

# Management's Discussion and Analysis

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# Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for George Weston Limited ("GWL" or the "Company") should be read in conjunction with the Company's first quarter 2020 unaudited interim period condensed consolidated financial statements and the accompanying notes on pages 39 to 67 of this Quarterly Report, the audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2019 and the related annual MD&A included in the Company's 2019 Annual Report.

The Company's first quarter 2020 unaudited interim period condensed consolidated financial statements and the accompanying notes have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"). These unaudited interim period condensed consolidated financial statements include the accounts of the Company and other entities that the Company controls and are reported in Canadian dollars, except where otherwise noted.

Under GAAP, certain expenses and income must be recognized that are not necessarily reflective of the Company's underlying operating performance. Non-GAAP financial measures exclude the impact of certain items and are used internally when analyzing consolidated and segment underlying operating performance. These non-GAAP financial measures are also helpful in assessing underlying operating performance on a consistent basis. See Section 8, "Non-GAAP Financial Measures", of this MD&A for more information on the Company's non-GAAP financial measures.

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

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

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

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

The information in this MD&A is current to May 4, 2020, unless otherwise noted.

# At a Glance

## Key Financial Highlights

As at and for the periods ended March 21, 2020 and March 23, 2019  
(\$ millions except where otherwise indicated)

### Consolidated

<b>\$ 12,333</b>	<b>+10.4%</b>	<b>\$ 598</b>	<b>+2.0%</b>	<b>\$ 1,304</b>	<b>+12.6%</b>	<b>10.6%</b>	<b>+20bps</b>
	vs. Q1 2019		vs. Q1 2019		vs. Q1 2019		vs. Q1 2019
<b>REVENUE</b>		<b>OPERATING INCOME</b>		<b>ADJUSTED EBITDA<sup>(1)</sup></b>		<b>ADJUSTED EBITDA MARGIN<sup>(1)</sup> (%)</b>	

<b>\$ 582</b>	<b>+219.3%</b>	<b>\$ 239</b>	<b>+18.9%</b>	<b>\$ 3.78</b>	<b>+218.9%</b>	<b>\$ 1.55</b>	<b>+19.2%</b>
	vs. Q1 2019		vs. Q1 2019		vs. Q1 2019		vs. Q1 2019
<b>NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS<sup>(1)</sup></b>		<b>ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS<sup>(1)</sup></b>		<b>DILUTED NET EARNINGS PER COMMON SHARE (\$) <sup>(1)</sup></b>		<b>ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE<sup>(1)</sup> (\$) <sup>(1)</sup></b>	

### GWL Corporate<sup>(2)</sup>

<b>\$ 154</b>	<b>+2.7%</b>	<b>\$ 214</b>	<b>+82.9%</b>	<b>\$ 0.53</b>	<b>+1.9%</b>	<b>10.6%</b>	<b>+20bps</b>
	vs. Q1 2019		vs. Q1 2019		vs. Q1 2019		vs. Q1 2019
<b>CASH FLOW FROM OPERATING BUSINESSES<sup>(1)</sup></b>		<b>GWL CORPORATE FREE CASH FLOW<sup>(1)</sup></b>		<b>QUARTERLY DIVIDENDS DECLARED PER SHARE (\$) <sup>(1)</sup></b>		<b>ROLLING YEAR ADJUSTED RETURN ON CAPITAL<sup>(1)</sup> (%) <sup>(1)</sup></b>	

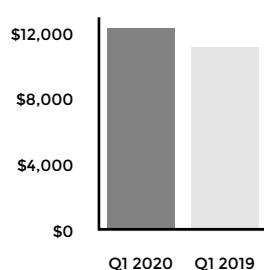
(1) See Section 8, "Non-GAAP Financial Measures", of this MD&A.

(i) The Company's results include the favourable year-over-year impact of the fair value adjustment of the Trust Unit liability as a result of the significant changes in Choice Properties' unit price. See Section 1.1, "Consolidated Results of Operations - Net Interest Expense and Other Financing Charges", of this MD&A.

# Key Performance Indicators

For the periods ended March 21, 2020 and March 23, 2019  
(\$ millions except where otherwise indicated)

## REVENUE

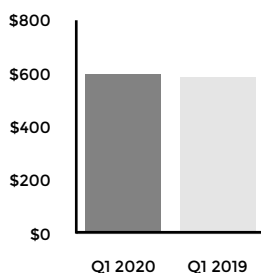


Q1 2020	\$ 12,333	
Q1 2019	\$ 11,173	+10.4%

### How we performed in Q1 2020

Growth in the three reportable operating segments, Loblaw, Choice Properties and Weston Foods, drove the increase in revenue of \$1,160 in the first quarter of 2020 and included the estimated impact of COVID-19 of approximately \$753 million.

## OPERATING INCOME

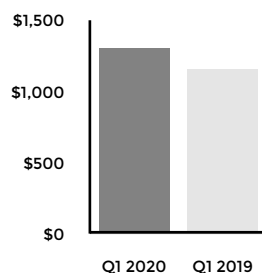


Q1 2020	\$ 598	
Q1 2019	\$ 586	+2.0%

### How we performed in Q1 2020

Operating income increased by \$12 million due to improvements in the underlying operating performance of Loblaw retail and Weston Foods, partially offset by the year-over-year net impact of adjusting items.

## ADJUSTED EBITDA<sup>(1)</sup>

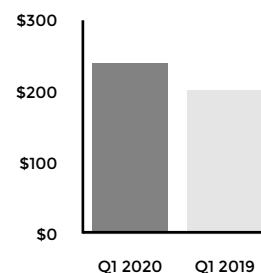


Q1 2020	\$ 1,304	
Q1 2019	\$ 1,158	+12.6%

### How we performed in Q1 2020

Adjusted EBITDA<sup>(1)</sup> increased by \$146 million due to improvements in Loblaw retail and Weston Foods.

## ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS<sup>(1)</sup>



Q1 2020	\$ 239	
Q1 2019	\$ 201	+18.9%

### How we performed in Q1 2020

Adjusted net earnings available to common shareholders<sup>(1)</sup> increased by \$38 million due to the improvement in the underlying operating performance of Loblaw and Weston Foods, the positive contribution from the year-over-year increase in the Company's ownership interest in Loblaw, as a result of Loblaw share repurchases, partially offset by higher net interest expense and other financing charges.

## ADJUSTED EBITDA MARGIN<sup>(1)</sup> (%)

**10.6%** +20bps  
Q1 2020 vs. Q1 2019

## ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE<sup>(1)</sup> (\$)

**\$ 1.55** +19.2%  
Q1 2020 vs. Q1 2019

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

## GWL Corporate Free Cash Flow<sup>(1)</sup>

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

For the periods ended as indicated

(\$ millions)	Mar. 21, 2020	Mar. 23, 2019
Weston Foods adjusted EBITDA <sup>(1)</sup>	\$ 52	\$ 46
Weston Foods capital expenditures	(24)	(31)
Distributions from Choice Properties	82	81
Dividends from Loblaw	59	55
Weston Foods income taxes received	3	—
Other	(18)	(1)
<b>GWL Corporate cash flow from operating businesses<sup>(1)</sup></b>	<b>\$ 154</b>	<b>\$ 150</b>
Proceeds from participation in Loblaw's Normal Course Issuer Bid	92	—
GWL Corporate and financing costs <sup>(i)</sup>	(28)	(26)
Income taxes paid	(4)	(7)
<b>GWL Corporate free cash flow<sup>(1)</sup></b>	<b>\$ 214</b>	<b>\$ 117</b>

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

For the periods ended March 21, 2020 and March 23, 2019  
(\$ millions except where otherwise indicated)

### GWL CORPORATE<sup>(2)</sup> CASH FLOW FROM OPERATING BUSINESSES<sup>(1)</sup>

<b>\$ 154</b>	<b>+2.7%</b>
Q1 2020	vs. Q1 2019
<b>\$ 150</b>	
Q1 2019	

#### How we performed in Q1 2020

Increase primarily driven by an improvement in Weston Foods underlying operating performance.

See above for the calculation of this metric.

### GWL CORPORATE<sup>(2)</sup> FREE CASH FLOW<sup>(1)</sup>

<b>\$ 214</b>	<b>+82.9%</b>
Q1 2020	vs. Q1 2019
<b>\$ 117</b>	
Q1 2019	

#### How we performed in Q1 2020

Increase primarily due to proceeds from participation in Loblaw's Normal Course Issuer Bid.

See above for the calculation of this metric.

### GWL CORPORATE<sup>(2)</sup> NET DEBT

<b>\$ 291</b>	<b>-25.0%</b>
Q1 2020	vs. Q1 2019
<b>\$ 388</b>	
Q1 2019	

#### How we performed in Q1 2020

Decrease primarily driven by the improvement in GWL Corporate free cash flow.

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

# Management's Discussion and Analysis

## 1. Overall Financial Performance

### 1.1 Consolidated Results of Operations

Unless otherwise indicated, the Company's results include:

- the impact of COVID-19 as set out in Section 1.2, "Consolidated Other Business Matters" of this MD&A; and
- the year-over-year impact of the fair value adjustment of the Trust Unit liability as a result of the significant changes in Choice Properties' unit price, recorded in net interest expense and other financing charges. The Company's results are impacted by market price fluctuations of Choice Properties' Trust Units on the basis that the Trust Units held by unitholders, other than the Company, are redeemable for cash at the option of the holder. The Company's financial results are negatively impacted when the Trust Unit price rises and positively impacted when the Trust Unit price declines.

