by 3.6% (2020 – 3.3%).

In the last 12 months, 20 food and drug stores were opened, and nine food and drug stores were closed, resulting in a net increase in Retail square footage of 0.5 million square feet, or 0.7%.

On a year-to-date basis, Retail segment sales were $23,952 million, an increase of $600 million, or 2.6% when compared to the same period in 2020. Year-to-date Food retail sales of $17,357 million increased by $278 million, or 1.6%. The Food same-store sales remained flat (2020 – increased by 9.8%) as a result of a strong surge in sales in the same period of 2020. The two year Food Retail sales CAGR(5) was 6.3%**.** Drug retail sales of $6,595 million increased by $322 million, or 5.1%. Year-to-date Drug retail same-store sales growth was 3.8% (2020 – 4.7%), with pharmacy same-store sales growth of 10.0% (2020 – 2.1%) and Front store sale decline of 1.4% (2020 – increased by 6.9%). The two year Drug Retail sales CAGR(5) was 5.0%.

Operating Income Operating income was $708 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $338 million. The increase in operating income was driven by an increase in underlying operating performance of $336 million, and the favourable change in adjusting items totaling $2 million, as described below:

- the improvement in underlying operating performance of $336 million was primarily due to an increase in adjusted gross profit(2) described below, and a decrease in SG&A, partially offset by an increase in depreciation and amortization; and
- the favourable change in adjusting items totaling $2 million which was primarily due to the following:
  - the year-over-year favourable change in restructuring and other related costs of $1 million;

Year-to-date operating income was $1,261 million in 2021, an increase of $353 million compared to the same period in 2020. The increase was driven by improvements in the underlying operating performance of $310 million and the favourable change in adjusting items totaling $43 million, as described below:

- the improvements in the underlying operating performance of $310 million was primarily due to an increase in adjusted gross profit(2) as described below, partially offset by an increase in SG&A, and an increase in depreciation and amortization; and
- the favourable change in adjusting items totaling $43 million was primarily due to the following:
  - the year-over-year favourable impact of fair value adjustments on fuel and foreign currency contracts of $23 million;
  - the year-over-year favourable change in restructuring and other related costs of $12 million; and
  - the year-over-year favourable change in net gain on the sale of non-operating properties of $5 million.

Adjusted Gross Profit[(2)] Adjusted gross profit[(2)] in the second quarter of 2021 was $3,793 million. When compared to the second quarter of 2020, this represented an increase of $309 million. Adjusted gross profit percentage[(2)] of 30.9% increased by 130 basis points when compared to the second quarter of 2020, from favourable changes in sales mix in both Food and Drug Retail and underlying improvements in business initiatives.

Year-to-date adjusted gross profit[(2)] was $7,326 million in 2021. When compared to the same period in 2020, this represented an increase of $392 million. Adjusted gross profit percentage[(2)] of 30.6% increased by 90 basis points compared to the same period in 2020, from favourable changes in sales mix in both Food and Drug Retail and underlying improvements in business initiatives.

Adjusted EBITDA[(2)] Adjusted EBITDA[(2)] was $1,316 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $347 million. The increase was driven by higher adjusted gross profit[(2)] of $309 million and a favourable decrease in SG&A of $38 million. SG&A as a percentage of sales was 20.2%, a decrease of 120 basis points compared to the second quarter of 2020. The favourable decrease of 120 basis points was primarily due to lower COVID-19 related expenses and improvements in e-commerce labour costs.

Year-to-date adjusted EBITDA[(2)] was $2,461 million in 2021, an increase of $335 million compared to the same period in 2020. The increase was driven by higher adjusted gross profit[(2)] of $392 million, partially offset by an increase in SG&A of $57 million. SG&A as a percentage of sales, was 20.3%, a decrease of 30 basis points compared to the same period in 2020, driven by lower COVID-19 related expenses.

In the second quarter of 2021, adjusted EBITDA[(2)] included gains of nil (2020 – nil) and nil year-to-date (2020 – nil) related to the sale and leaseback of properties to Choice Properties Real Estate Investment Trust ("Choice Properties").

Depreciation and Amortization Depreciation and amortization in the second quarter of 2021 was $603 million. When compared to the second quarter of 2020, this represented an increase of $10 million. Year-to-date depreciation and amortization was $1,204 million, an increase of $22 million compared to the same period in 2020. The increase in depreciation and amortization in the second quarter of 2021 and year-to-date was primarily driven by an increase in IT and leased assets. Included in depreciation and amortization is the amortization of intangible assets related to the acquisition of Shoppers Drug Mart of $117 million (2020 – $118 million) and $234 million (2020 – $237 million), respectively.

4.2 Financial Services Segment

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020 (12 weeks)	$ Change	% Change	**2021 (24 weeks)**	2020 (24 weeks)	$ Change	% Change
Revenue	**$ 272**	$ 233	$ 39	16.7 %	**$ 525**	$ 499	$ 26	5.2 %
Earnings/(losses) before income taxes	**28**	12	16	133.3 %	**76**	(7)	83	1,185.7 %

(millions of Canadian dollars except where otherwise indicated)	**As at June 19, 2021**	As at June 13, 2020	$ Change	% Change
Average quarterly net credit card receivables	**$ 3,015**	$ 3,235	$ (220)	(6.8)%
Credit card receivables	**3,033**	2,834	199	7.0 %
Allowance for credit card receivables	**205**	250	(45)	(18.0)%
Annualized yield on average quarterly gross credit card receivables	**12.9 %**	13.8 %		
Annualized credit loss rate on average quarterly gross credit card receivables	**2.9 %**	3.8 %		

Revenue Revenue was $272 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $39 million. The increase was primarily driven by:

- higher sales attributable to *The Mobile Shop*™ due to the temporary partial shutdown of *The Mobile Shop*™ kiosks during the second quarter of 2020; and
- higher interchange income due to an increase in customer spending;

partially offset by,

- lower interest income attributable to lower average credit card receivables.

Year-to-date revenue was $525 million in 2021. When compared to the same period in 2020, this represented an increase of $26 million, primarily driven by:

- higher sales attributable to *The Mobile Shop*™ due to the temporary partial shutdown of *The Mobile Shop*™ kiosks during the same period in 2020; and
- higher interchange income due to an increase in customer spending;

partially offset by,

- lower interest income and credit card related fees attributable to lower average credit card receivables.

Earnings before income taxes Earnings before income taxes were $28 million in the second quarter of 2021. When compared to the second quarter of 2020, this represented an increase of $16 million. The increase was primarily driven by:

- higher revenue described above;
- the reduction of expected credit loss provision;
- lower contractual charge-off; and
- lower funding costs due to lower average credit card receivables;

partially offset by,

- higher loyalty program costs and operating costs; and
- higher customer acquisition costs.

Year-to-date earnings before income taxes were $76 million in 2021. When compared to the same period in 2020, this represented an increase of $83 million. The increase was primarily driven by:

- higher revenue, as described above;
- the reduction of expected credit loss provision in the current year, and the lapping of an increase in the expected credit loss provision from the prior year;
- lower contractual charge-off;
- lower funding costs due to lower average credit card receivables; and
- reversal of certain commodity taxes remitted;

partially offset by,

- higher loyalty program costs and operating costs; and
- higher customer acquisition costs.

Credit Card Receivables As at June 19, 2021, credit card receivables were $3,033 million. When compared to June 13, 2020, this represented an increase of $199 million. This increase was primarily driven by the increase in customer spending, partially offset by higher payment rates. The allowance for credit card receivables was $205 million, a decrease of $45 million compared to June 13, 2020.

5. Liquidity and Capital Resources

5.1 Cash Flows

Major Cash Flow Components

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020 (12 weeks)	$ Change	% Change	**2021 (24 weeks)**	2020 (24 weeks)	$ Change	% Change
Cash and cash equivalents, beginning of period	**$ 1,549**	$ 2,184	$ (635)	(29.1)%	**$ 1,668**	$ 1,133	$ 535	47.2 %
Cash flows from (used in):								
Operating activities	**$ 1,635**	$ 935	$ 700	74.9 %	**$ 2,487**	$ 2,748	$ (261)	(9.5)%
Investing activities	**(241)**	(557)	316	56.7 %	**(394)**	(770)	376	48.8 %
Financing activities	**(1,056)**	(369)	(687)	(186.2)%	**(1,875)**	(911)	(964)	(105.8)%
Effect of foreign currency exchange rate changes on cash and cash equivalents	**1**	4	(3)	(75.0)%	**2**	(3)	5	166.7 %
Change in cash and cash equivalents	**$ 339**	$ 13	$ 326	2,507.7 %	**$ 220**	$ 1,064	$ (844)	(79.3)%
Cash and cash equivalents, end of period	**$ 1,888**	$ 2,197	$ (309)	(14.1)%	**$ 1,888**	$ 2,197	$ (309)	(14.1)%

Cash Flows from Operating Activities Cash flows from operating activities in the second quarter of 2021 were $1,635 million, an increase of $700 million compared to the second quarter of 2020. The increase in cash flows from operating activities was primarily driven by the unfavourable change in non-cash working capital as a result of increased inventory purchases and decreased trade payables in the prior year and higher cash earnings in the current year, partially offset by an increase in credit card receivables due to a rise in customer spending.

Year-to-date cash flows from operating activities were $2,487 million, a decrease of $261 million compared to the same period in 2020. The decrease in cash flows from operating activities was primarily driven by a decrease in credit card receivables due to a reduction in customer spending in the prior year and higher income taxes paid in the current year, partially offset by higher cash earnings and a favourable change in non-cash working capital.

Cash Flows used in Investing Activities Cash flows used in investing activities in the second quarter of 2021 were $241 million, a decrease of $316 million compared to the second quarter of 2020. The decrease in cash flows used in investing activities was primarily driven by a significant increase in short term investments in the prior year.

Year-to-date cash flows used in investing activities were $394 million, a decrease of $376 million compared to the same period in 2020. The decrease in cash flows used in investing activities was primarily driven by a significant increase in short term investments in the prior year.

Capital Investments and Store Activity

As at or for the periods ended June 19, 2021 and June 13, 2020	**2021 (24 weeks)**	2020 (24 weeks)	% Change
Corporate square footage (in millions)	**35.4**	35.6	(0.6)%
Franchise square footage (in millions)	**16.9**	16.4	3.0 %
Associate-owned drug store square footage (in millions)	**18.9**	18.7	1.1 %
Total retail square footage (in millions)	**71.2**	70.7	0.7 %
Number of corporate stores	**548**	549	(0.2)%
Number of franchise stores	**548**	539	1.7 %
Number of Associate-owned drug stores	**1,346**	1,343	0.2 %
Total number of stores	**2,442**	2,431	0.5 %
Percentage of corporate real estate owned	**7 %**	7 %	
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**	64,800	(0.3)%
Franchise	**30,800**	30,400	1.3 %
Associate-owned drug store	**14,000**	13,900	0.7 %

Capital Investments Capital investments in the second quarter of 2021 were $258 million, an increase of $59 million or 29.6% compared to the second quarter of 2020. Year-to-date capital investments were $461 million, an increase of $51 million or 12.4% compared to the same period in 2020.

Cash Flows used in Financing Activities Cash flows used in financing activities in the second quarter of 2021 were $1,056 million, an increase of $687 million compared to the second quarter of 2020. The increase in cash flows used in financing activities was primarily driven by the Company not repurchasing any common shares under its Normal Course Issuer Bid ("NCIB") during the second quarter of 2020, a decrease in bank indebtedness and higher net repayment of long term debt.

Year-to-date cash flows used in financing activities were $1,875 million, an increase of $964 million compared to the same period in 2020. The increase in cash flows used in financing activities was primarily driven by the Company not repurchasing any common shares under its NCIB during the second quarter of 2020 and higher net issuance of long term debt in the prior year, partially offset by the timing of the dividend payment in the fourth quarter of 2020.

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 June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020 (12 weeks)	$ Change	% Change	**2021 (24 weeks)**	2020 (24 weeks)	$ Change	% Change
Cash flows from operating activities	**$ 1,635**	$ 935	$ 700	74.9 %	**$ 2,487**	$ 2,748	$ (261)	(9.5)%
Less:								
Capital investments	**258**	199	59	29.6 %	**461**	410	51	12.4 %
Interest paid	**87**	71	16	22.5 %	**173**	159	14	8.8 %
Lease payments, net	**337**	331	6	1.8 %	**612**	659	(47)	(7.1)%
Free cash flow(2)(i)	**$ 953**	$ 334	$ 619	185.3 %	**$ 1,241**	$ 1,520	$ (279)	(18.4)%

(i) During the second quarter of 2021, the consolidated free cash flow(2) includes $1,009 million from the Retail segment (2020 – $93 million used) and $56 million used in the Financial Services segment (2020 – $427 million from). On a year-to-date basis, the consolidated free cash flow(2) includes $1,046 million from the Retail segment (2020 – $715 million) and $195 million from the Financial Services segment (2020 – $805 million).

Free cash flow(2) in the second quarter of 2021 was $953 million, an increase of $619 million compared to the second quarter of 2020. The increase in free cash flow(2) was primarily driven by the unfavourable change in non-cash working capital as a result of increased inventory purchases and decreased trade payables in the prior year and higher cash earnings in the current year, partially offset by an increase in credit card receivables due to a rise in customer spending and an increase in capital investments.

Year-to-date free cash flow(2) was $1,241 million in 2021, a decrease of $279 million compared to the same period in 2020. The decrease in free cash flow(2) was primarily driven by a decrease in credit card receivables due to a reduction in customer spending in the prior year and higher income taxes paid in the current year, partially offset by higher cash earnings and a favourable change in non-cash working capital.

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.

President's Choice Bank ("PC Bank") expects to obtain long term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*® ("*Eagle*") notes and Guaranteed Investment Certificates ("GICs").

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 June 19, 2021			As at June 13, 2020			As at January 2, 2021		
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total	Retail	Financial Services	Total
Bank indebtedness	**$ 138**	**$ —**	**$ 138**	$ 133	$ —	$ 133	$ 86	$ —	$ 86
Demand deposits from customers	**—**	**50**	**50**	—	—	—	—	24	24
Short term debt	**—**	**300**	**300**	—	525	525	—	575	575
Long term debt due within one year	**582**	**402**	**984**	350	890	1,240	—	597	597
Long term debt	**4,298**	**1,696**	**5,994**	4,781	1,562	6,343	4,811	1,638	6,449
Certain other liabilities(i)	**115**	**—**	**115**	66	—	66	117	—	117
Total debt excluding lease liabilities	**$ 5,133**	**$ 2,448**	**$ 7,581**	$ 5,330	$ 2,977	$ 8,307	$ 5,014	$ 2,834	$ 7,848
Lease liabilities due within one year	**1,345**	**—**	**1,345**	1,324	—	1,324	1,379	—	1,379
Lease liabilities	**7,443**	**—**	**7,443**	7,685	—	7,685	7,522	—	7,522
Total debt including total lease liabilities	**$ 13,921**	**$ 2,448**	**$16,369**	$ 14,339	$ 2,977	$ 17,316	$ 13,915	$ 2,834	$16,749

(i) As at June 19, 2021, certain other liabilities include financial liabilities of $46 million related to the sale of five retail properties to Choice Properties Real Estate Trust (June 13, 2020 — nil; January 2, 2021 — $46 million).

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 June 19, 2021	As at June 13, 2020[4]	As at January 2, 2021[4]
Retail debt to rolling year retail adjusted EBITDA[2]	**2.7 x**	3.0 x	2.9 x

The Retail debt to rolling year retail adjusted EBITDA[2] ratio as at June 19, 2021 decreased compared to June 13, 2020 and January 2, 2021, primarily due to a decrease in Retail debt relating to the amortization of leases and associate loan programs, and an improvement in adjusted EBITDA[2].

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 June 19, 2021 and throughout the second quarter, the Company was in compliance with such covenants. As at June 19, 2021 and throughout the second quarter, PC Bank has met all applicable regulatory requirements.

5.3 Components of Total Debt

Debentures There were no debentures issued or repaid on a year-to-date basis in 2021.

In the second quarter of 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.

Committed Credit Facility The Company has a $1.0 billion committed credit facility with a maturity date of October 7, 2023, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants. As at June 19, 2021, there were no amounts drawn under this facility (June 13, 2020 and January 2, 2021 – no amounts were drawn). During the second quarter of 2020, the Company repaid the $350 million drawn under this facility in the first quarter of 2020.

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 June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Securitized to independent securitization trusts:			
Securitized to *Eagle Credit Card Trust*®	**$ 1,050**	$ 1,000	$ 1,050
Securitized to Other Independent Securitization Trusts	**300**	525	575
Total securitized to independent securitization trusts	**$ 1,350**	$ 1,525	$ 1,625

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 June 19, 2021 and throughout the first half of 2021.

Subsequent to the second quarter of 2021, *Eagle* issued $300 million of senior and subordinated term notes with a maturity date of June 17, 2026. These notes have a weighted average interest rate of 1.61%. In connection with this issuance, $175 million of bond forward agreements were settled during the second quarter of 2021. This resulted in a realized fair value loss of $1 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to the settlement of the agreement. The loss will be reclassified to the statements of earnings over the life of the *Eagle* notes. This settlement resulted in a net effective interest rate of 1.65% on the *Eagle* notes issued.

There were no security deposits in the second quarter of 2021. During the second quarter of 2020, a repayment accumulation process was triggered due to the upcoming maturity of the *Eagle* Series with $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23% on September 17, 2020. The accumulated funds were recorded as security deposits beginning on June 1, 2020. As at June 13, 2020, $71 million was recorded in security deposits. The remaining $179 million were accumulated and recorded as security deposits until repayment in September 2020.

Independent Funding Trusts As at June 19, 2021, the independent funding trusts had drawn $582 million (June 13, 2020 – $490 million; January 2, 2021 – $512 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 June 19, 2021, the Company provided a credit enhancement of $64 million (June 13, 2020 and January 2, 2021 – $64 million) for the benefit of the independent funding trusts representing not less than 10% (June 13, 2020 and January 2, 2021 – 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 June 19, 2021	As at June 13, 2020(4)	As at January 2, 2021(4)
Rolling year adjusted return on equity(2)	**16.0 %**	13.3 %	13.7 %
Rolling year adjusted return on capital(2)	**9.4 %**	7.9 %	8.1 %

Rolling year adjusted return on equity(2) as at June 19, 2021 increased compared to June 13, 2020 primarily due to an improvement in underlying performance in Retail segment as a result of an increase in adjusted gross profit(2), and a decrease in SG&A due to lower COVID-19 related expenses incurred in the second quarter of 2021. Rolling year adjusted return on equity(2) as at June 19, 2021 increased compared to January 2, 2021 due to an increase in the underlying operating performance of both the Retail segment and Financial Services segment, and a decline in average total equity as a result of share buybacks.

Rolling year adjusted return on capital(2) as at June 19, 2021 increased compared to June 13, 2020 primarily due to an increase in tax-effected adjusted operating income(2) as a result of strong margins and lower COVID-19 related expenses incurred, lower debt levels and declining equity as a result of share buybacks. Rolling year adjusted return on capital(2) as at June 19, 2021 increased compared to January 2, 2021 primarily due to an increase in tax-effected adjusted operating income(2).

5.5 Credit Ratings

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

Credit Ratings (Canadian Standards)	Dominion Bond Rating Service Credit Rating	Dominion Bond Rating Service Trend	Standard & Poor's Credit Rating	Standard & Poor's 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

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:

	June 19, 2021 (12 weeks)		June 13, 2020 (12 weeks)		**June 19, 2021 (24 weeks)**		June 13, 2020 (24 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	**342,114,290**	**$6,739**	357,726,194	$ 7,035	**347,361,480**	**$ 6,837**	360,064,475	$ 7,065
Issued for settlement of stock options	**782,102**	**48**	59,711	3	**906,776**	**56**	479,007	27
Purchased and cancelled	**(4,806,098)**	**(95)**	—	—	**(10,177,962)**	**(201)**	(2,757,577)	(54)
Issued and outstanding, end of period	**338,090,294**	**$6,692**	357,785,905	$ 7,038	**338,090,294**	**$ 6,692**	357,785,905	$ 7,038
Shares held in trust, beginning of period	**(241,689)**	**$ (5)**	(874,004)	$ (17)	**(672,784)**	**$ (13)**	(1,113,302)	$ (21)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**—**	**—**	(145,000)	(3)
Released for settlement of RSUs and PSUs	**66,033**	**2**	30,535	1	**497,128**	**10**	414,833	8
Shares held in trust, end of period	**(175,656)**	**$ (3)**	(843,469)	$ (16)	**(175,656)**	**$ (3)**	(843,469)	$ (16)
Issued and outstanding, net of shares held in trust, end of period	**337,914,638**	**$6,689**	356,942,436	$ 7,022	**337,914,638**	**$ 6,689**	356,942,436	$ 7,022
Weighted average outstanding, net of shares held in trust	**340,395,307**		356,916,153		**343,142,800**		357,742,595	

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

	June 19, 2021[(i)] (12 weeks)	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Dividends declared per share ($)				
Common Share	**$ 0.335**	$ 0.315	**$ 0.670**	$ 0.630
Second Preferred Share, Series B	**$ 0.33125**	$ 0.33125	**$ 0.66250**	$ 0.66250

(i) The second quarter dividends for 2021 of $0.335 per share declared on Common Shares had a payment date of July 1, 2021. The second quarter dividends for 2021 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of June 30, 2021.

(millions of Canadian dollars)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Dividends declared				
Common Share	**$ 112**	$ 109	**$ 230**	$ 225
Second Preferred Share, Series B	**3**	3	**6**	6
Total dividends declared	**$ 115**	$ 112	**$ 236**	$ 231

Subsequent to the end of the second quarter of 2021, the Board of Directors declared a quarterly dividend of $0.365 per common share, payable on October 1, 2021 to shareholders of record on September 15, 2021 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on September 30, 2021 to shareholders of record on September 15, 2021.

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

(millions of Canadian dollars except where otherwise indicated)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**4,806,098**	—	**10,177,962**	2,757,577
Cash consideration paid[(i)]	**$ 379**	$ —	**$ 700**	$ 188
Premium charged to retained earnings	**255**	—	**499**	134
Reduction in common share capital	**95**	—	**201**	54
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	—	**—**	145,000
Cash consideration paid	**$ —**	$ —	**$ —**	$ 10
Premium charged to retained earnings	**—**	—	**—**	7
Reduction in common share capital	**—**	—	**—**	3

(i) $29 million of cash consideration related to common shares repurchased under the NCIB for cancellation in the first quarter of 2021 was paid in the second quarter of 2021.

During 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 ("ADP Agreement"), in order for Weston to maintain its proportionate ownership interest in the Company. The maximum number of common shares that may be purchased pursuant to the NCIB will be reduced by the number of common shares purchased from Weston.

In the second quarter of 2021, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,106,459 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. The Company will continue to be permitted to purchase its common shares from Weston in accordance with the exemption granted by the TSX. Purchases from Weston will be made pursuant to the ADP Agreement. As at June 19, 2021, the Company had purchased 4,806,098 common shares for cancellation under its current NCIB.

During the second quarter of 2021, 4,806,098 common shares (2020 – nil) were purchased under the NCIB for cancellation, for aggregate consideration of $350 million (2020 – nil), including 2,159,071 common shares (2020 – nil) purchased from Weston, for aggregate consideration of $157 million (2020 – nil). On a year-to-date basis, 10,177,962 common shares (2020 – 2,757,577) were purchased under the NCIB for cancellation, for aggregate consideration of $700 million (2020 – $188 million), including 4,937,148 common shares (2020 – 1,355,077) purchased from Weston, for aggregate consideration of $338 million (2020 – $92 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 were no significant changes to these off-balance sheet arrangements during the second quarter of 2021. For a discussion of the Company's significant off-balance sheet arrangements see Section 7.7 "Off-Balance Sheet Arrangements" of the Company's 2020 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.

Bond Forwards During the second quarter of 2021, PC Bank settled the bond forward of $175 million. The purpose of the bond forward was to hedge the interest rate risk for the $300 million *Eagle* notes issued subsequent to the second quarter of 2021. 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).