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
<b>Revenue</b>	\$ 12,333	\$ 11,173	\$ 1,160	10.4 %
<b>Operating income</b>	\$ 598	\$ 586	\$ 12	2.0 %
Adjusted EBITDA <sup>(1)</sup>	\$ 1,304	\$ 1,158	\$ 146	12.6 %
Adjusted EBITDA margin <sup>(1)</sup>	10.6%	10.4%		
<b>Depreciation and amortization<sup>(i)</sup></b>	\$ 560	\$ 535	\$ 25	4.7 %
<b>Net interest (income) expense and other financing charges</b>	\$ (258)	\$ 872	\$ (1,130)	(129.6)%
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 256	\$ 247	\$ 9	3.6 %
<b>Income taxes</b>	\$ 113	\$ 86	\$ 27	31.4 %
Adjusted income taxes <sup>(1)</sup>	\$ 163	\$ 133	\$ 30	22.6 %
Adjusted effective tax rate <sup>(1)</sup>	26.5%	26.9%		
<b>Net earnings (loss) attributable to shareholders of the Company</b>	\$ 592	\$ (478)	\$ 1,070	223.8 %
<b>Net earnings (loss) available to common shareholders of the Company</b>	\$ 582	\$ (488)	\$ 1,070	219.3 %
Adjusted net earnings available to common shareholders of the Company <sup>(1)</sup>	\$ 239	\$ 201	\$ 38	18.9 %
<b>Diluted net earnings (loss) per common share (\$)</b>	\$ 3.78	\$ (3.18)	\$ 6.96	218.9 %
Adjusted diluted net earnings per common share <sup>(1)</sup> (\$)	\$ 1.55	\$ 1.30	\$ 0.25	19.2 %

- (i) Depreciation and amortization in the first quarter of 2020 includes \$119 million (2019 - \$119 million) of amortization of intangible assets, acquired with Shoppers Drug Mart Corporation, recorded by Loblaw and \$9 million (2019 - nil) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

## NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY

Net earnings available to common shareholders of the Company in the first quarter of 2020 were \$582 million (\$3.78 per common share), an increase of \$1,070 million (\$6.96 per common share), or 219.3%, compared to the same period in 2019. The increase was due to the favourable year-over-year net impact of adjusting items totaling \$1,032 million (\$6.71 per common share) and an improvement in the underlying operating performance of \$38 million (\$0.25 per common share) described below.

- The favourable year-over-year net impact of adjusting items totaling \$1,032 million (\$6.71 per common share) was primarily due to:
  - the favourable year-over-year impact of the fair value adjustment of the Trust Unit Liability of \$1,086 million (\$7.07 per common share) as a result of the significant decrease in Choice Properties' unit price in the quarter; and
  - the favourable year-over-year impact of the fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares of \$46 million (\$0.30 per common share);
 partially offset by,
  - the unfavourable year-over-year impact of the fair value adjustment on investment properties of \$70 million (\$0.47 per common share);
  - the unfavourable impact of the deferred tax expense on the outside basis difference in certain Loblaw shares of \$14 million (\$0.09 per common share); and
  - the unfavourable year-over-year impact of restructuring and other related costs of \$12 million (\$0.07 per common share).
- The improvement in underlying operating performance of \$38 million (\$0.25 per common share) was primarily due to:
  - the favourable underlying operating performance of Loblaw and Weston Foods including the impact of COVID-19 estimated at approximately \$29 million (\$0.19 per common share); and
  - the positive contribution from the year-over-year increase in the Company's ownership interest in Loblaw, as a result of Loblaw share repurchases;
 partially offset by,
  - an increase in adjusted net interest expenses and other financing charges<sup>(1)</sup>.

Adjusted net earnings available to common shareholders of the Company<sup>(1)</sup> were \$239 million (\$1.55 per common share) in the first quarter of 2020. When compared to the same period in 2019, this represented an increase of \$38 million (\$0.25 per common share), or 18.9%, due to the improvement in underlying operating performance described above.

## REVENUE

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Loblaw	\$ 11,800	\$ 10,659	\$ 1,141	10.7%
Choice Properties	\$ 325	\$ 323	\$ 2	0.6%
Weston Foods	\$ 535	\$ 516	\$ 19	3.7%
Other and Intersegment	\$ (327)	\$ (325)		
Consolidated	\$ 12,333	\$ 11,173	\$ 1,160	10.4%

Revenue in the first quarter of 2020 was \$12,333 million, an increase of \$1,160 million, or 10.4%, compared to the same period in 2019. The estimated increase in revenue from the impact of COVID-19 was approximately \$753 million primarily related to the significant increase in initial demand for grocery and pharmacy products at Loblaw in March following the onset of the COVID-19 pandemic in Canada. The increase in revenue was impacted by each of the Company's reportable operating segments as follows:

- Positively by 10.2% due to revenue growth of 10.7% at Loblaw, primarily driven by an increase in Loblaw retail. Retail sales increased by \$1,132 million, or 10.8%, compared to the same period in 2019. Excluding the consolidation of franchises, retail sales increased by \$946 million, or 9.3%, due to positive same-store sales growth and a net increase in retail square footage. Food retail same-store sales growth was 9.6% for the quarter. Food same-store sales growth was positively impacted by COVID-19. Food retail basket size increased and traffic increased in the quarter. Loblaw's food retail average article price was 1.5% (2019 - 3.8%), which reflects the impact of inflation on the specific mix of goods sold in Loblaw's stores in the quarter. The average quarterly national food price inflation was 2.8% (2019 - inflation of 3.3%) as measured by "The Consumer Price Index for Food Purchased from Stores" ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores. Drug retail same-store sales growth was 10.7%. Drug same-store sales growth was positively impacted by COVID-19.

## Management's Discussion and Analysis

- Positively by a nominal amount due to revenue growth of 0.6% at Choice Properties. The improvement of \$2 million was mainly due to an increase in base rent and operating cost recoveries from existing properties and additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space, partially offset by foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019.
- Positively by 0.2% due to sales growth of 3.7% at Weston Foods. Foreign currency translation had a nominal impact on sales in the quarter. Sales were impacted by an increase in volumes and the combined positive impact of pricing and changes in sales mix, partially offset by the unfavourable impact of product rationalization.

### OPERATING INCOME

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Loblaw	\$ 539	\$ 449	\$ 90	20.0 %
Choice Properties	\$ 77	\$ 223	\$ (146)	(65.5)%
Weston Foods	\$ 1	\$ 10	\$ (9)	(90.0)%
Other and Intersegment	\$ (19)	\$ (96)		
Consolidated	\$ 598	\$ 586	\$ 12	2.0 %

Operating income in the first quarter of 2020 was \$598 million, an increase of \$12 million, or 2.0%, compared to the same period in 2019. The increase was mainly attributable to the improvement in underlying operating performance of \$130 million, partially offset by the unfavourable year-over-year net impact of adjusting items totaling \$118 million, as described below:

- the improvement in underlying operating performance of \$130 million was primarily due to:
  - the favourable underlying operating performance of Loblaw retail and Weston Foods, partially offset by the decline in underlying operating performance of Loblaw financial services, and an increase in depreciation and amortization.
- the unfavourable year-over-year net impact of adjusting items totaling \$118 million was primarily due to:
  - the unfavourable year-over-year impact of the fair value adjustment of investment properties of \$86 million;
  - the unfavourable year-over-year impact of restructuring and other related costs of \$21 million; and
  - the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$16 million;
 partially offset by,
  - the favourable impact of prior year pension annuities and buy-outs of \$10 million.

### ADJUSTED EBITDA<sup>(1)</sup>

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Loblaw	\$ 1,167	\$ 1,038	\$ 129	12.4 %
Choice Properties	\$ 227	\$ 230	\$ (3)	(1.3)%
Weston Foods	\$ 52	\$ 46	\$ 6	13.0 %
Other and Intersegment	\$ (142)	\$ (156)		
Consolidated	\$ 1,304	\$ 1,158	\$ 146	12.6 %

Adjusted EBITDA<sup>(1)</sup> in the first quarter of 2020 was \$1,304 million, an increase of \$146 million, or 12.6%, compared to the same period in 2019. The increase in adjusted EBITDA<sup>(1)</sup> was impacted by each of the Company's reportable operating segments as follows:

- Positively by 11.1% due to an increase of 12.4% in adjusted EBITDA<sup>(1)</sup> at Loblaw driven by improvements in Loblaw retail, partially offset by the decline in Loblaw financial services. The improvement in Loblaw retail adjusted EBITDA<sup>(1)</sup> was primarily driven by an increase in retail gross profit, partially offset by an increase in retail selling, general and administrative expenses ("SG&A").
- Negatively by 0.3% due to a decrease of 1.3% in adjusted EBITDA<sup>(1)</sup> at Choice Properties, primarily driven by foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction, partially offset by growth in net operating income attributable to acquisitions, increased leasing activity across the portfolio and completed development transfers.

- Positively by 0.5% due to an increase of 13.0% in adjusted EBITDA<sup>(1)</sup> at Weston Foods driven by sales growth, productivity improvements and the net benefits realized from Weston Foods' transformation program, partially offset by higher input and distribution costs.

## DEPRECIATION AND AMORTIZATION

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Loblaw	\$ 594	\$ 580	\$ 14	2.4%
Choice Properties	\$ 1	\$ –	\$ 1	–%
Weston Foods	\$ 43	\$ 32	\$ 11	34.4%
Other and Intersegment	\$ (78)	\$ (77)		
Consolidated	\$ 560	\$ 535	\$ 25	4.7%

Depreciation and amortization in the first quarter of 2020 was \$560 million, an increase of \$25 million compared to the same period in 2019. Depreciation and amortization in the first quarter of 2020 included \$119 million (2019 – \$119 million) of amortization of intangible assets related to the acquisition of Shoppers Drug Mart Corporation (“Shoppers Drug Mart”) recorded by Loblaw and \$9 million (2019 – nil) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs. Excluding these amounts, depreciation and amortization increased in the first quarter of 2020 by \$16 million driven by:

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

## NET INTEREST EXPENSE AND OTHER FINANCING CHARGES

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Net interest (income) expense and other financing charges	\$ (258)	\$ 872	\$ (1,130)	(129.6)%
Add: Fair value adjustment of the Trust Unit liability	504	(582)	1,086	186.6 %
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	10	(43)	53	123.3 %
Adjusted net interest expense and other financing charges <sup>(1)</sup>	\$ 256	\$ 247	\$ 9	3.6 %

Net interest income and other financing charges in the first quarter of 2020 were \$258 million, a change of \$1,130 million compared to the same period in 2019. The change was primarily due to the favourable year-over-year net impact of adjusting items totaling \$1,139 million, itemized in the table above, partially offset by an increase in adjusted net interest expense and other financing charges<sup>(1)</sup> of \$9 million. Included in the adjusting items was the year-over-year fair value adjustment of the Trust Unit liability of \$1,086 million, as a result of the significant decrease in Choice Properties' unit price in the quarter. The Company is exposed to market price fluctuations as a result of units held by unitholders other than the Company which are redeemable for cash at the option of the holder and are presented as a liability on the Company's consolidated balance sheet.