During the second quarter of 2020, the Company has 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%.

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 second quarter of 2021 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 year 2020 was 53 weeks and fiscal year 2019 was 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:

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
(millions of Canadian dollars except where otherwise indicated)	**2021** **(12 weeks)**	**2020[4]** **(12 weeks)**	2021 (12 weeks)	2020[4] (12 weeks)	2020[4] (13 weeks)	2019[4] (12 weeks)	2020[4] (16 weeks)	2019[4] (16 weeks)
Revenue	**$ 12,491**	**$11,957**	$ 11,872	$ 11,800	$13,286	$ 11,590	$ 15,671	$14,655
Adjusted EBITDA[2]	**1,371**	**1,008**	1,218	1,165	1,313	1,113	1,518	1,470
Net earnings available to common shareholders of the Company	**375**	**169**	313	240	345	254	342	331
Adjusted net earnings available to common shareholders of the Company[2]	**464**	**260**	392	349	431	326	459	451
Net earnings per common share:								
Basic ($)	**$ 1.10**	**$ 0.47**	$ 0.91	$ 0.67	$ 0.98	$ 0.70	$ 0.96	$ 0.91
Diluted ($)	**$ 1.09**	**$ 0.47**	$ 0.90	$ 0.66	$ 0.98	$ 0.70	$ 0.96	$ 0.90
Adjusted diluted net earnings per common share [2] ($)	**$ 1.35**	**$ 0.72**	$ 1.13	$ 0.97	$ 1.22	$ 0.90	$ 1.28	$ 1.23
Food retail same-store sales (decline)/growth	**(0.1)%**	**10.0 %**	0.1 %	9.6 %	8.6 %	1.9 %	6.9 %	0.1 %
Drug retail same-store sales growth/(decline)	**9.6 %**	**(1.1)%**	(1.7)%	10.7 %	3.7 %	3.9 %	6.1 %	4.1 %

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. Revenue was unusually high throughout 2020 and into 2021 due to COVID-19;
- the impact of the 13th/53rd week in the fourth quarter of fiscal year 2020;
- the timing of holidays;
- macro-economic conditions impacting food and drug retail prices; and
- changes in net retail square footage. Over the past eight quarters, net retail square footage increased by 0.6 million square feet to 71.2 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 impact of the 13th/53rd week in the fourth quarter of fiscal year 2020;
- 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;
    - fair value adjustment on non-operating properties;
    - fair value adjustment on fuel and foreign currency;
    - the gain and loss on sale of non-operating properties; and
    - certain prior period items.

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 IFRS.

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

Changes in Internal Control over Financial Reporting There were no changes in the Company's internal control over financial reporting in the second quarter of 2021 that materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

9. Enterprise Risks and Risk Management

A detailed full set of risks inherent in the Company's business are included in the Company's AIF for the year ended January 2, 2021 and the Company's MD&A in the Company's 2020 Annual Report, which are hereby incorporated by reference. The Company's 2020 Annual Report and AIF are available online on www.sedar.com. Those risks and risk management strategies remain unchanged.

10. Outlook[3]

The Company cannot predict the precise impacts of COVID-19 on 2021 financial results. However, Loblaw anticipates that grocery sales will remain elevated due to the continued impact of the pandemic, including the impact of lockdown measures in many jurisdictions. As economies reopen, revenue growth will be challenged while lapping elevated 2020 sales. Costs are expected to improve, as the Company laps elevated COVID-19 related expenses, and as Process & Efficiencies and Data-Driven Insights programs continue to deliver benefits.

On a full year basis, the Company continues to expect:

- its core Retail segment business to grow earnings faster than sales;
- growth in PC Financial® profitability;
- to invest approximately $1.2 billion in capital expenditures, net of proceeds from property disposals; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

Based on the Company's operating and financial performance in the first half of 2021, it now expects low to mid-twenties percentage growth in adjusted diluted net earnings per common share[2], excluding the impact of the 53rd week in the fourth quarter of fiscal year 2020.

In the four weeks following the end of the second quarter of 2021, Food Retail same-store sales declined by 1.0% when compared to the same period last year.

During the second quarter, COVID-19 related costs were approximately $70 million, inclusive of approximately $25 million related to one-time bonuses and benefits for store and distribution centre colleagues. The COVID-19 costs incurred in the four weeks after the end of the second quarter of 2021 amounted to approximately $9 million.

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.

				2021 (12 weeks)				2020 (12 weeks)
For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 12,282**	**$ 272**	**$ (63)**	**$ 12,491**	$ 11,768	$ 233	$ (44)	$ 11,957
Cost of merchandise inventories sold	**8,489**	**41**	**—**	**8,530**	8,284	22	—	8,306
Gross profit	**$ 3,793**	**$ 231**	**$ (63)**	**$ 3,961**	$ 3,484	$ 211	$ (44)	$ 3,651
Adjusted gross profit	**$ 3,793**	**$ 231**	**$ (63)**	**$ 3,961**	$ 3,484	$ 211	$ (44)	$ 3,651

				2021 (24 weeks)				2020 (24 weeks)
For the years ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$23,952**	**$ 525**	**$ (114)**	**$ 24,363**	$ 23,352	$ 499	$ (94)	$ 23,757
Cost of merchandise inventories sold	**16,626**	**78**	**—**	**16,704**	16,418	47	—	16,465
Gross profit	**$ 7,326**	**$ 447**	**$ (114)**	**$ 7,659**	$ 6,934	$ 452	$ (94)	$ 7,292
Adjusted gross profit	**$ 7,326**	**$ 447**	**$ (114)**	**$ 7,659**	$ 6,934	$ 452	$ (94)	$ 7,292

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.

			2021 (12 weeks)			2020[4] (12 weeks)
For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Consolidated**	Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 378**			$ 172
Add impact of the following:						
Non-controlling interests			**56**			(10)
Net interest expense and other financing charges			**161**			176
Income taxes			**157**			66
Operating income	**$ 708**	**$ 44**	**$ 752**	$ 370	$ 34	$ 404
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 117**	**$ —**	**$ 117**	$ 118	$ —	$ 118
Restructuring and other related costs	**8**	**—**	**8**	9	—	9
Fair value adjustment on fuel and foreign currency contracts	**(3)**	**—**	**(3)**	(3)	—	(3)
Adjusting Items	**$ 122**	**$ —**	**$ 122**	$ 124	$ —	$ 124
Adjusted operating income	**$ 830**	**$ 44**	**$ 874**	$ 494	$ 34	$ 528
Depreciation and amortization	**603**	**11**	**614**	593	5	598
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(117)**	**—**	**(117)**	(118)	—	(118)
Adjusted EBITDA	**$ 1,316**	**$ 55**	**$ 1,371**	$ 969	$ 39	$ 1,008

For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	**2021 (24 weeks)** Retail	Financial Services	Consolidated	2020[4] (24 weeks) Retail	Financial Services	Consolidated
Net earnings attributable to shareholders of the Company			**$ 694**			$ 415
Add impact of the following:						
Non-controlling interests			**75**			23
Net interest expense and other financing charges			**321**			348
Income taxes			**279**			159
Operating income	**$ 1,261**	**$ 108**	**$ 1,369**	$ 908	$ 37	$ 945
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 234**	**$ —**	**$ 234**	$ 237	$ —	$ 237
Restructuring and other related costs	**12**	**—**	**12**	24	—	24
Fair value adjustment on fuel and foreign currency contracts	**(11)**	**—**	**(11)**	12	—	12
Gain on sale of non-operating properties	**(5)**	**—**	**(5)**	—	—	—
Adjusting Items	**$ 230**	**$ —**	**$ 230**	$ 273	$ —	$ 273
Adjusted operating income	**$ 1,491**	**$ 108**	**$ 1,599**	$ 1,181	$ 37	$ 1,218
Depreciation and amortization	**1,204**	**20**	**1,224**	1,182	10	1,192
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	**(234)**	**—**	**(234)**	(237)	—	(237)
Adjusted EBITDA	**$ 2,461**	**$ 128**	**$ 2,589**	$ 2,126	$ 47	$ 2,173

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. Only restructuring activities that are publicly announced related to these initiatives are considered adjusting items.

In the second quarter of 2021, the Company recorded $8 million of restructuring and other related charges related to the previously announced closure of two distribution centres in Laval and Ottawa. The year-to-date restructuring and other related charges were $12 million. 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. Volumes from the distribution centres in Laval and Ottawa will be transferred to Cornwall and the Company expects to incur additional restructuring costs throughout 2021 and through to 2022 related to these closures.

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.

Gain/loss on sale of non-operating properties In the second quarter of 2021, the Company did not record a gain/loss related to the sale of non-operating properties. Year-to-date, the Company disposed of non-operating properties to a third party and recorded a gain of $5 million related to the sale.

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 June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	**2021 (12 weeks)**	2020 (12 weeks)	**2021 (24 weeks)**	2020 (24 weeks)
Net interest expense and other financing charges	**$ 161**	$ 176	**$ 321**	$ 348
Adjusted net interest expense and other financing charges	**$ 161**	$ 176	**$ 321**	$ 348

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 June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020(4) (12 weeks)	**2021 (24 weeks)**	2020(4) (24 weeks)
Adjusted operating income(i)	**$ 874**	$ 528	**$ 1,599**	$ 1,218
Adjusted net interest expense and other financing charges(i)	**161**	176	**321**	348
Adjusted earnings before taxes	**$ 713**	$ 352	**$ 1,278**	$ 870
Income taxes	**$ 157**	$ 66	**$ 279**	$ 159
Add (deduct) impact of the following:				
Tax impact of items included in adjusted earnings before taxes(ii)	**33**	33	**62**	73
Adjusted income taxes	**$ 190**	$ 99	**$ 341**	$ 232
Effective tax rate	**26.6 %**	28.9 %	**26.6 %**	26.6 %
Adjusted effective tax rate	**26.6 %**	28.1 %	**26.7 %**	26.7 %

(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.

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 June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	**2021 (12 weeks)**	2020[(4)] (12 weeks)	**2021 (24 weeks)**	2020[(4)] (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 378**	$ 172	**$ 694**	$ 415
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders of the Company	**$ 375**	$ 169	**$ 688**	$ 409
Net earnings attributable to shareholders of the Company	**$ 378**	$ 172	**$ 694**	$ 415
Adjusting items (refer to the following table)	**89**	91	**168**	200
Adjusted net earnings attributable to shareholders of the Company	**$ 467**	$ 263	**$ 862**	$ 615
Prescribed dividends on preferred shares in share capital	**(3)**	(3)	**(6)**	(6)
Adjusted net earnings available to common shareholders of the Company	**$ 464**	$ 260	**$ 856**	$ 609
Diluted weighted average common shares outstanding (millions)	**342.9**	359.5	**345.3**	360.3

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.

	2021 (12 weeks)		2020[(4)] (12 weeks)		**2021 (24 weeks)**		2020[(4)] (24 weeks)	
For the periods ended June 19, 2021 and June 13, 2020 (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	**$ 375**	**$ 1.09**	$ 169	$ 0.47	**$ 688**	**$ 1.99**	$ 409	$ 1.14
Add (deduct) impact of the following:								
Amortization of intangible assets acquired with Shoppers Drug Mart	**$ 86**	**$ 0.25**	$ 87	$ 0.25	**$ 172**	**$ 0.50**	$ 174	$ 0.49
Restructuring and other related costs	**5**	**0.01**	6	0.01	**8**	**0.02**	17	0.05
Gain on sale of non-operating properties	**—**	**—**	—	—	**(4)**	**(0.01)**	—	—
Fair value adjustment on fuel and foreign currency contracts	**(2)**	**—**	(2)	(0.01)	**(8)**	**(0.02)**	9	0.02
Adjusting items	**$ 89**	**$ 0.26**	$ 91	$ 0.25	**$ 168**	**$ 0.49**	$ 200	$ 0.56
Adjusted[(i)]	**$ 464**	**$ 1.35**	$ 260	$ 0.72	**$ 856**	**$ 2.48**	$ 609	$ 1.69

(i) The comparative for Adjusted Diluted Net Earnings per Common Share has been restated due to rounding.