The increase in adjusted net interest expense and other financing charges<sup>(1)</sup> was primarily driven by:

- higher interest expense in the Choice Properties segment including Other and Intersegment adjustments, primarily related to higher distributions from newly issued Trust Units as part of the offering of Trust Units in the second quarter of 2019, partially offset by a reduction in interest expense from the repayments made on term loans and credit facility by Choice Properties; and
  - higher interest expense in Other and Intersegment adjustments, primarily related to interest expense on the financial liabilities recognized on the Choice Properties' portfolio transaction, as discussed below;
- partially offset by:
- a decrease at Loblaw primarily driven by a reduction in interest expense from lease liabilities, partially offset by higher interest expense in Loblaw financial services.

# Management's Discussion and Analysis

**CHOICE PROPERTIES' PORTFOLIO TRANSACTION** In 2019, Choice Properties sold 31 properties to third-parties consisting of Loblaw stand-alone retail properties and Loblaw distribution centres. On consolidation, the transactions were not recognized as a sale of assets as under the terms of the leases, Loblaw did not relinquish control of the properties for purposes of IFRS 16 "Leases" and IFRS 15 "Revenue from Contracts with Customers". Instead the proceeds from the transactions were recognized as financial liabilities on the Company's consolidated balance sheet with corresponding interest expense recognized in the consolidated statement of earnings. Included in the first quarter of 2020, interest expense was \$7 million (2019 - nil).

## INCOME TAXES

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Income taxes	\$ 113	\$ 86	\$ 27	31.4%
Add: Tax impact of items excluded from adjusted earnings before taxes <sup>(1)(i)</sup>	62	47	15	31.9%
Outside basis difference in certain Loblaw shares	(14)	–	(14)	–%
Statutory corporate income tax rate change	2	–	2	–%
Adjusted income taxes <sup>(1)</sup>	\$ 163	\$ 133	\$ 30	22.6%
Effective tax rate applicable to earnings before taxes	13.2%	(30.1)%		
Adjusted effective tax rate applicable to adjusted earnings before taxes <sup>(1)</sup>	26.5%	26.9 %		

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

The effective tax rate in the first quarter of 2020 was 13.2%, compared to (30.1)% in the same period in 2019. The change was primarily attributable to an increase in the non-taxable fair value adjustment of the Trust Unit liability, an increase in tax expense related to temporary differences in respect of GWL's investment in certain Loblaw shares as a result of GWL's participation in Loblaw's Normal Course Issuer Bid ("NCIB") program, the impact of certain other non-deductible items, and the impact of negative earnings before taxes reported in the first quarter of 2019, partially offset by higher franchisee earnings which are taxed at the lower small business tax rate.

The adjusted effective tax rate<sup>(1)</sup> in the first quarter of 2020 was 26.5%, compared to 26.9% in the same period in 2019. The decrease was primarily attributable to higher franchisee earnings which are taxed at the lower small business tax rate.

Loblaw has been reassessed by the Canada Revenue Agency and the Ontario Ministry of Finance on the basis that certain income earned by Glenhuron Bank Limited ("Glenhuron"), a wholly owned Barbadian subsidiary of Loblaw that was wound up in 2013, should be treated, and taxed, as income in Canada. The reassessments, which were received between 2015 and 2019, are for the 2000 to 2013 taxation years. On September 7, 2018, the Tax Court of Canada ("Tax Court") released its decision relating to the 2000 to 2010 taxation years. The Tax Court ruled that certain income earned by Glenhuron should be taxed in Canada based on a technical interpretation of the applicable legislation. On October 4, 2018, Loblaw filed a Notice of Appeal with the Federal Court of Appeal and recorded a charge of \$367 million, of which \$176 million was recorded in interest and \$191 million was recorded in income taxes, to cover its ultimate liability if the appeal was unsuccessful. On October 15, 2019, the appeal was heard by the Federal Court of Appeal, with the court reserving judgment until a later date. On April 23, 2020, the Federal Court of Appeal released its decision and reversed the decision of the Tax Court. The Canada Revenue Agency has the right to seek leave to appeal to the Supreme Court of Canada for 60 days. Loblaw has yet to reverse any portion of the previously recorded charge.

## 1.2 Consolidated Other Business Matters

**COVID-19** First quarter financial results reflect an estimated increase in revenue from the impact of COVID-19 of approximately \$753 million, primarily related to Loblaw. Loblaw experienced unprecedented consumer demand and stockpiling relating to COVID-19, with sales surging in the final two weeks of March. The result was both a sharp increase in revenue and profit followed by ramp-up in spending to protect and benefit its colleagues and customers. The estimated increase in revenue and diluted net earnings per common share was impacted by each of the Company's reportable operating segments as follows:

(unaudited) (\$ millions except where otherwise indicated)	12 Weeks Ended Mar. 21, 2020			
	Loblaw	Weston Foods	Other and Intersegment	Total <sup>(i)</sup>
Revenue	\$ 751	\$ 5	\$ (3)	\$ 753
Diluted net earnings per common share (\$)	\$ 0.18	\$ 0.01	\$ –	\$ 0.19
Diluted weighted average common shares outstanding (in millions)				153.8

(i) Nominal impact in the first quarter of 2020 from Choice Properties.

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

## 2. Results of Reportable Operating Segments

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

### 2.1 Loblaw Operating Results

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Revenue	\$ 11,800	\$ 10,659	\$ 1,141	10.7%
Operating income	\$ 539	\$ 449	\$ 90	20.0%
Adjusted EBITDA <sup>(1)</sup>	\$ 1,167	\$ 1,038	\$ 129	12.4%
Adjusted EBITDA margin <sup>(1)</sup>	9.9%	9.7%		
Depreciation and amortization <sup>(i)</sup>	\$ 594	\$ 580	\$ 14	2.4%

(i) Depreciation and amortization in the first quarter of 2020 includes \$119 million (2019 – \$119 million) of amortization of intangible assets acquired with Shoppers Drug Mart.

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

**REVENUE** Loblaw revenue in the first quarter of 2020 was \$11,800 million, an increase of \$1,141 million, or 10.7%, compared to the same period in 2019, primarily driven by retail sales. Loblaw financial results reflect an estimated increase in revenue of approximately \$751 million related to the significant increase in initial demand for grocery and pharmacy products in March following the onset of the COVID-19 pandemic in Canada.

Retail sales in the first quarter of 2020 increased by \$1,132 million, or 10.8%, compared to the same period in 2019 and included food retail sales of \$8,332 million (2019 – \$7,515 million) and drug retail sales of \$3,252 million (2019 – \$2,937 million). Excluding the consolidation of franchises, retail sales in the first quarter of 2020 increased by \$946 million, or 9.3%, primarily driven by the following factors:

- the increase in sales included the impact of COVID-19, estimated at approximately \$768 million, which included the favourable impact of the consolidation of franchises of \$91 million;
- food retail same-store sales growth was 9.6% for the quarter. Food same-store sales growth was positively impacted by COVID-19. Food retail basket size increased and traffic increased in the quarter;
- Loblaw's food retail average article price was 1.5% (2019 – 3.8%), which reflects the impact of inflation on the specific mix of goods sold in Loblaw's stores in the quarter. The average quarterly national food price inflation was 2.8% (2019 – inflation of 3.3%) as measured by CPI. CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores; and

# Management's Discussion and Analysis

- drug retail same-store sales growth was 10.7%. Drug same-store sales growth was positively impacted by COVID-19. Pharmacy same-store sales growth was 10.6% and front store same-store sales growth was 10.7%.

In the last 12 months, 13 food and drug stores were opened and 7 food and drug stores were closed, resulting in a net increase in retail square footage of 0.2 million square feet, or 0.3%.

Financial services revenue was flat compared to the first quarter of 2019 mainly due to higher interest and interchange income attributable to the growth in the credit card portfolio and higher sales attributable to *The Mobile Shop* offset by the negative impact of COVID-19, driven by lower interchange income and lower sales attributable to *The Mobile Shop*.

**OPERATING INCOME** Loblaw operating income in the first quarter of 2020 was \$539 million, an increase of \$90 million, or 20.0%, compared to the same period in 2019. The increase included the improvement in underlying operating performance of \$115 million, partially offset by the unfavourable year-over-year net impact of adjusting items totaling \$25 million, as described below:

- the improvement in underlying operating performance of \$115 million was primarily due to retail, including the favourable contribution from the consolidation of franchises of \$28 million, partially offset by the decline in financial services.
- the unfavourable year-over-year net impact of adjusting items totaling \$25 million was primarily due to:
  - the unfavourable year-over-year impact of the fair value adjustment of derivatives of \$17 million;
  - the unfavourable impact of a prior year net gain on sale of non-operating properties of \$8 million; and
  - the unfavourable year-over-year impact of restructuring and other related costs of \$7 million;partially offset by,
  - the favourable impact of prior year pension annuities and buy-outs of \$10 million.

**ADJUSTED EBITDA<sup>(1)</sup>** Loblaw adjusted EBITDA<sup>(1)</sup> in the first quarter of 2020 was \$1,167 million, an increase of \$129 million, or 12.4%, compared to the same period in 2019. The increase was primarily due to the improvement in retail, partially offset by financial services.

Retail adjusted EBITDA<sup>(1)</sup> increased by \$176 million, including the favourable impact of the consolidation of franchises of \$36 million and was driven by an increase in retail gross profit, partially offset by an increase in retail SG&A.

- Retail gross profit percentage was 29.8%, an increase of 20 basis points compared to the same period in 2019. Excluding the consolidation of franchises, retail gross profit percentage was 27.3%, a decrease of 30 basis points compared to the first quarter of 2019. Food retail margins were stable but were negatively impacted by product mix and drug retail margins were negatively impacted, largely due to COVID-19.
- Retail SG&A increased by \$177 million compared to the first quarter of 2019. Excluding the consolidation of franchises, retail SG&A increased by \$88 million and SG&A as a percentage of sales was 17.5%, an improvement of 70 basis points compared to the first quarter of 2019, primarily driven by COVID-19 sales leverage.

Financial services adjusted EBITDA<sup>(1)</sup> decreased by \$47 million compared to the same period in 2019 due to higher expected credit losses attributable to an immediate increase in unemployment rate forecasts and recessionary environment.

Loblaw adjusted EBITDA<sup>(1)</sup> in the first quarter of 2019 included a gain of \$5 million related to the sale and leaseback of properties to Choice Properties.

**DEPRECIATION AND AMORTIZATION** Loblaw depreciation and amortization in the first quarter of 2020 was \$594 million, an increase of \$14 million compared to the same period in 2019, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangible assets acquired with Shoppers Drug Mart of \$119 million (2019 – \$119 million).

## LOBLAW OTHER BUSINESS MATTERS

**Process and Efficiency** In the first quarter of 2020, Loblaw recorded approximately \$19 million of restructuring and other related costs, primarily related to Process and Efficiency initiatives. Included in the restructuring charges is \$15 million related to the closure of the two distribution centres in Laval and Ottawa, that were previously announced in the first quarter of 2020. Loblaw is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Over the next two years, the distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall. Loblaw expects to incur additional restructuring costs in 2020 and 2021 related to these closures.

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

The following table provides the total impact of the consolidation of franchises included in the consolidated results of the Company.

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019 <sup>(i)</sup>
Number of Consolidated Franchise stores, beginning of period	470	400
Add: Net Number of Consolidated Franchise stores in the period	56	14
Number of Consolidated Franchise stores, end of period <sup>(i)</sup>	526	414
Sales	\$ 489	\$ 303
Operating income	42	14
Adjusted EBITDA <sup>(1)</sup>	67	31
Depreciation and amortization	25	17
Net earnings attributable to non-controlling interests	33	5

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

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

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

# Management's Discussion and Analysis

## 2.2 Choice Properties Operating Results

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Revenue	\$ 325	\$ 323	\$ 2	0.6 %
Net interest (income) expense and other financing charges <sup>(i)</sup>	\$ (256)	\$ 1,125	\$ (1,381)	(122.8)%
Net income (loss)	\$ 333	\$ (902)	\$ 1,235	136.9 %
Funds from Operations <sup>(1)(ii)</sup>	\$ 171	\$ 169	\$ 2	1.2 %

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

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

**REVENUE** Revenue was \$325 million in the first quarter of 2020, an increase of \$2 million, or 0.6%, compared to the same period in 2019 and included \$187 million (2019 – \$191 million) generated from tenants within Loblaw's retail segment. The increase in revenue was primarily driven by:

- an increase in base rent and operating cost recoveries from existing properties; and
- additional revenue generated from properties acquired in 2019 and 2020 and from tenant openings in newly developed leasable space;

partially offset by,

- foregone revenue from sold properties including those sold as part of the Choice Properties' portfolio transaction in the third quarter of 2019.

**NET INTEREST EXPENSE AND OTHER FINANCING CHARGES** Net interest income and other financing charges in the first quarter of 2020 was \$256 million, compared to net interest expense and other financing charges of \$1,125 million in the same period in 2019. The change of \$1,381 million was primarily driven by:

- the favourable year-over-year impact of the fair value adjustment on Class B LP units ("Exchangeable Units") of \$1,377 million as a result of the significant decrease in the unit price of Choice Properties in the quarter;
- a reduction of interest expense on term loans as a result of repayments made using proceeds from the offering of Trust Units in the second quarter of 2019 and Choice Properties' portfolio transaction;
- a reduction of interest expense on the credit facility through the use of proceeds from the offering of Trust Units in the second quarter of 2019; and
- a decline in mortgage principal balances due to repayments contributing to a lower interest expense;

partially offset by,

- an increase in interest charges on the senior unsecured debentures due to a higher principal amount outstanding as compared to the prior year.

**NET INCOME (LOSS)** Net income was \$333 million in the first quarter of 2020, compared to a net loss of \$902 million in the first quarter of 2019. The change of \$1,235 million was primarily driven by:

- the favourable impact of higher net interest income and other financing charges, described above; and
  - an increase in net operating income from existing properties and the contribution from completed developments;
- partially offset by,
- the unfavourable year-over-year impact of the fair value adjustment on investment properties.

**FUNDS FROM OPERATIONS<sup>(1)</sup>** Funds from Operations<sup>(1)</sup> was \$171 million in the first quarter of 2020, an increase of \$2 million compared to the same period in 2019 primarily driven by lower borrowing costs as a result of a reduction in indebtedness in the second quarter of 2019, partially offset by a reduction in net operating income attributable to the Choice Properties' portfolio transaction.

### CHOICE PROPERTIES OTHER BUSINESS MATTERS

**Investment Property Transactions** During the first quarter of 2020, Choice Properties acquired one property from a third party vendor for a purchase price excluding transaction costs of \$21 million, and disposed of its sole US property and three other properties for proceeds of \$135 million, of which \$110 million was settled in cash and the balance applied to the assumption of mortgage debt.

## 2.3 Weston Foods Operating Results

(\$ millions except where otherwise indicated) For the periods ended as indicated	12 Weeks Ended			
	Mar. 21, 2020	Mar. 23, 2019	\$ Change	% Change
Sales	\$ 535	\$ 516	\$ 19	3.7 %
Operating income	\$ 1	\$ 10	\$ (9)	(90.0)%
Adjusted EBITDA <sup>(1)</sup>	\$ 52	\$ 46	\$ 6	13.0 %
Adjusted EBITDA margin <sup>(1)</sup>	9.7%	8.9%		
Depreciation and amortization <sup>(i)</sup>	\$ 43	\$ 32	\$ 11	34.4 %

(i) Depreciation and amortization in the first quarter of 2020 includes \$9 million (2019 – nil) of accelerated depreciation related to restructuring and other related costs.

**SALES** Weston Foods sales in the first quarter of 2020 were \$535 million, an increase of \$19 million, or 3.7%, compared to the same period in 2019. The increase in sales included the impact of COVID-19, estimated at approximately \$5 million. Foreign currency translation had a nominal impact on sales in the quarter. Sales were impacted by an increase in volumes and the combined positive impact of pricing and changes in sales mix, partially offset by the unfavourable impact of product rationalization.

**OPERATING INCOME** Weston Foods operating income in the first quarter of 2020 was \$1 million, a decrease of \$9 million, or 90.0%, compared to the same period in 2019. The decrease was due to the unfavourable year-over-year net impact of adjusting items totaling \$13 million, partially offset by the improvement in underlying operating performance of \$4 million. The year-over-year net impact of adjusting items included the following:

- the unfavourable year-over-year impact of restructuring and other related costs of \$14 million; partially offset by,
- the favourable year-over-year impact of the fair value adjustment of derivatives of \$1 million.

**ADJUSTED EBITDA<sup>(1)</sup>** Weston Foods adjusted EBITDA<sup>(1)</sup> in the first quarter of 2020 was \$52 million, an increase of \$6 million, or 13.0%, compared to the same period in 2019. The increase was driven by sales growth, productivity improvements and the net benefits realized from Weston Foods' transformation program, partially offset by higher input and distribution costs.

Weston Foods adjusted EBITDA margin<sup>(1)</sup> in the first quarter of 2020 increased to 9.7% compared to 8.9% in the same period in 2019. The improvement in adjusted EBITDA margin<sup>(1)</sup> in the first quarter of 2020 was driven by the factors described above.

**DEPRECIATION AND AMORTIZATION** Weston Foods depreciation and amortization in the first quarter of 2020 was \$43 million, an increase of \$11 million compared to the same period in 2019. Depreciation and amortization in the first quarter of 2020 included \$9 million (2019 – nil) of accelerated depreciation related to Weston Foods' transformation program. Excluding this amount, depreciation and amortization increased by \$2 million in the first quarter of 2020 due to capital investments.

### WESTON FOODS OTHER BUSINESS MATTERS

**Restructuring and other related costs** Weston Foods continuously evaluates strategic and cost reduction initiatives related to its manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. In the first quarter of 2020, Weston Foods recorded restructuring and other related costs of \$16 million (2019 – \$2 million), which were primarily related to Weston Foods' transformation program.

# Management's Discussion and Analysis

## 3. Liquidity and Capital Resources

### 3.1 Cash Flows

(\$ millions) For the periods ended as indicated	12 Weeks Ended		
	Mar. 21, 2020	Mar. 23, 2019 <sup>(4)</sup>	\$ Change
Cash and cash equivalents, beginning of period	\$ 1,834	\$ 1,521	\$ 313
Cash flows from operating activities	\$ 1,760	\$ 1,095	\$ 665
Cash flows used in investing activities	\$ (290)	\$ (311)	\$ 21
Cash flows used in financing activities	\$ (526)	\$ (956)	\$ 430
Effect of foreign currency exchange rate changes on cash and cash equivalents	\$ 6	\$ –	\$ 6
Cash and cash equivalents, end of period	\$ 2,784	\$ 1,349	\$ 1,435

**CASH FLOWS FROM OPERATING ACTIVITIES** Cash flows from operating activities were \$1,760 million in the first quarter of 2020, an increase of \$665 million compared to the same period in 2019. The increase in cash flows from operating activities was primarily driven by a significant sell-through of inventory due to COVID-19 resulting in higher cash earnings and a temporary decrease in inventory balances, and a decrease in income taxes paid.

**CASH FLOWS USED IN INVESTING ACTIVITIES** Cash flows used in investing activities were \$290 million in the first quarter of 2020, a decrease of \$21 million compared to the same period in 2019. The decrease in cash flows used in investing activities was primarily due to higher proceeds from the sale of assets, partially offset by an unfavourable change in short-term investments.

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

(\$ millions) For the periods ended as indicated	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019
Loblaw	\$ 211	\$ 174
Choice Properties	49	31
Weston Foods	24	31
Other	2	–
Total capital investments	\$ 286	\$ 236

**CASH FLOWS USED IN FINANCING ACTIVITIES** Cash flows used in financing activities were \$526 million in the first quarter of 2020, a decrease of \$430 million compared to the same period in 2019. The decrease in cash flows used in financing activities was primarily driven by higher net issuances of long-term debt in the current year and lower repurchases of Loblaw's common shares.