Free Cash Flow[(2)] 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 June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	**2021 (12 weeks)**	2020 (12 weeks)	**2021 (24 weeks)**	2020 (24 weeks)
Cash flows from operating activities	**$ 1,635**	$ 935	**$ 2,487**	$ 2,748
Less:				
Capital investments	**258**	199	**461**	410
Interest paid	**87**	71	**173**	159
Lease payments, net	**337**	331	**612**	659
Free cash flow[(2)(i)]	**$ 953**	$ 334	**$ 1,241**	$ 1,520

(i) During the second quarter of 2021, the consolidated free cash flow[(2)] includes $1,009 million from the Retail segment (2020 – $93 million used) and $56 million used in the Financial Services segment (2020 – $427 million from). On a year-to-date basis, the consolidated free cash flow[(2)] includes $1,046 million from the Retail segment (2020 – $715 million) and $195 million from the Financial Services segment (2020 – $805 million).

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.

Non-GAAP Financial Measures Policy Change Effective First Quarter of 2021 In 2020, management undertook a review of historical adjusting items as part of an effort to reduce the number of items it excludes from its non-GAAP financial measures. Management concluded that, in order to present adjusting items in a manner more consistent with that of its Canadian and U.S. peers, the Company will no longer adjust for fixed asset and other related impairments (net of recoveries), certain restructuring and other related costs, pension settlement costs, statutory income tax rate changes or other items.

Starting in the first quarter of 2021, restructuring and other related costs will be considered an adjusting item only if significant and if part of a publicly announced restructuring plan. Other unusual items will be assessed on a case by case basis based on their nature, magnitude and propensity to re-occur. This change took effect in the first quarter of 2021 with restatement of comparative periods at that time.

The below summary reconciles the non-GAAP financial measures as previously reported in 2020 and 2019 to those reported under the new policy starting in the first quarter of 2021:

	12 weeks ended March 21, 2020			12 weeks ended June 13, 2020			16 weeks ended October 3, 2020			13 weeks ended January 2, 2021			**53 weeks ended January 2, 2021**		
(millions of Canadian dollars)	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	Retail	Financial Services	Consol-idated	**Retail**	**Financial Services**	**Consol-idated**
Adjusted Operating income - previously reported	$ 691	$ 3	$ 694	$ 502	$ 34	$ 536	$ 840	$ 44	$ 884	$ 787	$ 53	$ 840	**$2,820**	**$ 134**	**$2,954**
Add (deduct) impact of the following:															
Fixed asset and other related Impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (17)	$ —	$ (17)	**$ (17)**	**$ —**	**$ (17)**
Restructuring and other related costs	(4)	—	(4)	(8)	—	(8)	(6)	—	(6)	$ (2)	$ —	$ (2)	**(20)**	**—**	**(20)**
Adjusting Items	$ (4)	$ —	$ (4)	$ (8)	$ —	$ (8)	$ (6)	$ —	$ (6)	$ (19)	$ —	$ (19)	**$ (37)**	**$ —**	**$ (37)**
Adjusted operating income - Restated	$ 687	$ 3	$ 690	$ 494	$ 34	$ 528	$ 834	$ 44	$ 878	$ 768	$ 53	$ 821	**$2,783**	**$ 134**	**$ 2,917**
Depreciation and amortization	589	5	594	593	5	598	789	6	795	600	9	609	**2,571**	**25**	**2,596**
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	(119)	(118)	—	(118)	(155)	—	(155)	(117)	—	(117)	**(509)**	**—**	**(509)**
Adjusted EBITDA - Restated	$ 1,157	$ 8	$ 1,165	$ 969	$ 39	$1,008	$1,468	$ 50	$ 1,518	$ 1,251	$ 62	$ 1,313	**$4,845**	**$ 159**	**$5,004**

	12 weeks ended March 23, 2019			12 weeks ended June 15, 2019			16 weeks ended October 5, 2019			12 weeks ended December 28, 2019			52 weeks ended December 28, 2019		
(millions of Canadian dollars)	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated	Retail	Financial Services	Consolidated
Adjusted Operating income - previously reported	$529	$ 50	$ 579	$ 669	$ 42	$ 711	$ 838	$ 36	$ 874	$ 670	$ 62	$ 732	$2,706	$ 190	$2,896
Add (deduct) impact of the following:															
Fixed asset and other related Impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ (75)	$ —	$ (75)	$ (75)	$ —	$ (75)
Restructuring and other related costs	(12)	—	(12)	(16)	—	(16)	(21)	(1)	(22)	(23)	(1)	(24)	(72)	(2)	(74)
Pension annuities and buy-outs	(10)	—	(10)	—	—	—	—	—	—	—	—	—	(10)	—	(10)
Certain prior period items	—	—	—	15	—	15	—	—	—	7	—	7	22	—	22
Adjusting Items	$ (22)	$ —	$ (22)	$ (1)	$ —	$ (1)	$ (21)	$ (1)	$ (22)	$ (91)	$ (1)	$ (92)	$ (135)	$ (2)	$ (137)
Adjusted operating income - Restated	$507	$ 50	$ 557	$ 668	$ 42	$ 710	$ 817	$ 35	$ 852	$ 579	$ 61	$ 640	$ 2,571	$ 188	$2,759
Depreciation and amortization	575	5	580	575	5	580	771	4	775	581	8	589	2,502	22	2,524
Less: Amortization of intangible assets acquired with Shoppers Drug Mart	(119)	—	(119)	(116)	—	(116)	(157)	—	(157)	(116)	—	(116)	(508)	—	(508)
Adjusted EBITDA - Restated	$963	$ 55	$1,018	$1,127	$ 47	$1,174	$1,431	$ 39	$1,470	$1,044	$ 69	$1,113	$4,565	$ 210	$4,775

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net earnings per Common Share are presented below for:

(millions of Canadian dollars/Canadian dollars)	12 weeks ended March 21, 2020 Net Earnings Available to Common Shareholders of the Company	12 weeks ended March 21, 2020 Diluted Net Earnings Per Common Share	12 weeks ended June 13, 2020 Net Earnings Available to Common Shareholders of the Company	12 weeks ended June 13, 2020 Diluted Net Earnings Per Common Share	16 weeks ended October 3, 2020 Net Earnings Available to Common Shareholders of the Company	16 weeks ended October 3, 2020 Diluted Net Earnings Per Common Share	13 weeks ended January 2, 2021 Net Earnings Available to Common Shareholders of the Company	13 weeks ended January 2, 2021 Diluted Net Earnings Per Common Share	53 weeks ended January 2, 2021 Net Earnings Available to Common Shareholders of the Company	53 weeks ended January 2, 2021 Diluted Net Earnings Per Common Share
Adjusted - As previously reported	$ 352	$ 0.97	$ 266	$ 0.74	$ 464	$ 1.30	$ 445	$ 1.26	$ 1,527	$ 4.26
Add (deduct) impact of the following:										
impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ (13)	$(0.04)	$ (13)	$ (0.04)
Restructuring and other related costs	(3)	—	(6)	(0.02)	(5)	(0.02)	(1)	—	(15)	(0.04)
Adjusting items	$ (3)	$ —	$ (6)	$(0.02)	$ (5)	$(0.02)	$ (14)	$(0.04)	$ (28)	$ (0.08)
Adjusted - Restated	$ 349	$ 0.97	$ 260	$ 0.72	$ 459	$ 1.28	$ 431	$ 1.22	$ 1,499	$ 4.18

(millions of Canadian dollars/Canadian dollars)	12 weeks ended March 23, 2019 Net Earnings Available to Common Shareholders of the Company	12 weeks ended March 23, 2019 Diluted Net Earnings Per Common Share	12 weeks ended June 15, 2019 Net Earnings Available to Common Shareholders of the Company	12 weeks ended June 15, 2019 Diluted Net Earnings Per Common Share	16 weeks ended October 5, 2019 Net Earnings Available to Common Shareholders of the Company	16 weeks ended October 5, 2019 Diluted Net Earnings Per Common Share	12 weeks ended December 28, 2019 Net Earnings Available to Common Shareholders of the Company	12 weeks ended December 28, 2019 Diluted Net Earnings Per Common Share	52 weeks ended December 28, 2019 Net Earnings Available to Common Shareholders of the Company	52 weeks ended December 28, 2019 Diluted Net Earnings Per Common Share
Adjusted - As previously reported	$ 290	$ 0.78	$ 373	$ 1.01	$ 458	$ 1.25	$ 395	$ 1.09	$ 1,516	$ 4.12
Add (deduct) impact of the following:										
Fixed asset and other related impairments, net of recoveries	$ —	$ —	$ —	$ —	$ —	$ —	$ (56)	$ (0.15)	$ (56)	$ (0.15)
Restructuring and other related costs	(9)	(0.02)	(12)	(0.03)	(15)	(0.04)	(18)	(0.05)	(54)	(0.15)
Pension annuities and buy-outs	(7)	(0.02)	—	—	—	—	—	—	(7)	(0.02)
Statutory corporate income tax rate change	—	—	4	0.01	—	—	—	—	4	0.01
Reserve release related to 2014 tax audit	—	—	—	—	8	0.02	—	—	8	0.02
Certain prior period items	—	—	11	0.03	—	—	5	0.01	16	0.04
Adjusting items	$ (16)	$ (0.04)	$ 3	$ 0.01	$ (7)	$ (0.02)	$ (69)	$ (0.19)	$ (89)	$ (0.25)
Adjusted - Restated	$ 274	$ 0.74	$ 376	$ 1.02	$ 451	$ 1.23	$ 326	$ 0.90	$ 1,427	$ 3.87

This policy change did not impact previously reported Retail segment gross profit, Retail segment adjusted gross profit and Retail segment adjusted gross profit percentage or adjusted net interest expense and other financing charges, as reported in the Company's 2020 annual and interim MD&A.

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.

July 27, 2021
Toronto, Canada

MD&A Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2020 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 due to the non-GAAP financial measures policy change. See section 11 "Non- GAAP Financial Measures" of the Company's 2021 Second Quarter Report to Shareholders.

(5) Compound Average Growth Rate ("CAGR") is the measure of annualized growth over a period longer than one year. CAGR as disclosed by the Company is the mean annual growth rate over a two year period, 2019 to 2021.

Financial Results

Condensed Consolidated Statements of Earnings

(millions of Canadian dollars except where otherwise indicated) (unaudited)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Revenue	**$ 12,491**	$ 11,957	**$ 24,363**	$ 23,757
Cost of merchandise inventories sold	**8,530**	8,306	**16,704**	16,465
Selling, general and administrative expenses	**3,209**	3,247	**6,290**	6,347
Operating income	**$ 752**	$ 404	**$ 1,369**	$ 945
Net interest expense and other financing charges (note 4)	**161**	176	**321**	348
Earnings before income taxes	**$ 591**	$ 228	**$ 1,048**	$ 597
Income taxes (note 5)	**157**	66	**279**	159
Net earnings	**$ 434**	$ 162	**$ 769**	$ 438
Attributable to:				
Shareholders of the Company	**$ 378**	$ 172	**$ 694**	$ 415
Non-controlling interests	**56**	(10)	**75**	23
Net earnings	**$ 434**	$ 162	**$ 769**	$ 438
Net earnings per common share ($) (note 6)				
Basic	**$ 1.10**	$ 0.47	**$ 2.01**	$ 1.14
Diluted	**$ 1.09**	$ 0.47	**$ 1.99**	$ 1.14
Weighted average common shares outstanding (millions) (note 6)				
Basic	**340.4**	356.9	**343.1**	357.7
Diluted	**342.9**	359.5	**345.3**	360.3

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

Condensed Consolidated Statements of Comprehensive Income

(millions of Canadian dollars) (unaudited)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Net earnings	**$ 434**	$ 162	**$ 769**	$ 438
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**	$ 3	**$ 2**	$ 1
Gains (losses) on cash flow hedges (note 17)	**(1)**	(20)	**1**	(41)
Items that will not be reclassified to profit or loss:				
Net defined benefit plan actuarial gains (losses) (note 16)	**124**	(43)	**192**	(10)
Other comprehensive income (loss)	**$ 125**	$ (60)	**$ 195**	$ (50)
Total comprehensive income	**$ 559**	$ 102	**$ 964**	$ 388
Attributable to:				
Shareholders of the Company	**$ 503**	$ 112	**$ 889**	$ 365
Non-controlling interests	**56**	(10)	**75**	23
Total comprehensive income	**$ 559**	$ 102	**$ 964**	$ 388