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

#### FREE CASH FLOW<sup>(1)</sup>

(\$ millions) For the periods ended as indicated	12 Weeks Ended		
	Mar. 21, 2020	Mar. 23, 2019 <sup>(4)</sup>	\$ Change
Cash flows from operating activities	\$ 1,760	\$ 1,095	\$ 665
Less: Interest paid	254	266	(12)
Fixed asset and investment properties purchases	192	144	48
Intangible asset additions	94	92	2
Lease payments, net	195	187	8
Free cash flow <sup>(1)</sup>	\$ 1,025	\$ 406	\$ 619

The year-over-year increase in free cash flow<sup>(1)</sup> in the first quarter 2020 was \$619 million, compared to the same period in 2019. The increase in free cash flow<sup>(1)</sup> was primarily driven by a significant sell-through of inventory due to COVID-19 resulting in higher cash earnings and a temporary decrease in inventory balances, and a decrease in income taxes paid.

## 3.2 Liquidity

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

Loblaw expects that cash and cash equivalents, short-term investments, future operating cash flows and the amounts available to be drawn against committed credit facilities will enable it to finance its capital investment program and fund its ongoing business requirements over the next 12 months, including working capital, pension plan funding requirements and financial obligations. President's Choice Bank ("PC Bank") expects to obtain long-term financing for its credit card portfolio through the issuance of *Eagle Credit Card Trust*<sup>®</sup> ("*Eagle*") notes and Guaranteed Investment Certificates ("GICs").

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

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

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

(\$ millions)	As at														
	Mar. 21, 2020					Mar. 23, 2019					Dec. 31, 2019				
	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total	Loblaw	Choice Properties	Weston Foods	Other/ Intersegment	Total
Bank indebtedness	\$ 83	\$ -	\$ -	\$ -	\$ 83	\$ 130	\$ -	\$ -	\$ -	\$ 130	\$ 18	\$ -	\$ -	\$ -	\$ 18
Short-term debt	500	-	-	727	1,227	615	-	-	677	1,292	775	-	-	714	1,489
Long-term debt due within one year	1,128	512	-	-	1,640	787	486	-	-	1,273	1,127	715	-	-	1,842
Long-term debt	6,338	6,051	-	915	13,304	5,876	6,807	-	915	13,598	5,971	5,826	-	915	12,712
Certain other liabilities <sup>(i)</sup>	62	433	-	-	495	49	-	-	-	49	65	435	-	-	500
Fair value of financial derivatives related to the above debt	-	-	-	(559)	(559)	-	-	-	(525)	(525)	-	-	-	(537)	(537)
Total debt excluding lease liabilities	\$ 8,111	\$ 6,996	\$ -	\$ 1,083	\$ 16,190	\$ 7,457	\$ 7,293	\$ -	\$ 1,067	\$ 15,817	\$ 7,956	\$ 6,976	\$ -	\$ 1,092	\$ 16,024
Lease liabilities due within one year <sup>(ii)</sup>	\$ 1,317	\$ 1	\$ 13	\$ (533)	\$ 798	\$ 1,259	\$ 1	\$ 10	\$ (514)	\$ 756	\$ 1,419	\$ 1	\$ 13	\$ (576)	\$ 857
Lease liabilities <sup>(ii)</sup>	\$ 7,738	\$ 5	\$ 58	\$ (3,486)	\$ 4,315	\$ 7,825	\$ 7	\$ 69	\$ (3,653)	\$ 4,248	\$ 7,691	\$ 6	\$ 60	\$ (3,507)	\$ 4,250
Total debt including lease liabilities	\$ 17,166	\$ 7,002	\$ 71	\$ (2,936)	\$ 21,303	\$ 16,541	\$ 7,301	\$ 79	\$ (3,100)	\$ 20,821	\$ 17,066	\$ 6,983	\$ 73	\$ (2,991)	\$ 21,131

(i) Includes financial liabilities of \$433 million (March 23, 2019 - nil; December 31, 2019 - \$435 million) recorded primarily as a result of Choice Properties' portfolio transaction.

(ii) Lease liabilities due within one year of \$3 million (March 23, 2019 - \$3 million; December 31, 2019 - \$4 million) and lease liabilities of \$11 million (March 23, 2019 - \$14 million; December 31, 2019 - \$12 million) relating to GWL Corporate are included under Other and Intersegment.

Management targets credit metrics consistent with those of an investment grade profile. GWL Corporate holds cash and cash equivalents and short-term investments and as a result monitors its leverage on a net debt basis. GWL Corporate has total debt including lease liabilities of \$1,097 million (March 23, 2019 - \$1,084 million; December 31, 2019 - \$1,108 million) and cash and cash equivalents and short-term investments of \$806 million (March 23, 2019 - \$696 million; December 31, 2019 - \$679 million), resulting in a net debt position of \$291 million (March 23, 2019 - \$388 million; December 31, 2019 - \$429 million).

# Management's Discussion and Analysis

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

- Loblaw targets maintaining retail segment credit metrics consistent with those of investment grade retailers. Loblaw monitors the retail segment's debt to rolling year retail adjusted EBITDA<sup>(1)</sup> ratio as a measure of the leverage being employed. Loblaw retail segment debt to rolling year retail adjusted EBITDA<sup>(1)</sup> ratio as at the end of the first quarter of 2020 decreased compared to the first quarter of 2019 and year end 2019 primarily due to improvement in adjusted EBITDA<sup>(1)</sup>, partially offset by an increase in retail debt.
- PC Bank capital management objectives are to maintain a consistently strong capital position while considering the economic risks generated by its credit card receivables portfolio and to meet all regulatory requirements as defined by the Office of the Superintendent of Financial Institutions.

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

**COVENANTS AND REGULATORY REQUIREMENTS** The Company, Loblaw and Choice Properties are required to comply with certain financial covenants for various debt instruments. As at the end of and throughout the first quarter of 2020, the Company, Loblaw and Choice Properties were in compliance with their respective covenants.

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

## 3.3 Components of Total Debt

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

(\$ millions)	Interest Rate	Maturity Date	12 Weeks Ended	
			Mar. 21, 2020	Mar. 23, 2019
			Principal Amount	Principal Amount
Choice Properties senior unsecured debentures				
- Series N	2.98%	March 4, 2030	\$ 400	\$ -
- Series O	3.83%	March 4, 2050	100	-
Total debentures issued			\$ 500	\$ -

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

(\$ millions)	Interest Rate	Maturity Date	12 Weeks Ended	
			Mar. 21, 2020	Mar. 23, 2019
			Principal Amount	Principal Amount
Choice Properties senior unsecured debentures				
- Series 8	3.60%	April 20, 2020	\$ 300	\$ -
- Series E	2.30%	September 14, 2020	250	-
Total debentures repaid			\$ 550	\$ -

Subsequent to the first quarter of 2020, Loblaw agreed to issue, on a private placement basis, \$350 million aggregate principal amount of senior unsecured notes, bearing interest at a rate of 2.284% per annum and maturing on May 7, 2030, which is expected to occur on May 7, 2020. Loblaw intends to use the proceeds to partially fund the repayment of its outstanding \$350 million medium term notes maturing June 18, 2020 and for general corporate purposes.

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

(\$ millions)	Maturity Date	Mar. 21, 2020		As at			
		Available Credit	Drawn	Mar. 23, 2019		Dec. 31, 2019	
				Available Credit	Drawn	Available Credit	Drawn
Loblaw committed credit facility	June 10, 2021	\$ 1,000	\$ 350	\$ 1,000	\$ –	\$ 1,000	\$ –
Choice Properties committed syndicated credit facility	May 4, 2023	1,500	240	1,500	455	1,500	132
Total committed credit facilities		\$ 2,500	\$ 590	\$ 2,500	\$ 455	\$ 2,500	\$ 132

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

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

(\$ millions)	Mar. 21, 2020	As at	
		Mar. 23, 2019	Dec. 31, 2019
Securitized to independent securitization trusts:			
Securitized to <i>Eagle Credit Card Trust</i> <sup>®</sup>	\$ 1,000	\$ 750	\$ 1,000
Securitized to Other Independent Securitization Trusts	500	615	775
Total securitized to independent securitization trusts	\$ 1,500	\$ 1,365	\$ 1,775

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

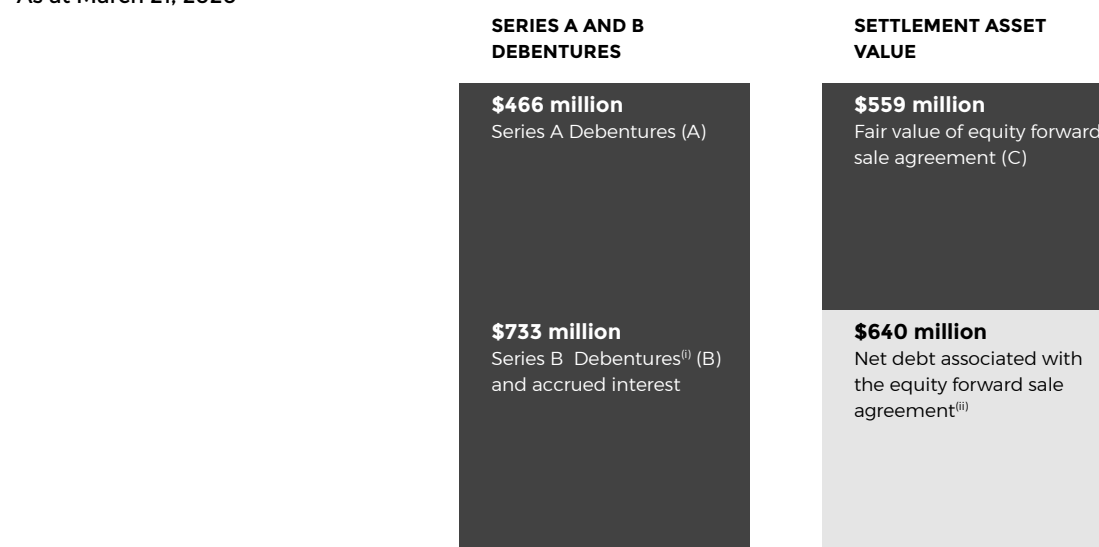
**INDEPENDENT FUNDING TRUSTS** As at the end of the first quarter of 2020, the independent funding trusts had drawn \$511 million (March 23, 2019 - \$530 million; December 31, 2019 - \$505 million) from the revolving committed credit facility that is the source of funding to the independent funding trusts. Loblaw provides credit enhancement in the form of a standby letter of credit for the benefit of the independent funding trusts in the amount of \$64 million (March 23, 2019 and December 31, 2019 - \$64 million), representing not less than 10% (March 23, 2019 and December 31, 2019 - not less than 10%) of the principal amount of loans outstanding.