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 January 2, 2021	$6,824	$ 221	**$ 7,045**	**$ 3,813**	**$ 109**	$ 39	$ (34)	$ 16	**$ 21**	**$ 131**	**$ 11,119**
Net earnings	$ —	$ —	**$ —**	**$ 694**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 75**	**$ 769**
Other comprehensive income (loss)	—	—	**—**	**192**	**—**	2	1	—	**3**	**—**	**195**
Total comprehensive income (loss)	$ —	$ —	**$ —**	**$ 886**	**$ —**	$ 2	$ 1	$ —	**$ 3**	**$ 75**	**$ 964**
Common shares purchased and cancelled (note 14)	(201)	—	**(201)**	**(499)**	**—**	—	—	—	**—**	**—**	**(700)**
Net effect of equity-based compensation (notes 14 and 15)	56	—	**56**	**—**	**(11)**	—	—	—	**—**	**—**	**45**
Shares released from trust (notes 14 and 15)	10	—	**10**	**17**	**—**	—	—	—	**—**	**—**	**27**
Dividends declared per common share – $0.670 (note 14)	—	—	**—**	**(230)**	**—**	—	—	—	**—**	**—**	**(230)**
Dividends declared per preferred share – $0.66250 (note 14)	—	—	**—**	**(6)**	**—**	—	—	—	**—**	**—**	**(6)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(53)**	**(53)**
	$ (135)	$ —	**$ (135)**	**$ 168**	**$ (11)**	$ 2	$ 1	$ —	**$ 3**	**$ 22**	**$ 47**
Balance as at June 19, 2021	$6,689	$ 221	**$ 6,910**	**$ 3,981**	**$ 98**	$ 41	$ (33)	$ 16	**$ 24**	**$ 153**	**$ 11,166**

(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	$ —	$ —	**$ —**	**$ 415**	**$ —**	$ —	$ —	$ —	**$ —**	**$ 23**	**$ 438**
Other comprehensive income (loss)	—	—	**—**	**(10)**	**—**	1	(41)	—	**(40)**	**—**	**(50)**
Total comprehensive income (loss)	$ —	$ —	**$ —**	**$ 405**	**$ —**	$ 1	$ (41)	$ —	**$ (40)**	**$ 23**	**$ 388**
Common shares purchased and cancelled (note 14)	(54)	—	**(54)**	**(134)**	**—**	—	—	—	**—**	**—**	**(188)**
Net effect of equity-based compensation (notes 14 and 15)	27	—	**27**	**—**	**(8)**	—	—	—	**—**	**—**	**19**
Shares purchased and held in trust (note 14)	(3)	—	**(3)**	**(7)**	**—**	—	—	—	**—**	**—**	**(10)**
Shares released from trust (notes 14 and 15)	8	—	**8**	**16**	**—**	—	—	—	**—**	**—**	**24**
Dividends declared per common share – $0.630 (note 14)	—	—	**—**	**(225)**	**—**	—	—	—	**—**	**—**	**(225)**
Dividends declared per preferred share – $0.66250 (note 14)	—	—	**—**	**(6)**	**—**	—	—	—	**—**	**—**	**(6)**
Net distribution to non-controlling interests	—	—	**—**	**—**	**—**	—	—	—	**—**	**(24)**	**(24)**
	$ (22)	$ —	**$ (22)**	**$ 49**	**$ (8)**	$ 1	$ (41)	$ —	**$ (40)**	**$ (1)**	**$ (22)**
Balance as at June 13, 2020	$7,022	$ 221	**$ 7,243**	**$ 3,871**	**$ 92**	$ 38	$ (47)	$ 16	**$ 7**	**$ 86**	**$ 11,299**

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

Condensed Consolidated Balance Sheets

(millions of Canadian dollars) (unaudited)	As at June 19, 2021	As at June 13, 2020	As at January 2, 2021[(i)]
Assets			
Current assets			
Cash and cash equivalents (note 7)	**$ 1,888**	$ 2,197	$ 1,668
Short term investments (note 7)	**224**	361	269
Security deposits (note 7)	**—**	71	—
Accounts receivable	**870**	1,044	986
Credit card receivables (note 8)	**3,033**	2,834	3,109
Inventories (note 9)	**5,060**	4,689	5,195
Prepaid expenses and other assets	**205**	276	216
Assets held for sale (note 10)	**102**	109	108
Total current assets	**$ 11,382**	$ 11,581	$ 11,551
Fixed assets	**5,445**	5,360	5,540
Right-of-use assets	**7,101**	7,311	7,207
Investment properties	**120**	153	128
Intangible assets	**6,654**	7,117	6,870
Goodwill	**3,949**	3,948	3,948
Deferred income tax assets	**106**	157	113
Other assets (note 11)	**712**	504	513
Total assets	**$ 35,469**	$ 36,131	$ 35,870
Liabilities			
Current liabilities			
Bank indebtedness	**$ 138**	$ 133	$ 86
Trade payables and other liabilities	**5,249**	4,894	5,392
Loyalty liability	**213**	215	194
Provisions	**109**	121	81
Income taxes payable	**186**	75	83
Demand deposits from customers	**50**	—	24
Short term debt (note 8)	**300**	525	575
Long term debt due within one year (note 12)	**984**	1,240	597
Lease liabilities due within one year	**1,345**	1,324	1,379
Associate interest	**347**	282	349
Total current liabilities	**$ 8,921**	$ 8,809	$ 8,760
Provisions	**111**	109	132
Long term debt (note 12)	**5,994**	6,343	6,449
Lease liabilities	**7,443**	7,685	7,522
Deferred income tax liabilities	**1,363**	1,435	1,380
Other liabilities (note 13)	**471**	451	508
Total liabilities	**$ 24,303**	$ 24,832	$ 24,751
Equity			
Share capital (note 14)	**$ 6,910**	$ 7,243	$ 7,045
Retained earnings	**3,981**	3,871	3,813
Contributed surplus (note 15)	**98**	92	109
Accumulated other comprehensive income	**24**	7	21
Total equity attributable to shareholders of the Company	**$ 11,013**	$ 11,213	$ 10,988
Non-controlling interests	**153**	86	131
Total equity	**$ 11,166**	$ 11,299	$ 11,119
Total liabilities and equity	**$ 35,469**	$ 36,131	$ 35,870

(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)	**June 19, 2021 (12 weeks)**	June 13, 2020[(i)] (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020[(i)] (24 weeks)
Operating activities				
Net earnings	**$ 434**	$ 162	**$ 769**	$ 438
Add (Deduct):				
Income taxes (note 5)	**157**	66	**279**	159
Net interest expense and other financing charges (note 4)	**161**	176	**321**	348
Depreciation and amortization	**614**	598	**1,224**	1,192
Asset impairments, net of recoveries	**—**	8	**1**	14
Change in allowance for credit card receivables (note 8)	**(12)**	4	**(32)**	54
Change in provisions	**5**	6	**7**	9
	$ 1,359	$ 1,020	**$ 2,569**	$ 2,214
Change in non-cash working capital	**461**	(417)	**56**	(46)
Change in gross credit card receivables (note 8)	**(119)**	410	**108**	736
Income taxes paid	**(84)**	(108)	**(268)**	(192)
Interest received	**2**	—	**3**	3
Interest received from finance leases	**1**	1	**2**	2
Other	**15**	29	**17**	31
Cash flows from operating activities	**$ 1,635**	$ 935	**$ 2,487**	$ 2,748
Investing activities				
Fixed asset purchases	**$ (172)**	$ (94)	**$ (293)**	$ (196)
Intangible asset additions	**(86)**	(75)	**(167)**	(164)
Cash assumed on initial consolidation of franchises (note 3)	**—**	—	**—**	14
Change in short term investments (note 7)	**2**	(297)	**45**	(304)
Change in security deposits (note 7)	**—**	(71)	**—**	(71)
Proceeds from disposal of assets	**5**	43	**21**	44
Lease payments received from finance leases	**3**	—	**5**	3
Other	**7**	(63)	**(5)**	(96)
Cash flows used in investing activities	**$ (241)**	$ (557)	**$ (394)**	$ (770)
Financing activities				
Change in bank indebtedness	**$ (144)**	$ 50	**$ 52**	$ 115
Change in short term debt (note 8)	**—**	25	**(275)**	(200)
Change in demand deposits from customers	**14**	—	**26**	—
Long term debt (note 12)				
Issued	**223**	595	**226**	971
Repayments	**(266)**	(488)	**(293)**	(495)
Interest paid	**(87)**	(71)	**(173)**	(159)
Cash rent paid on lease liabilities - Interest	**(78)**	(88)	**(159)**	(174)
Cash rent paid on lease liabilities - Principal	**(262)**	(244)	**(458)**	(490)
Dividends paid on common and preferred shares	**(118)**	(115)	**(118)**	(231)
Common share capital				
Issued (note 15)	**42**	3	**49**	24
Purchased and held in trust (note 14)	**—**	—	**—**	(10)
Purchased and cancelled (note 14)	**(379)**	—	**(700)**	(188)
Other	**(1)**	(36)	**(52)**	(74)
Cash flows used in financing activities	**$ (1,056)**	$ (369)	**$ (1,875)**	$ (911)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**$ 1**	$ 4	**$ 2**	$ (3)
Change in cash and cash equivalents	**$ 339**	$ 13	**$ 220**	$ 1,064
Cash and cash equivalents, beginning of period	**1,549**	2,184	**1,668**	1,133
Cash and cash equivalents, end of period	**$ 1,888**	$ 2,197	**$ 1,888**	$ 2,197

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

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

For the periods ended June 19, 2021 and June 13, 2020 (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 52.6% 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.

Note 2. Significant Accounting Policies

The significant accounting policies and critical accounting estimates and judgments as disclosed in the Company’s 2020 audited annual consolidated financial statements have been applied consistently in the preparation of these unaudited interim period condensed consolidated financial statements. These unaudited interim period condensed consolidated financial statements are presented in Canadian dollars.

Statement of Compliance These unaudited interim period condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board. These unaudited interim period condensed consolidated financial statements should be read in conjunction with the Company’s 2020 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 July 27, 2021.

Note 3. Business Acquisitions

Consolidation of Franchises The Company accounted for the consolidation of existing franchises as business acquisitions and consolidated its franchises as of the date the franchisee entered into a simplified franchise agreement with the Company. The assets acquired and liabilities assumed through the consolidation were valued at the acquisition date using fair values, which approximated the franchise carrying values at the date of acquisition. The results of operations of the acquired franchises have been 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 the simplified franchise agreement implemented in 2015.

No franchises were consolidated in the second quarter of 2021 and 2020.

On a year-to-date basis, 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)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Net assets acquired:		
Cash and cash equivalents	**$ —**	$ 14
Inventories	**—**	42
Fixed assets	**—**	44
Trade payables and other liabilities[(i)]	**—**	(54)
Other liabilities[(i)]	**—**	(30)
Non-controlling interests	**—**	(16)
Total net assets acquired	**$ —**	$ —

(i) On consolidation, trade payables and other liabilities and other liabilities eliminated 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)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Interest expense and other financing charges				
Lease liabilities	**$ 78**	$ 88	**$ 159**	$ 174
Long term debt	**69**	77	**135**	147
Borrowings related to credit card receivables	**8**	8	**17**	20
Post-employment and other long term employee benefits (note 16)	**2**	1	**4**	3
Independent funding trusts	**3**	3	**6**	8
Financial liabilities	**—**	—	**1**	—
Bank indebtedness	**2**	—	**2**	1
	$ 162	$ 177	**$ 324**	$ 353
Interest income				
Accretion income	**$ (1)**	$ (1)	**$ (2)**	$ (2)
Short term interest income	**—**	—	**(1)**	(3)
	$ (1)	$ (1)	**$ (3)**	$ (5)
Net interest expense and other financing charges	**$ 161**	$ 176	**$ 321**	$ 348

Note 5. Income Taxes

Income tax expense in the second quarter of 2021 was $157 million (2020 – $66 million) and the effective tax rate was 26.6% (2020 – 28.9%). The decrease in the effective tax rate was primarily attributable to the timing of the impact of certain non-deductible items. Year-to-date income tax expense was $279 million (2020 – $159 million) and the effective tax rate was 26.6% (2020 – 26.6%). The year-to-date effective tax rate was consistent compared to the same period in 2020.