# Management's Discussion and Analysis

**DEBT ASSOCIATED WITH EQUITY FORWARD SALE AGREEMENT** In 2001, Weston Holdings Limited ("WHL") issued \$466 million of 7.00% Series A Debentures due 2031, which are serviced by the issuance of Series B Debentures. In addition, WHL entered into an equity forward sale agreement with the lender to sell 9.6 million Loblaw common shares at an initial forward sale price of \$48.50 which increases by the interest rates on Series A Debentures and Series B Debentures. As at the end of the first quarter of 2020 the forward rate was \$124.85 (March 23, 2019 – \$119.61; December 31, 2019 – \$123.64) and Series B liability was \$727 million (March 23, 2019 – \$677 million; December 31, 2019 – \$714 million). The Series A Debentures ("A"), Series B Debentures and the accrued interest ("B"), and the fair value of the equity forward sale agreement ("C") should be considered together. At any time, the aggregate value of A, B, and C will be equivalent to the market value of the 9.6 million shares (see chart below). WHL is permitted to settle the transaction in whole or in part, at any time prior to 2031.

Interest charges on Series A Debentures and Series B Debentures are non-cash and accrued at an interest rate of 7% and bankers' acceptance plus 0.50%, respectively and are serviced by the issuance of Series B Debentures. The amount is offset by non-cash forward accretion income associated with the equity forward sale agreement. WHL recognizes a non-cash charge or income, representing the fair value adjustment of the forward sale agreement based on the changes in the value of the underlying 9.6 million Loblaw common shares. WHL has to pay a forward fee of \$5 million (March 23, 2019 – \$6 million; December 31, 2019 – \$20 million) to the lender comprised of servicing fees and estimated dividends associated with the underlying 9.6 million Loblaw common shares.

As at March 21, 2020



Recognized in financial statements

- (i) Included the accrued interest of Series A Debenture and Series B Debenture of \$6 million.
- (ii) Calculated as the bid price of Loblaw of \$66.65 multiplied by 9.6 million Loblaw common shares.

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

(\$ millions)	Maturity Date	As at		
		Mar. 21, 2020	Mar. 23, 2019	Dec. 31, 2019
Series A	2031	\$ 466	\$ 466	\$ 466
Series B	On demand	727	677	714
Fair value of financial derivatives related to the above debt	n/a	(559)	(525)	(537)
Debt associated with equity forward sale agreement		\$ 634	\$ 618	\$ 643
Debtentures	2024 - 2033	450	450	450
Transaction costs and other	n/a	(1)	(1)	(1)
Other and Intersegment debt		\$ 1,083	\$ 1,067	\$ 1,092

### 3.4 Financial Condition

	Mar. 21, 2020	As at	
		Mar. 23, 2019	Dec. 31, 2019
Rolling year adjusted return on average equity attributable to common shareholders of the Company <sup>(1)</sup>	16.7%	13.8%	16.1%
Rolling year adjusted return on capital <sup>(1)</sup>	10.6%	10.4%	10.3%

The rolling year adjusted return on average equity attributable to common shareholders of the Company<sup>(1)</sup> increased as at the end of the first quarter of 2020 compared to the end of the first quarter of 2019 and year end 2019, primarily due to Loblaw earnings growth.

The rolling year adjusted return on capital<sup>(1)</sup> increased as at the end of the first quarter of 2020 compared to the end of the first quarter of 2019 and year end 2019, primarily due to an improvement in tax-affected adjusted operating income<sup>(1)</sup> and an increase in cash and cash equivalents.

### 3.5 Credit Ratings

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

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

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

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

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

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

# Management's Discussion and Analysis

## 3.6 Share Capital

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

(\$ millions except where otherwise indicated)	12 Weeks Ended			
	Mar. 21, 2020		Mar. 23, 2019 <sup>(4)</sup>	
	Number of Common Shares	Common Share Capital	Number of Common Shares	Common Share Capital
Issued and outstanding, beginning of period	153,667,750	\$ 2,809	153,370,108	\$ 2,766
Issued for settlement of stock options	2,813	–	152,499	12
Purchased and cancelled	–	–	(1,625)	–
Issued and outstanding, end of period	153,670,563	\$ 2,809	153,520,982	\$ 2,778
Shares held in trusts, beginning of period	(88,832)	\$ –	(120,305)	\$ –
Purchased for future settlement of RSUs and PSUs	(229,000)	(4)	(50,000)	(1)
Released for settlement of RSUs and PSUs	56,009	–	84,376	1
Shares held in trusts, end of period	(261,823)	\$ (4)	(85,929)	\$ –
Issued and outstanding, net of shares held in trusts, end of period	153,408,740	\$ 2,805	153,435,053	\$ 2,778
Weighted average outstanding, net of shares held in trusts	153,569,698		153,279,008	

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

(\$ millions except where otherwise indicated)	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019 <sup>(4)</sup>
Purchased for future settlement of RSUs and PSUs (number of shares)	229,000	50,000
Purchased for current settlement of RSUs and DSUs (number of shares)	1,090	31,356
Cash consideration paid		
Purchased and held in trusts	\$ (21)	\$ (5)
Purchased and settled	\$ –	\$ (3)
Premium charged to retained earnings		
Purchased and held in trusts	\$ 17	\$ 5

In the second quarter of 2019, GWL renewed its NCIB program to purchase on the Toronto Stock Exchange ("TSX") or through alternative trading systems up to 7,676,458 of its common shares, representing approximately 5% of issued and outstanding common shares. In accordance with the rules of the TSX, the Company may purchase its common shares from time to time at the then market price of such shares. As of March 21, 2020, the Company purchased 504,283 common shares under its current NCIB program.

GWL will file a Notice of Intention to make a NCIB with the TSX upon the expiry of its current NCIB.

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

(\$)	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019
Dividends declared per share <sup>(i)</sup> :		
Common share	\$ 0.525	\$ 0.515
Preferred share:		
Series I	\$ 0.3625	\$ 0.3625
Series III	\$ 0.3250	\$ 0.3250
Series IV	\$ 0.3250	\$ 0.3250
Series V	\$ 0.296875	\$ 0.296875

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

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

(\$)		
Dividends declared per share <sup>(i)</sup>	- Common share	\$ 0.525
	- Preferred share:	
	Series I	\$ 0.3625
	Series III	\$ 0.3250
	Series IV	\$ 0.3250
	Series V	\$ 0.296875

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

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

### 3.7 Off-Balance Sheet Arrangements

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

# Management's Discussion and Analysis

## 4. Quarterly Results of Operations

The Company's year end is December 31. Activities are reported on a fiscal year ending on the Saturday closest to December 31. As a result, the Company's fiscal year is usually 52 weeks in duration but includes a 53rd week every five to six years. Each of the years ended December 31, 2019 and December 31, 2018 contained 52 weeks. The 52-week reporting cycle is divided into four quarters of 12 weeks each except for the third quarter, which is 16 weeks in duration. When a fiscal year such as 2020 contains 53 weeks, the fourth quarter is 13 weeks in duration.

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

### SELECTED QUARTERLY INFORMATION

(\$ millions except where otherwise indicated)	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
	2020 (12 weeks)	2019 (12 weeks)	2019 (12 weeks)	2018 (12 weeks)	2019 (16 weeks)	2018 (16 weeks)	2019 (12 weeks)	2018 (12 weeks)
Revenue	\$ 12,333	\$ 11,173	\$ 12,107	\$ 11,717	\$ 15,226	\$ 14,862	\$ 11,603	\$ 11,245
Operating income	598	586	718	690	884	804	770	589
Adjusted EBITDA <sup>(i)</sup>	1,304	1,158	1,351	1,146	1,661	1,391	1,313	1,073
Depreciation and amortization <sup>(i)</sup>	560	535	548	416	701	530	534	400
Net earnings (loss)	743	(372)	578	412	264	130	353	78
Net earnings (loss) attributable to shareholders of the Company	592	(478)	443	281	83	65	194	38
Net earnings (loss) available to common shareholders of the Company	582	(488)	433	271	69	51	184	28
Net earnings (loss) per common share (\$) - basic	\$ 3.79	\$ (3.18)	\$ 2.82	\$ 1.86	\$ 0.45	\$ 0.40	\$ 1.20	\$ 0.22
Net earnings (loss) per common share (\$) - diluted	\$ 3.78	\$ (3.18)	\$ 2.81	\$ 1.86	\$ 0.44	\$ 0.40	\$ 1.19	\$ 0.21
Adjusted diluted net earnings per common share <sup>(i)</sup> (\$)	\$ 1.55	\$ 1.30	\$ 1.69	\$ 1.59	\$ 2.54	\$ 2.25	\$ 1.70	\$ 1.63
Loblaw's food retail same-store sales growth	9.6%	2.0%	1.9%	0.8%	0.1%	0.9%	0.6%	0.8%
Loblaw's drug retail same-store sales growth	10.7%	2.2%	3.9%	1.9%	4.1%	2.5%	4.0%	1.7%
Average quarterly national food price inflation (as measured by CPI)	2.8%	3.3%	3.7%	1.7%	4.1%	0.3%	3.6%	0.1%
Choice Properties' Funds From Operations per unit - diluted	\$ 0.244	\$ 0.252	\$ 0.237	\$ 0.256	\$ 0.250	\$ 0.253	\$ 0.248	\$ 0.272
Choice Properties' Net Operating Income (cash basis)	\$ 232	\$ 233	\$ 235	\$ 233	\$ 239	\$ 230	\$ 235	\$ 202
Weston Foods sales growth (decline)	3.7%	(0.2)%	3.0%	(3.8)%	1.3%	(5.7)%	2.4%	(8.1)%
Weston Foods sales growth (decline) excluding impact of foreign currency translation	3.7%	(3.1)%	3.2%	(5.9)%	0.6%	(7.3)%	0.2%	(5.7)%

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

**IMPACT OF TRENDS AND SEASONALITY ON QUARTERLY RESULTS** Consolidated quarterly results for the last eight quarters were impacted by the following significant items: foreign currency exchange rates, seasonality and the timing of holidays. Historically, Loblaw seasonality is greatest in the fourth quarter and least in the first quarter. Historically, Weston Foods seasonality is greatest in the third and fourth quarters and least in the first quarter.