On April 23, 2020, the Federal Court of Appeal released its decision in the Glenhuron Bank Limited ("Glenhuron") case in favour of the Company and reversed the decision of the Tax Court of Canada ("Tax Court"). On October 29, 2020, the Supreme Court of Canada ("Supreme Court") granted the Crown leave to appeal and on May 13, 2021, the Supreme Court heard the Crown's appeal, reserving judgment until a later date. The Company has not reversed any portion of the $367 million of charges recorded during the third quarter of 2018, of which $176 million was recorded in interest and $191 million was recorded in income taxes (see note 18).

Note 6. Basic and Diluted Net Earnings per Common Share

(millions of Canadian dollars except where otherwise indicated)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Net earnings attributable to shareholders of the Company	**$ 378**	$ 172	**$ 694**	$ 415
Dividends on Preferred Shares in equity (note 14)	**(3)**	(3)	**(6)**	(6)
Net earnings available to common shareholders	**$ 375**	$ 169	**$ 688**	$ 409
Weighted average common shares outstanding (in millions) (note 14)	**340.4**	356.9	**343.1**	357.7
Dilutive effect of equity-based compensation (in millions)	**1.6**	1.6	**1.3**	1.6
Dilutive effect of certain other liabilities (in millions)	**0.9**	1.0	**0.9**	1.0
Diluted weighted average common shares outstanding (in millions)	**342.9**	359.5	**345.3**	360.3
Basic net earnings per common share ($)	**$ 1.10**	$ 0.47	**$ 2.01**	$ 1.14
Diluted net earnings per common share ($)	**$ 1.09**	$ 0.47	**$ 1.99**	$ 1.14

In the second quarter and year-to-date of 2021, 1,790,388 (2020 – 3,253,615) and 4,422,321 (2020 – 3,253,615), respectively, 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, Short Term Investments and Security Deposits

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

Cash and Cash Equivalents

(millions of Canadian dollars)	**As at June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Cash	**$ 687**	$ 612	$ 872
Cash equivalents			
Government treasury bills	**692**	715	483
Bankers' acceptances	**502**	869	288
Corporate commercial paper	**7**	1	—
Guaranteed investment certificates	**—**	—	22
Other	**—**	—	3
Total cash and cash equivalents	**$ 1,888**	$ 2,197	$ 1,668

Short Term Investments

(millions of Canadian dollars)	**As at June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Government treasury bills	**$ 195**	$ 338	$ 259
Bankers' acceptances	**—**	23	1
Corporate commercial paper	**—**	—	1
Guaranteed investment certificates	**29**	—	7
Other	**—**	—	1
Total short term investments	**$ 224**	$ 361	$ 269

Security Deposits There were no security deposits as at June 19, 2021 and January 2, 2021.

During the second quarter of 2020, a repayment accumulation process was triggered due to the subsequent maturity of the *Eagle Credit Card Trust®* ("*Eagle*") Series with $250 million of senior and subordinated term notes at a weighted average interest rate of 2.23% on September 17, 2020. The accumulated funds were recorded as security deposits beginning on June 1, 2020. As at June 13, 2020, $71 million was recorded in security deposits. The remaining $179 million were accumulated and recorded as security deposits until repayment in September 2020.

Note 8. Credit Card Receivables

The components of credit card receivables were as follows:

(millions of Canadian dollars)		**As at June 19, 2021**		As at June 13, 2020		As at January 2, 2021
Gross credit card receivables	**$**	**3,238**	$	3,084	$	3,346
Allowance for credit card receivables		**(205)**		(250)		(237)
Credit card receivables	**$**	**3,033**	$	2,834	$	3,109
Securitized to independent securitization trusts:						
Securitized to *Eagle Credit Card Trust*® (note 12)	**$**	**1,050**	$	1,000	$	1,050
Securitized to Other Independent Securitization Trusts		**300**		525		575
Total securitized to independent securitization trusts	**$**	**1,350**	$	1,525	$	1,625

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* 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.

On a year-to-date basis in 2021, PC Bank recorded a $275 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.

Subsequent to the second quarter of 2021, *Eagle* issued $300 million of senior and subordinated term notes with a maturity date of June 17, 2026. These notes have a weighted average interest rate of 1.61%. In connection with this issuance, $175 million of bond forward agreements were settled during the second quarter of 2021. This resulted in a realized fair value loss of $1 million before income taxes, which was cumulatively recorded in other comprehensive loss as unrealized prior to the settlement of the agreement. The loss will be reclassified to the statements of earnings over the life of the *Eagle* notes. This settlement resulted in a net effective interest rate of 1.65% on the *Eagle* notes issued.

As at June 19, 2021, the aggregate gross potential liability under letters of credit for the benefit of the Other Independent Securitization Trusts was $27 million (June 13, 2020 – $47 million; January 2, 2021 – $52 million), which represented 9% (June 13, 2020 – 9%; January 2, 2021 – 9%) 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 June 19, 2021 and throughout the first half of 2021.

Note 9. Inventories

For inventories recorded as at June 19, 2021, the Company recorded an inventory provision of $42 million (June 13, 2020 – $35 million; January 2, 2021 – $34 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 first half of 2021 and 2020.

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 either originally used in the Company's retail business segment or held in investment properties. In the second quarter of 2021, the Company recorded a nominal gain (2020 – nominal gain) from the sale of these assets. On a year-to-date basis, the Company recorded a net gain of $5 million (2020 – nominal loss) from the sale of these assets. No fair value changes or impairment charges were recognized on assets held for sale in the first half of 2021 and 2020.

Note 11. Other Assets

The components of other assets were as follows:

(millions of Canadian dollars)	**As at June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Sundry investments and other receivables	**$ 40**	$ 31	$ 57
Accrued benefit plan asset	**372**	196	165
Finance lease receivable	**86**	102	93
Investment accounted for under the equity method	**60**	—	61
Other(i)	**154**	175	137
Total other assets	**$ 712**	$ 504	$ 513

(i) Includes $17 million related to the Venture Fund as at June 19, 2021 (June 13, 2020 – nil; January 2, 2021 – $6 million) (see note 19).

Investment Accounted for Under the Equity Method In 2020, Shoppers Drug Mart Inc. agreed to invest a total of $75 million in Maple Corporation ("Maple"), the leading virtual care provider in Canada, in exchange for a significant minority stake. This investment is an important step as Shoppers Drug Mart Corporation ("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.

As at June 19, 2021, the Company had invested $61 million in exchange for approximately 24% of the ownership interest in Maple. The remaining 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 June 19, 2021	As at June 13, 2020	As at January 2, 2021
Debentures	**$ 4,314**	$ 4,655	$ 4,314
Guaranteed investment certificates	**1,048**	1,452	1,185
Independent securitization trusts (note 8)	**1,050**	1,000	1,050
Independent funding trusts	**582**	490	512
Transaction costs and other	**(16)**	(14)	(15)
Total long term debt	**$ 6,978**	$ 7,583	$ 7,046
Long term debt due within one year	**984**	1,240	597
Long term debt	**$ 5,994**	$ 6,343	$ 6,449

The Company is required to comply with certain financial covenants for various debt instruments. As at June 19, 2021 and throughout the first half of 2021, the Company was in compliance with the financial covenants.

Debentures There were no debentures issued or repaid on a year-to-date basis in 2021.

In the second quarter of 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.

Guaranteed Investment Certificates The following table summarizes PC Bank's Guaranteed Investment Certificates ("GICs") activity, before commissions, for the periods ended June 19, 2021 and June 13, 2020:

(millions of Canadian dollars)	June 19, 2021 (12 weeks)	June 13, 2020 (12 weeks)	June 19, 2021 (24 weeks)	June 13, 2020 (24 weeks)
Balance, beginning of period	**$ 1,159**	$ 1,324	**$ 1,185**	$ 1,311
GICs issued	**155**	266	**156**	286
GICs matured	**(266)**	(138)	**(293)**	(145)
Balance, end of period	**$ 1,048**	$ 1,452	**$ 1,048**	$ 1,452

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 (June 13, 2020 and January 2, 2021 – $64 million), representing not less than 10% (June 13, 2020 and January 2, 2021 – 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 October 7, 2023, provided by a syndicate of lenders. This committed credit facility contains certain financial covenants. As at June 19, 2021, there were no amounts drawn under this facility (June 13, 2020 and January 2, 2021 – no amounts were drawn). During the second quarter of 2020, the Company repaid the $350 million drawn under this facility in the first quarter of 2020.

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

(millions of Canadian dollars)	**As at June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Loblaw Companies Limited notes	**$ —**	$ 350	$ —
Guaranteed investment certificates	**402**	640	597
Independent securitization trusts	**—**	250	—
Independent funding trusts	**582**	—	—
Long term debt due within one year	**$ 984**	$ 1,240	$ 597

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

(millions of Canadian dollars)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Long term debt, beginning of period	**$ 7,023**	$ 7,466	**$ 7,046**	$ 7,098
Long term debt issuances[(i)]	**$ 223**	$ 595	**$ 226**	$ 971
Long term debt repayments	**(266)**	(488)	**(293)**	(495)
Total cash flow (used in)/from long term debt financing activities	**$ (43)**	$ 107	**$ (67)**	$ 476
Other non-cash changes	**$ (2)**	$ 10	**$ (1)**	$ 9
Long term debt, end of period	**$ 6,978**	$ 7,583	**$ 6,978**	$ 7,583

(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 June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Net defined benefit plan obligation	**$ 288**	$ 310	$ 329
Other long term employee benefit obligation	**126**	122	119
Financial liabilities	**43**	—	43
Equity-based compensation liabilities (note 15)	**3**	3	3
Other	**11**	16	14
Total other liabilities	**$ 471**	$ 451	$ 508

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:

	June 19, 2021 (12 weeks)		June 13, 2020 (12 weeks)		**June 19, 2021 (24 weeks)**		June 13, 2020 (24 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	**342,114,290**	**$ 6,739**	357,726,194	$ 7,035	**347,361,480**	**$ 6,837**	360,064,475	$ 7,065
Issued for settlement of stock options	**782,102**	**48**	59,711	3	**906,776**	**56**	479,007	27
Purchased and cancelled	**(4,806,098)**	**(95)**	—	—	**(10,177,962)**	**(201)**	(2,757,577)	(54)
Issued and outstanding, end of period	**338,090,294**	**$ 6,692**	357,785,905	$ 7,038	**338,090,294**	**$ 6,692**	357,785,905	$ 7,038
Shares held in trust, beginning of period	**(241,689)**	**$ (5)**	(874,004)	$ (17)	**(672,784)**	**$ (13)**	(1,113,302)	$ (21)
Purchased for future settlement of RSUs and PSUs	**—**	**—**	—	—	**—**	**—**	(145,000)	(3)
Released for settlement of RSUs and PSUs (note 15)	**66,033**	**2**	30,535	1	**497,128**	**10**	414,833	8
Shares held in trust, end of period	**(175,656)**	**$ (3)**	(843,469)	$ (16)	**(175,656)**	**$ (3)**	(843,469)	$ (16)
Issued and outstanding, net of shares held in trust, end of period	**337,914,638**	**$ 6,689**	356,942,436	$ 7,022	**337,914,638**	**$ 6,689**	356,942,436	$ 7,022
Weighted average outstanding, net of shares held in trust (note 6)	**340,395,307**		356,916,153		**343,142,800**		357,742,595	

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

	June 19, 2021[(i)] (12 weeks)	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Dividends declared per share ($)				
Common Share	**$ 0.335**	$ 0.315	**$ 0.670**	$ 0.630
Second Preferred Share, Series B	**$ 0.33125**	$ 0.33125	**$ 0.66250**	$ 0.66250

(i) The second quarter dividends for 2021 of $0.335 per share declared on Common Shares had a payment date of July 1, 2021. The second quarter dividends for 2021 of $0.33125 per share declared on Second Preferred Shares, Series B had a payment date of June 30, 2021.

(millions of Canadian dollars)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Dividends declared				
Common Share	**$ 112**	$ 109	**$ 230**	$ 225
Second Preferred Share, Series B (note 6)	**3**	3	**6**	6
Total dividends declared	**$ 115**	$ 112	**$ 236**	$ 231

Subsequent to the end of the second quarter of 2021, the Board declared a quarterly dividend of $0.365 per common share, payable on October 1, 2021 to shareholders of record on September 15, 2021 and a quarterly dividend of $0.33125 per share on the Second Preferred Shares, Series B payable on September 30, 2021 to shareholders of record on September 15, 2021.

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)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Common shares repurchased under the NCIB for cancellation (number of shares)	**4,806,098**	—	**10,177,962**	2,757,577
Cash consideration paid[(i)]	**$ 379**	$ —	**$ 700**	$ 188
Premium charged to retained earnings	**255**	—	**499**	134
Reduction in common share capital	**95**	—	**201**	54
Common shares repurchased under the NCIB and held in trust (number of shares)	**—**	—	**—**	145,000
Cash consideration paid	**$ —**	$ —	**$ —**	$ 10
Premium charged to retained earnings	**—**	—	**—**	7
Reduction in common share capital	**—**	—	**—**	3

(i) $29 million of cash consideration related to common shares repurchased under the NCIB for cancellation in the first quarter of 2021 was paid in the second quarter of 2021.

During 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 ("ADP Agreement"), in order for Weston to maintain its proportionate ownership interest in the Company. The maximum number of common shares that may be purchased pursuant to the NCIB will be reduced by the number of common shares purchased from Weston.

In the second quarter of 2021, the Company renewed its NCIB to purchase on the TSX or through alternative trading systems up to 17,106,459 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. The Company will continue to be permitted to purchase its common shares from Weston in accordance with the exemption granted by the TSX. Purchases from Weston will be made pursuant to the ADP Agreement. As at June 19, 2021, the Company had purchased 4,806,098 common shares for cancellation under its current NCIB.

During the second quarter of 2021, 4,806,098 common shares (2020 – nil) were purchased under the NCIB for cancellation, for aggregate consideration of $350 million (2020 – nil), including 2,159,071 common shares (2020 – nil) purchased from Weston, for aggregate consideration of $157 million (2020 – nil). On a year-to-date basis, 10,177,962 common shares (2020 – 2,757,577) were purchased under the NCIB for cancellation, for aggregate consideration of $700 million (2020 – $188 million), including 4,937,148 common shares (2020 – 1,355,077) purchased from Weston, for aggregate consideration of $338 million (2020 – $92 million).

Note 15. Equity-Based Compensation

The Company's equity-based compensation expense, which includes Stock Option, Restricted Share Unit ("RSU"), Performance Share Unit ("PSU"), Director Deferred Share Unit ("DSU") and Executive Deferred Share Unit ("EDSU") plans was $11 million for the second quarter of 2021 (2020 – $12 million) and $28 million year-to-date (2020 – $22 million). The expense was recognized in selling, general and administrative expenses ("SG&A").

The carrying amounts of the Company's equity-based compensation arrangements including 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 June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Other liabilities (note 13)	**$ 3**	$ 3	$ 3
Contributed surplus	**98**	92	109

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)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Outstanding options, beginning of period	**8,824,395**	7,648,714	**7,259,645**	6,317,922
Granted	**156,115**	12,690	**1,870,168**	1,815,577
Exercised	**(782,102)**	(59,711)	**(906,776)**	(479,007)
Forfeited/Cancelled	**(544,565)**	(43,439)	**(569,194)**	(96,238)
Outstanding options, end of period	**7,653,843**	7,558,254	**7,653,843**	7,558,254

During the second quarter of 2021, the Company granted stock options with a weighted average exercise price of $71.32 (2020 – $69.14) and $63.39 year-to-date (2020 – $70.05). In addition, the Company issued common shares on the exercise of stock options with a weighted average share price during the second quarter of 2021 of $72.98 (2020 – $68.33) and $72.01 year-to-date (2020 – $68.04) and received cash consideration of $42 million (2020 – $3 million) and $49 million year-to-date (2020 – $24 million).

The fair value of stock options granted during the second quarter of 2021 was $2 million (2020 – nominal) and $17 million year-to-date (2020 – $13 million). The assumptions used to measure the fair value of options granted during 2021 and 2020 under the Black-Scholes valuation model at date of grant were as follows:

	June 19, 2021 (12 weeks)	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Expected dividend yield	**1.9 %**	1.8 %	**2.0 %**	1.8 %
Expected share price volatility	**18.4% – 20.4%**	18.4% – 19.4%	**18.4% – 20.4%**	13.5% – 19.4%
Risk-free interest rate	**0.7%-1.2%**	0.3% – 0.4%	**0.6% – 1.2%**	0.3% – 1.2%
Expected life of options	**3.8 – 6.2 years**	3.7 – 6.2 years	**3.8 – 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 June 19, 2021 was 9.0% (June 13, 2020 – 8.0%).

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

(number of awards)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Restricted share units, beginning of period	**932,506**	1,050,032	**894,272**	1,032,832
Granted	**51,570**	1,774	**329,687**	232,784
Reinvested	**4,522**	4,838	**4,522**	9,668
Settled	**(44,936)**	(26,422)	**(279,373)**	(233,506)
Forfeited	**(55,606)**	(5,704)	**(61,052)**	(17,260)
Restricted share units, end of period	**888,056**	1,024,518	**888,056**	1,024,518

The fair value of RSUs granted during the second quarter of 2021 was $4 million (2020 – nominal) and $21 million year-to-date (2020 – $16 million).

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

(number of awards)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Performance share units, beginning of period	**701,328**	701,166	**666,400**	662,695
Granted	**23,737**	5,390	**269,611**	231,626
Reinvested	**3,388**	3,239	**3,388**	6,318
Settled	**(21,097)**	(4,113)	**(217,755)**	(181,327)
Forfeited	**(52,824)**	(1,037)	**(67,112)**	(14,667)
Performance share units, end of period	**654,532**	704,645	**654,532**	704,645

The fair value of PSUs granted during the second quarter of 2021 was $2 million (2020 – nominal) and $17 million year-to-date (2020 – $16 million).

Settlement of Awards from Shares Held in Trust During the second quarter of 2021, the Company settled RSUs and PSUs totaling 66,033 (2020 – 30,535) and 497,128 year-to-date (2020 – 414,833), which were settled through the trusts established for settlement of each of the RSU and PSU plans (see note 14).

The settlements in the second quarter of 2021 and year-to-date resulted in a $2 million (2020 – $1 million) and $17 million (2020 – $16 million) increase to retained earnings, respectively and a $2 million (2020 – $1 million) and $10 million (2020 – $8 million) increase to common share capital, respectively.

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

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

(millions of Canadian dollars)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Post-employment benefit costs recognized in operating income[(i)]	**$ 42**	$ 38	**$ 87**	$ 76
Other long term employee benefits costs recognized in operating income[(ii)]	**9**	7	**17**	14
Net interest on net defined benefit obligation included in net interest expense and other financing charges (note 4)	**2**	1	**4**	3
Actuarial gains (losses) before income taxes recognized in other comprehensive income	**169**	(58)	**261**	(14)

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

The actuarial gains recognized in the second quarter of 2021 were primarily driven by higher than expected returns on assets and an increase in discount rates. The actuarial gains recognized in the year-to-date of 2021 were primarily driven by an increase in discount rates, partially offset by lower than expected returns on assets. The actuarial losses recognized in the second quarter and year-to-date of 2020 were primarily driven by a decrease in discount rates, partially offset by higher than expected return on assets.

Note 17. Financial Instruments

The following table presents the fair value and 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 June 19, 2021				As at June 13, 2020				As at January 2, 2021
(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												
Fair value through other comprehensive income:												
Certain long term investments and other assets(i)	**$ 117**	**$ —**	**$ —**	**$ 117**	$ 117	$ —	$ —	$ 117	$ 117	$ —	$ —	$ 117
Fair value through profit and loss:												
Certain other assets(i)	**—**	**—**	**17**	**17**	—	—	—	—	—	—	6	6
Security deposits	**—**	**—**	**—**	**—**	71	—	—	71	—	—	—	—
Derivatives included in prepaid expenses and other assets	**7**	**1**	**2**	**10**	—	4	—	4	—	—	3	3
Financial liabilities												
Amortized cost:												
Long term debt	**$ —**	**$ 7,981**	**$ —**	**$ 7,981**	$ —	$ 8,774	$ —	$ 8,774	$ —	$ 8,292	$ —	$ 8,292
Certain other liabilities(i)	**—**	**—**	**48**	**48**	—	—	8	8	—	—	48	48
Fair value through other comprehensive income:												
Derivatives included in trade payables and other liabilities	**—**	**—**	**—**	**—**	—	13	—	13	—	—	—	—
Fair value through profit and loss:												
Derivatives included in trade payables and other liabilities	**—**	**5**	**—**	**5**	19	1	1	21	4	7	—	11

(i) Certain other assets, certain long term investments and other assets, and certain other liabilities are included in the 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 second quarter of 2021, the Company recognized a loss of $1 million (2020 – loss of $4 million) and a loss of $2 million (2020 – gain of $3 million) year-to-date in operating income on financial instruments designated as amortized cost. In addition, during the second quarter of 2021, a net gain of $1 million (2020 – net loss of $13 million) and a net gain of $5 million (2020 – net loss of $13 million) 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.

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 second quarter of 2021, a loss of $1 million (2020 – gain of $7 million) and a loss of $1 million (2020 – loss of $2 million) year-to-date were recorded in operating income related to these derivatives. In addition, a corresponding $2 million asset was included in prepaid expense and other assets as at June 19, 2021 (June 13, 2020 – $1 million liability; January 2, 2021 – $3 million asset). As at June 19, 2021, 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 June 19, 2021, the fair value through other comprehensive income securities of $117 million (June 13, 2020 – $117 million; January 2, 2021 – $117 million) was included in other assets. During the second quarter of 2021, PC Bank recorded a nominal unrealized fair value loss (2020 – nominal unrealized fair value gain) and a nominal unrealized fair value loss (2020 – 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:

										June 19, 2021
						(12 weeks)				**(24 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)]	**$**	**—**	**$**	**—**	**$**	**(1)**	**$**	**—**	**$**	**(1)**
Bond Forwards[(ii)]		**—**		**1**		**(1)**		**3**		**(3)**
Total derivatives designated as cash flow hedges	**$**	**—**	**$**	**1**	**$**	**(2)**	**$**	**3**	**$**	**(4)**
Derivatives not designated in a formal hedging relationship										
Foreign Exchange and Other Forwards	**$**	**(4)**	**$**	**—**	**$**	**(2)**	**$**	**—**	**$**	**(6)**
Other Non-Financial Derivatives		**7**		**—**		**4**		**—**		**12**
Total derivatives not designated in a formal hedging relationship	**$**	**3**	**$**	**—**	**$**	**2**	**$**	**—**	**$**	**6**
Total derivatives	**$**	**3**	**$**	**1**	**$**	**—**	**$**	**3**	**$**	**2**

(i) PC Bank uses foreign exchange forwards, with a notional value of $20 million USD, to manage its foreign exchange risk related to certain U.S. payables. The fair value of the derivatives is included in trade payables and other liabilities.

(ii) PC Bank settled $175 million of bond forward in the second quarter of 2021 (see note 8). The purpose of the bond forward was to hedge the interest rate risk for the $300 million *Eagle* notes issued subsequent to the second quarter of 2021. The Company has concluded that this hedge was effective as at the settlement date.