The current COVID-19 pandemic has had and continues to have a significant impact on the Company. The Company's first quarter financial results show increased sales, driven by increased demand for essential items in March 2020 following the onset of the crisis in Canada. See Section 7, "COVID-19 Update and Outlook", of this MD&A.

**NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS OF THE COMPANY AND DILUTED NET EARNINGS PER COMMON SHARE** Consolidated quarterly net earnings available to common shareholders of the Company and diluted net earnings per common share for the last eight quarters were impacted by the following items:

- COVID-19 pandemic related impacts. In the first quarter of 2020, net earnings are unusually high compared to the first quarter of 2019 due to COVID-19;
- acquisition-related net synergies;
- underlying operating performance of each of the Company's reportable operating segments;
- the impact of Loblaw's store closure plan; and
- the impact of certain adjusting items as set out in Section 8, "Non-GAAP Financial Measures", of this MD&A, including:
  - the change in fair value adjustment of the Trust Unit liability;
  - Loblaw's charge related to Glenhuron;
  - the change in fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares;
  - restructuring and other related costs;
  - acquisition transaction costs and other related costs;
  - the Loblaw Card Program;
  - Loblaw's spin-out of Choice Properties;
  - Choice Properties' issuance costs;
  - the change in fair value adjustment on investment properties;
  - the remeasurement of deferred tax balances;
  - the statutory corporate income tax rate changes;
  - the wind-down of *PC Financial* personal banking services;
  - certain prior period items;
  - asset impairments, net of recoveries;
  - outside basis difference in certain Loblaw shares;
  - gain or loss on sale of non-operating properties; and
  - the change in foreign currency translation and other company level activities.

## 5. Internal Control Over Financial Reporting

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

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

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

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

# Management's Discussion and Analysis

## 6. Enterprise Risks and Risk Management

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

Loblaw has already taken and will continue to take swift actions to mitigate the effects of COVID-19 on its day-to-day business operations. Loblaw is committed to keeping its grocery stores and pharmacies, including its Shoppers Drug Mart locations, open and restocked, all while ensuring appropriate measures are in place to protect the health and safety of its frontline colleagues. Loblaw established a COVID-19 response team to coordinate critical aspects of crisis management. Loblaw continues to evolve its supply chain contingency planning to ensure that it remains open with ongoing access to food, pharmaceuticals and other essential supplies. Loblaw also continues to assess and mitigate against the risk of temporary or longer-term labour shortages or disruptions, including by commencing recruiting efforts for temporary in-store and distribution centre colleagues. In addition, Loblaw has taken action to reward existing store-level and distribution centre colleagues for their service during this challenging time, by implementing temporary wage increases for these individuals. Additional safety measures at both stores and distribution centres have been taken, including limiting the number of customers in a store at one time and installing plexiglass shields at check-out counters.

Choice Properties has established a COVID-19 response team to coordinate critical aspects of crisis management and has been communicating regularly with tenants. Choice Properties has received a large number of rent deferral requests from tenants across the country and some tenants have withheld rent. Small businesses and independent tenants who have requested such relief, on a case by case basis, have been offered a two-month deferment of rent for April and May. Contingency planning is being advanced from both an operational and financial perspective and appropriate cost-control measures are being implemented. Choice Properties also continues to assess and mitigate against the risk of temporary or longer-term labour shortages or disruptions, including impact on Choice Properties' ongoing development projects. Choice Properties has mandated that employees work from home to the full extent possible, has increased sanitation and health and safety measures at its properties and restricted access to its office buildings.

Weston Foods has and will continue to take action to mitigate the effects of COVID-19 on its day-to-day business operations, taking into consideration the interests of its employees, customers, suppliers and other stakeholders. Management established a COVID-19 response team to coordinate critical aspects of crisis management planning and has taken various actions to date, including significantly increasing health and safety measures at bakery and distribution facilities, mandating that office employees work remotely from home, implementing various steps to ensure the stability of its supply chain and mitigating against the risk of temporary or longer-term labour shortages or disruptions. Weston Foods remains committed to delivering quality products to its foodservice and retail customers. The COVID-19 pandemic has created volatility in consumer demand for certain categories of products in both the retail and foodservice channels, which requires Weston Foods to carefully manage production planning and will, if required, result in temporary facility closures as a result.

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

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

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

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

## 7. COVID-19 Update and Outlook<sup>(3)</sup>

**General** The COVID-19 pandemic continues to have a dramatic impact on the Company's operating segments, colleagues, customers, tenants, suppliers and other stakeholders. While the duration and effects of the pandemic remain unknown, the Company and each of its operating segments has reacted quickly to the changing circumstances.

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

The costs of the incremental investments by Loblaw ramped up towards the end of the first quarter of 2020 and continued into the second quarter. Given the unprecedented nature of the pandemic and its impact on the country, Loblaw expects that consumer behavior and the resulting impact on sales and product mix, as well as the cost of operating the business, will continue to be volatile. In the five weeks following the end of the first quarter, sales mix continued to evolve as customers spent less on discretionary items. On a same-store sales basis, food retail was up by approximately 10% and drug retail down by approximately 6%, in each case compared to the same period in the prior year. Loblaw currently estimates that additional investments are running at approximately \$90 million per period.

As one of Canada's largest landlords, Choice Properties has an important role to play in helping Canadians and their businesses during these unprecedented and challenging times. Choice Properties has assisted qualifying small businesses and independent tenants with a deferral of rent for 60 days, effective April 1, 2020. The amounts deferred for qualifying tenants are due to be repaid over a 12-month period and as of April 22, 2020, were approximately \$5 million of monthly contractual rent. Choice Properties has also been in discussions with those of its larger tenants who have been adversely affected by COVID-19 and is considering rent deferral requests on a case by case basis. As of April 22, 2020, Choice Properties had received 86% of the contractual rents for April.

Choice Properties expects its development initiatives will be impacted by delays due to COVID-19. These delays may impact the completion dates of ongoing development projects, but Choice Properties remains confident that over time, its development initiatives will add high-quality real estate to the portfolio at a reasonable cost.

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

In the first quarter, Weston Foods experienced strong demand for certain categories of products, such as packaged bread and rolls and alternatives in Canada and a decrease in demand in other categories in both its retail and foodservice channels. Consumer behavior is expected to continue to be volatile. As a result of changes in demand, Weston Foods is managing its production planning carefully and will, during this COVID-19 pandemic, temporarily shut down certain bakeries if demand for certain product categories declines. In the four weeks following the end of the first quarter, sales excluding the impact of foreign currency translation were down by 15% and costs increased by approximately \$5 million compared to the same period in the prior year. Weston Foods is taking appropriate actions to emerge from the COVID-19 pandemic with a solid recovery plan based on the actions, processes and investments it has made with its employees, suppliers, customers and other stakeholders in mind.

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

**Liquidity** The Company and its operating segments maintain robust balance sheets and liquidity. As at the end of the first quarter of 2020, the liquidity position of the operating segments was as follows: Loblaw's consolidated cash and short-term investments balance was \$2.2 billion. The aggregate available liquidity at Loblaw was approximately \$3.9 billion including undrawn amounts under committed credit facilities. Subsequent to the first quarter of 2020, Loblaw agreed to issue \$350 million aggregate principal amount of senior unsecured notes, bearing interest at a rate of 2.284% per annum and maturing on May 7, 2030, which is expected to occur on May 7, 2020. Loblaw intends to use the proceeds to partially fund the repayment of its outstanding \$350 million medium term notes maturing June 18, 2020 and for general corporate purposes. Choice Properties had \$1.3 billion of available liquidity under its committed credit facility and refinanced all bond maturities due for the balance of the year. The Company (excluding Loblaw and Choice Properties) had cash and short-term investments of \$0.8 billion with no debt maturities in 2020.

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

# Management's Discussion and Analysis

## 8. Non-GAAP Financial Measures

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

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

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

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

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

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

(unaudited) (\$ millions)	12 Weeks Ended									
	Mar. 21, 2020					Mar. 23, 2019				
	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated	Loblaw	Choice Properties	Weston Foods	Other & Intersegment	Consolidated
Net earnings attributable to shareholders of the Company					\$ 592					\$ (478)
Add impact of the following:										
Non-controlling interests					151					106
Income taxes					113					86
Net interest expense and other financing charges					(258)					872
Operating income	\$ 539	\$ 77	\$ 1	\$ (19)	\$ 598	\$ 449	\$ 223	\$ 10	\$ (96)	\$ 586
Add impact of the following:										
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 119	\$ -	\$ -	\$ -	\$ 119	\$ 119	\$ -	\$ -	\$ -	\$ 119
Fair value adjustment on investment properties	-	148	-	(46)	102	(3)	3	-	16	16
Restructuring and other related costs	19	-	16	-	35	12	-	2	-	14
Fair value adjustment of derivatives	15	-	1	-	16	(2)	-	2	-	-
Acquisition transaction costs and other related costs	-	2	-	-	2	-	4	-	-	4
Pension annuities and buy-outs	-	-	-	-	-	10	-	-	-	10
Gain on sale of non-operating properties	-	-	-	-	-	(8)	-	-	-	(8)
Foreign currency translation and other company level activities	-	(1)	-	1	-	-	-	-	1	1
Adjusting items	\$ 153	\$ 149	\$ 17	\$ (45)	\$ 274	\$ 128	\$ 7	\$ 4	\$ 17	\$ 156
Adjusted operating income	\$ 692	\$ 226	\$ 18	\$ (64)	\$ 872	\$ 577	\$ 230	\$ 14	\$ (79)	\$ 742
Depreciation and amortization excluding the impact of the above adjustments <sup>(i)</sup>	475	1	34	(78)	432	461	-	32	(77)	416
Adjusted EBITDA	\$ 1,167	\$ 227	\$ 52	\$ (142)	\$ 1,304	\$ 1,038	\$ 230	\$ 46	\$ (156)	\$ 1,158

- (i) Depreciation and amortization for the calculation of adjusted EBITDA excludes \$119 million (2019 - \$119 million) of amortization of intangible assets, acquired with Shoppers Drug Mart, recorded by Loblaw and \$9 million (2019 - nil) of accelerated depreciation recorded by Weston Foods, related to restructuring and other related costs.