					June 13, 2020
			(12 weeks)		(24 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)	$ (10)	$ (18)	$ —	$ (43)	$ (1)
Interest Rate Swaps(ii)	(3)	1	(2)	(2)	(2)
Total derivatives designated as cash flow hedges	$ (13)	$ (17)	$ (2)	$ (45)	$ (3)
Derivatives not designated in a formal hedging relationship					
Foreign Exchange and Other Forwards	$ 3	$ —	$ (17)	$ —	$ 18
Other Non-Financial Derivatives	(19)	—	(3)	—	(30)
Total derivatives not designated in a formal hedging relationship	$ (16)	$ —	$ (20)	$ —	$ (12)
Total derivatives	$ (29)	$ (17)	$ (22)	$ (45)	$ (15)

(i) PC Bank uses bond forwards, with a notional value of $200 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

(ii) PC Bank uses interest rate swaps, with a notional value of $300 million, to manage its interest risk related to future debt issuances. The fair value of the derivatives is included in trade payables and other liabilities.

During the second quarter of 2020, the Company settled a bond forward with a notional value of $350 million that was entered into during the first quarter of 2020. The purpose of the bond forward was to hedge the interest rate risk in the appropriate Government of Canada yield curve that corresponded to the term of the May 7, 2030 senior unsecured notes ("2030 Notes") issuance bearing interest at 2.284% per annum (see note 12). The Company concluded that this hedge was effective as at the settlement date. Accordingly, the accumulated other comprehensive income associated with this bond forward will amortize over the term of the 2030 Notes as net interest expense and other financing charges within the consolidated statements of earnings, resulting in an effective annual interest rate of approximately 3.34%.

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 2021 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 unquantified damages for the expenses incurred by the federal government, provinces, and territories of Canada in paying for opioid prescriptions and other healthcare costs related to opioid addiction and abuse in Canada. During the second quarter of 2021, the claim against Loblaw Companies Limited was discontinued. 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 December 2019, 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 December 2019 claims seek recovery of damages on behalf of opioid users directly. In April 2021, the Company, Shoppers Drug Mart Inc. and Sanis Health Inc. were served with another opioid-related class action that was started in Alberta against multiple defendants. The claim seeks damages on behalf of municipalities and local governments in relation to public safety, social service, and criminal justice costs allegedly incurred due to the opioid crisis. 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 matter 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. On October 29, 2020, the Supreme Court granted the Crown leave to appeal and on May 13, 2021, the Supreme Court heard the Crown's appeal, reserving judgment for a later date. The Company has not reversed any portion of the $367 million of charges recorded during the third quarter of 2018, of which $176 million was recorded in interest and $191 million was recorded in income taxes.

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 During the second quarter of 2021 and on a year-to-date basis, the Company did not dispose of any properties to Choice Properties Real Estate Investment Trust ("Choice Properties"). During the second quarter of 2020 and on a year-to-date basis, 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.

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

Venture Fund During 2020, Loblaw, Weston and a wholly owned subsidiary of Wittington became limited partners in a limited partnership formed by Wittington ("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. To date, the Company has invested $12 million in the Venture Fund, of which $3 million and $6 million were invested in the second quarter and year-to-date of 2021, respectively (see note 11). Subsequent to the end of the second quarter of 2021, the Company invested $2 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:

	June 19, 2021 (12 weeks)				June 13, 2020(iii) (12 weeks)			
(millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Revenue(ii)	**$12,282**	**$ 272**	**$ (63)**	**$12,491**	$ 11,768	$ 233	$ (44)	$ 11,957
Operating income	$ 708	$ 44	$ —	$ 752	$ 370	$ 34	$ —	$ 404
Net interest expense and other financing charges	145	16	—	161	154	22	—	176
Earnings before income taxes	**$ 563**	**$ 28**	**$ —**	**$ 591**	$ 216	$ 12	$ —	$ 228
Operating income	**$ 708**	**$ 44**	**$ —**	**$ 752**	$ 370	$ 34	$ —	$ 404
Depreciation and amortization	603	11	—	614	593	5	—	598
Adjusting items(iii)	122	—	—	122	124	—	—	124
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(117)	—	—	(117)	(118)	—	—	(118)
Adjusted EBITDA(iii)	$ 1,316	$ 55	$ —	$ 1,371	$ 969	$ 39	$ —	$ 1,008
Depreciation and amortization(iv)	486	11	—	497	475	5	—	480
Adjusted operating income	**$ 830**	**$ 44**	**$ —**	**$ 874**	$ 494	$ 34	$ —	$ 528

(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 $100 million (2020 – $113 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. The comparative figures have been restated to conform with current year's new non-GAAP financial measures policy beginning in 2021. Under the new policy, the Company will no longer adjust for fixed asset and other related impairments (net of recoveries), certain restructuring and other related costs, pension settlement costs, statutory income tax rate changes or other items. For non-GAAP financial measures policy change, refer to the Company's 2020 Annual Report.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA(2) excludes $117 million (2020 – $118 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

				June 19, 2021 (24 weeks)				June 13, 2020[iii] (24 weeks)
(millions of Canadian dollars)	Retail	Financial Services	Eliminations[i]	Total	Retail	Financial Services	Eliminations[i]	Total
Revenue[ii]	**$23,952**	**$ 525**	**$ (114)**	**$24,363**	$23,352	$ 499	$ (94)	$23,757
Operating income	$ 1,261	$ 108	$ —	$ 1,369	$ 908	$ 37	$ —	$ 945
Net interest expense and other financing charges	289	32	—	321	304	44	—	348
Earnings/(losses) before income taxes	**$ 972**	**$ 76**	**$ —**	**$ 1,048**	$ 604	$ (7)	$ —	$ 597
Operating income	**$ 1,261**	**$ 108**	**$ —**	**$ 1,369**	$ 908	$ 37	$ —	$ 945
Depreciation and amortization	1,204	20	—	1,224	1,182	10	—	1,192
Adjusting items[iii]	230	—	—	230	273	—	—	273
Less: amortization of intangible assets acquired with Shoppers Drug Mart	(234)	—	—	(234)	(237)	—	—	(237)
Adjusted EBITDA[iii]	$ 2,461	$ 128	$ —	$ 2,589	$ 2,126	$ 47	$ —	$ 2,173
Depreciation and amortization[iv]	970	20	—	990	945	10	—	955
Adjusted operating income	**$ 1,491**	**$ 108**	**$ —**	**$ 1,599**	$ 1,181	$ 37	$ —	$ 1,218

(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 $208 million (2020 – $242 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. The comparative figures have been restated to conform with current year's new non-GAAP financial measures policy beginning in 2021. Under the new policy, the Company will no longer adjust for fixed asset and other related impairments (net of recoveries), certain restructuring and other related costs, pension settlement costs, statutory income tax rate changes or other items. For non-GAAP financial measures policy change, refer to the Company's 2020 Annual Report.

(iv) Depreciation and amortization for the calculation of adjusted EBITDA[2] excludes $234 million (2020 – $237 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)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Food retail	**$ 8,878**	$ 8,747	**$ 17,357**	$ 17,079
Drug retail				
Pharmacy	**$ 1,656**	$ 1,361	**$ 3,270**	$ 2,924
Front store	**1,748**	1,660	**3,325**	3,349
	$ 3,404	$ 3,021	**$ 6,595**	$ 6,273
Retail total	**$ 12,282**	$ 11,768	**$ 23,952**	$ 23,352
Financial Services	**272**	233	**525**	499
Eliminations(i)	**(63)**	(44)	**(114)**	(94)
Total	**$ 12,491**	$ 11,957	**$ 24,363**	$ 23,757

(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 June 19, 2021**	As at June 13, 2020	As at January 2, 2021
Total assets			
Retail	**$ 31,283**	$ 31,607	$ 31,297
Financial Services	**4,186**	4,524	4,573
	$ 35,469	$ 36,131	$ 35,870

(millions of Canadian dollars)	**June 19, 2021 (12 weeks)**	June 13, 2020 (12 weeks)	**June 19, 2021 (24 weeks)**	June 13, 2020 (24 weeks)
Additions to fixed assets and intangible assets				
Retail(i)	**$ 252**	$ 194	**$ 449**	$ 392
Financial Services	**6**	5	**12**	18
	$ 258	$ 199	**$ 461**	$ 410

(i) During 2021, additions to fixed assets in the retail segment included prepayments that were made in 2020 and transferred from other assets of nil in the second quarter of 2021 and $1 million year-to-date of 2021. During 2020, additions to fixed assets in the retail segment included prepayments that were made in 2019 and transferred from other assets of $30 million in the second quarter of 2020 and $50 million year-to-date of 2020.

Financial Summary[1]

As at or for the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)		2021 (12 weeks)		2020[3] (12 weeks)
Consolidated Results of Operations				
Revenue	**$**	**12,491**	$	11,957
Revenue growth		**4.5 %**		7.4 %
Operating income	**$**	**752**	$	404
Adjusted EBITDA[2]		**1,371**		1,008
Adjusted EBITDA margin[2]		**11.0 %**		8.4 %
Net interest expense and other financing charges	**$**	**161**	$	176
Adjusted net interest expense and other financing charges[2]		**161**		176
Net earnings		**434**		162
Net earnings attributable to shareholders of the Company		**378**		172
Net earnings available to common shareholders of the Company		**375**		169
Adjusted net earnings available to common shareholders of the Company[2]		**464**		260
Consolidated Per Common Share ($)				
Diluted net earnings	**$**	**1.09**	$	0.47
Adjusted diluted net earnings[2]	**$**	**1.35**	$	0.72
Consolidated Financial Position and Cash Flows				
Cash and cash equivalents and short term investments	**$**	**2,112**	$	2,558
Cash flows from operating activities		**1,635**		935
Capital investments		**258**		199
Free cash flow[2]		**953**		334
Financial Measures				
Retail debt to rolling year retail adjusted EBITDA[2]		**2.7 x**		3.0 x
Rolling year adjusted return on equity[2]		**16.0 %**		13.3 %
Rolling year adjusted return on capital[2]		**9.4 %**		7.9 %

Financial Summary[1]

As at or for the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars except where otherwise indicated)	2021 (12 weeks)	2020[3] (12 weeks)
Retail Results of Operations		
Sales	**$ 12,282**	$ 11,768
Operating income	**708**	370
Adjusted gross profit[2]	**3,793**	3,484
Adjusted gross profit %[2]	**30.9 %**	29.6 %
Adjusted EBITDA[2]	**$ 1,316**	$ 969
Adjusted EBITDA margin[2]	**10.7 %**	8.2 %
Depreciation and amortization	**$ 603**	$ 593
Retail Operating Statistics		
Food retail same-store sales growth	**(0.1)%**	10.0 %
Drug retail same-store sales growth	**9.6 %**	(1.1)%
Total retail square footage (in millions)	**71.2**	70.7
Number of corporate stores	**548**	549
Number of franchise stores	**548**	539
Number of Associate-owned drug stores	**1,346**	1,343
Financial Services Results of Operations		
Revenue	**$ 272**	$ 233
Earnings before income taxes	**28**	12
Financial Services Operating Measures and Statistics		
Average quarterly net credit card receivables	**$ 3,015**	$ 3,235
Credit card receivables	**3,033**	2,834
Allowance for credit card receivables	**205**	250
Annualized yield on average quarterly gross credit card receivables	**12.9 %**	13.8 %
Annualized credit loss rate on average quarterly gross credit card receivables	**2.9 %**	3.8 %

Financial Results and Financial Summary Endnotes

(1) For financial definitions and ratios refer to the Glossary of Terms on page 127 of the Company's 2020 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.

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

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.

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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 July 28, 2021 at 10:00 a.m. (ET).

To access via tele-conference, please dial (416) 764-8688 or (888) 390-0546. The playback will be made available approximately two hours after the event at (416) 764-8677 or (888) 390-0541, access code: 465555#. To access via audio webcast, please go to the "Investor" 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.

loblaw.ca

pcexpress.ca

shoppersdrugmart.ca

pharmaprix.ca

pcfinancial.ca

presidentschoice.ca

pcoptimum.ca

joefresh.com

noname.ca

wellwise.ca

Apps

PC Express™

PC Optimum™

PC Health

Shoppers Drug Mart®

PC Financial®

Joe Fresh®

Loblaw Companies Limited