# Management's Discussion and Analysis

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

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

**Fair value adjustment on investment properties** The Company measures investment properties at fair value. Under the fair value model, investment properties are initially measured at cost and subsequently measured at fair value. Fair value is determined based on available market evidence. If market evidence is not readily available in less active markets, the Company uses alternative valuation methods such as discounted cash flow projections or recent transaction prices. Gains and losses on fair value are recognized in operating income in the period in which they are incurred. Gains and losses from disposal of investment properties are determined by comparing the fair value of disposal proceeds and the carrying amount and are recognized in operating income.

**Restructuring and other related costs** The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, manufacturing assets, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Restructuring activities related to these initiatives are ongoing. For details on the restructuring and other related costs incurred by each of the Company's operating segments see Section 2.1, "Loblaw Operating Results" and Section 2.3, "Weston Foods Operating Results", of this MD&A.

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

**Acquisition transaction costs and other related costs** Choice Properties recorded transaction and other related costs in connection with the acquisition of CREIT.

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

**Gain on sale of non-operating properties** In the first quarter of 2019, Loblaw disposed of non-operating properties to a third party and recorded a gain of \$8 million related to the sale.

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

**ADJUSTED NET INTEREST EXPENSE AND OTHER FINANCING CHARGES** The Company believes adjusted net interest expense and other financing charges is useful in assessing the ongoing net financing costs of the Company.

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

(unaudited) (\$ millions)	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019
Net interest (income) expense and other financing charges	\$ (258)	\$ 872
Add: Fair value adjustment of the Trust Unit liability	504	(582)
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	10	(43)
Adjusted net interest expense and other financing charges	\$ 256	\$ 247

In addition to certain items described in the “Adjusted EBITDA” section above, the following items impacted net interest expense and other financing charges in the first quarters of 2020 and 2019:

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

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

**ADJUSTED INCOME TAXES AND ADJUSTED EFFECTIVE TAX RATE** The Company believes the adjusted effective tax rate applicable to adjusted earnings before taxes is useful in assessing the underlying operating performance of its business.

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

(unaudited) (\$ millions except where otherwise indicated)	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019
Adjusted operating income <sup>(i)</sup>	\$ 872	\$ 742
Adjusted net interest expense and other financing charges <sup>(i)</sup>	256	247
Adjusted earnings before taxes	\$ 616	\$ 495
Income taxes	\$ 113	\$ 86
Add: Tax impact of items excluded from adjusted earnings before taxes <sup>(ii)</sup>	62	47
Outside basis difference in certain Loblaw shares	(14)	–
Statutory corporate income tax rate change	2	–
Adjusted income taxes	\$ 163	\$ 133
Effective tax rate applicable to earnings before taxes	13.2%	(30.1)%
Adjusted effective tax rate applicable to adjusted earnings before taxes	26.5%	26.9 %

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

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

# Management's Discussion and Analysis

In addition to certain items described in the "Adjusted EBITDA" and "Adjusted Net Interest Expense and Other Financing Charges" sections above, the following items impacted income taxes and the effective tax rate in the first quarter of 2020:

**Outside basis difference in certain Loblaw shares** In the first quarter of 2020, the Company recorded deferred tax expense of \$14 million on temporary differences in respect of GWL's investment in certain Loblaw shares that are expected to reverse in the foreseeable future as a result of GWL's participation in Loblaw's NCIB program.

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

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

**ADJUSTED NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS AND ADJUSTED DILUTED NET EARNINGS PER COMMON SHARE** The Company believes that adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

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

(unaudited) (\$ millions except where otherwise indicated)	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019
Net earnings (loss) attributable to shareholders of the Company	\$ 592	\$ (478)
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)
Net earnings (loss) available to common shareholders of the Company	\$ 582	\$ (488)
Less: Reduction in net earnings due to dilution at Loblaw	(1)	(1)
Net earnings (loss) available to common shareholders for diluted earnings per share	\$ 581	\$ (489)
Net earnings (loss) attributable to shareholders of the Company	\$ 592	\$ (478)
Adjusting items (refer to the following table)	(343)	689
Adjusted net earnings attributable to shareholders of the Company	\$ 249	\$ 211
Less: Prescribed dividends on preferred shares in share capital	(10)	(10)
Adjusted net earnings available to common shareholders of the Company	\$ 239	\$ 201
Less: Reduction in net earnings due to dilution at Loblaw	(1)	(1)
Adjusted net earnings available to common shareholders for diluted earnings per share	\$ 238	\$ 200
Diluted weighted average common shares outstanding (in millions)	153.8	153.6

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

	12 Weeks Ended			
	Mar. 21, 2020		Mar. 23, 2019	
(unaudited) (\$ except where otherwise indicated)	Net Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net Earnings Per Common Share	Net (Loss) Earnings Available to Common Shareholders of the Company (\$ millions)	Diluted Net (Loss) Earnings Per Common Share
As reported	\$ 582	\$ 3.78	\$ (488)	\$ (3.18)
Add (deduct) impact of the following <sup>(i)</sup> :				
Amortization of intangible assets acquired with Shoppers Drug Mart	\$ 46	\$ 0.30	\$ 44	\$ 0.29
Fair value adjustment on investment properties	85	0.56	15	0.09
Restructuring and other related costs	18	0.11	6	0.04
Fair value adjustment of derivatives	7	0.05	1	–
Acquisition transaction costs and other related costs	2	0.01	3	0.03
Pension annuities and buy-outs	–	–	4	0.03
Gain on sale of non-operating properties	–	–	(4)	(0.03)
Fair value adjustment of the Trust Unit liability	(504)	(3.28)	582	3.79
Fair value adjustment of the forward sale agreement for 9.6 million Loblaw common shares	(9)	(0.06)	37	0.24
Outside basis difference in certain Loblaw shares	14	0.09	–	–
Statutory corporate income tax change	(2)	(0.01)	–	–
Foreign currency translation and other company level activities	–	–	1	–
Adjusting items	\$ (343)	\$ (2.23)	\$ 689	\$ 4.48
Adjusted	\$ 239	\$ 1.55	\$ 201	\$ 1.30

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

# Management's Discussion and Analysis

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

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

(unaudited) (\$ millions)	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019 <sup>(4)</sup>
Cash flows from operating activities	\$ 1,760	\$ 1,095
Less: Interest paid	254	266
Fixed asset and investment properties purchases	192	144
Intangible asset additions	94	92
Lease payments, net	195	187
Free cash flow	\$ 1,025	\$ 406

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

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

(unaudited) (\$ millions)	12 Weeks Ended	
	Mar. 21, 2020	Mar. 23, 2019
<b>Net income (loss)</b>	\$ 333	\$ (902)
Add (deduct) impact of the following:		
Fair value adjustment on Exchangeable Units	(386)	991
Unit distributions on Exchangeable Units	72	72
Fair value adjustment on investment properties	136	3
Foreign exchange gain	(1)	–
Acquisition transaction costs and other related costs	2	4
Fair value adjustment on investment property held in equity accounted joint ventures	12	(9)
Internal expenses for leasing	2	2
Capitalized interest on equity accounted joint ventures	2	1
Fair value adjustment on unit-based compensation	(1)	7
Funds from Operations	\$ 171	\$ 169

## 9. Forward-Looking Statements

This Quarterly Report, including this MD&A, contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this Quarterly Report include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of IT systems implementations. These specific forward-looking statements are contained throughout this Quarterly Report including, without limitation, in Section 3, "Liquidity and Capital Resources", Section 7, "COVID-19 Update and Outlook", and Section 8, "Non-GAAP Financial Measures", of this MD&A. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "maintain", "achieve", "grow", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2020 is based on certain assumptions, including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

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

- the duration and impact of the COVID-19 pandemic on the business, operations and financial condition of the Company;
- the inability of the Company's IT infrastructure to support the requirements of the Company's business, or the occurrence of any internal or external security breaches, denial of service attacks, viruses, worms and other known or unknown cybersecurity or data breaches;
- changes to the regulation of generic prescription drug prices, the reduction of reimbursements under public drug benefit plans and the elimination or reduction of professional allowances paid by drug manufacturers;
- failure to effectively respond to consumer trends or heightened competition, whether from current competitors or new entrants to the marketplace;
- failure to execute e-commerce initiatives or adapt the business model to the shifts in the retail landscape caused by digital advances;
- failure to realize benefits from investments in the Company's new IT systems;
- failure to realize the anticipated benefits associated with the Company's strategic priorities and major initiatives, including revenue growth, anticipated cost savings and operating efficiencies, or organizational changes that may impact the relationships with franchisees and associates;
- failure to attract and retain talent for key roles that may impact the Company's ability to effectively operate and achieve financial performance goals;
- public health events including those related to food and drug safety;
- errors made through medication dispensing or errors related to patient services or consultation;
- failure to maintain an effective supply chain and consequently an appropriate assortment of available product at store level;

# Management's Discussion and Analysis

- adverse outcomes of legal and regulatory proceedings and related matters;
- failure by Choice Properties to realize the anticipated benefits associated with its strategic priorities and major initiatives, including failure to develop quality assets and effectively manage development, redevelopment, and renovation initiatives;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory or control shrink;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements;
- changes in economic conditions, including economic recession or changes in the rate of inflation or deflation, employment rates and household debt, political uncertainty, interest rates, currency exchange rates or derivative and commodity prices;
- reliance on the performance and retention of third party service providers, including those associated with the Company's supply chain and apparel business, including issues with vendors in both advanced and developing markets;
- changes to any of the laws, rules, regulations or policies applicable to the Company's business;
- the inability of the Company to effectively develop and execute its strategy; and
- the inability of the Company to anticipate, identify and react to consumer and retail trends.

This is not an exhaustive list of the factors that may affect the Company's forward-looking statements. Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including without limitation, the section entitled "Operating and Financial Risks and Risk Management" in the Company's AIF for the year ended December 31, 2019, as well as COVID-19 related risks as described in Section 6, "Enterprise Risks and Risk Management", of this MD&A. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this Quarterly Report. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## 10. Additional Information

Additional information about the Company, including its 2019 AIF and other disclosure documents, has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at [www.sedar.com](http://www.sedar.com).

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

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

Toronto, Canada

May 4, 2020

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**Footnote Legend**

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