INTERIM REPORT

16-week period ended July 6, 2019

3rd Quarter 2019

HIGHLIGHTS

2019 THIRD QUARTER

- **Sales of $5,229.3 million, up 12.8% and up 2.3% when excluding the Jean Coutu Group**
- **Food same-store sales up 3.1%**
- **Pharmacy same-store sales up 3.4%**
- **Net earnings of $222.4 million, up 32.8%**
- **Adjusted net earnings[(1)] of $230.3 million, up 25.6%**
- **Fully diluted net earnings per share of $0.86**
- **Adjusted fully diluted net earnings per share[(1)] of $0.90, up 20.0%**
- **Synergies of $15.7 million related to the Jean Coutu Group acquisition, $61 million on an annualized basis**

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metro

REPORT TO SHAREHOLDERS

Dear Shareholders,

I am pleased to present our interim report for the third quarter of fiscal 2019 ended July 6, 2019.

Sales in the third quarter of fiscal 2019 reached $5,229.3 million, up 12.8% compared to $4,636.4 million in the third quarter of fiscal 2018. Excluding from 2019 and 2018 sales of $965.4 million and $467.0 million, respectively, generated by the Jean Coutu Group, sales were up 2.3%. Food same-store sales were up 3.1% (2.0% in 2018) and inflation in our food basket was approximately 2.5% (0.5% in 2018). Pharmacy same-store sales were up 3.4% (1.8% in 2018), with a 2.9% increase in prescription drugs (number of prescriptions were up 2.7%) and a 4.3% increase in front-store sales.

Third quarter net earnings were $222.4 million in fiscal 2019 compared with $167.5 million in the same quarter of fiscal 2018, an increase of 32.8%, and fully diluted net earnings per share were $0.86 compared with $0.69 in 2018. Taking into account adjustments for the 2019 and 2018 third quarters, primarily items related to the Jean Coutu Group acquisition, adjusted net earnings[(1)] for the third quarter of fiscal 2019 totalled $230.3 million compared with $183.4 million for the corresponding quarter of fiscal 2018, and adjusted fully diluted net earnings per share[(1)] amounted to $0.90 versus $0.75, up 25.6% and 20.0%, respectively.

On August 13, 2019, the Board of Directors declared a quarterly dividend of $0.20 per share, an increase of 11.1% over the dividend declared for the same quarter last year.

We're very pleased with our third quarter results as our key performance indicators all showed progress. We executed well on our business plans while realizing synergies from the acquisition of the Jean Coutu Group, which have now reached $61 million[(3)] on an annualized basis. We're confident that our sustained investments and customer-focused strategies will enable us to reach[(3)] our long-term growth objectives.

Eric R. La Flèche
President and Chief Executive Officer

August 14, 2019

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) sets out the financial position and consolidated results of METRO INC. on July 6, 2019 and for the 16 and 40-week periods then ended. It should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes in this interim report.

The unaudited interim condensed consolidated financial statements for the 16 and 40-week periods ended July 6, 2019 have been prepared by management in accordance with IAS 34 *Interim Financial Reporting*. They should be read in conjunction with the audited annual consolidated financial statements and accompanying notes and the MD&A presented in the Corporation's 2018 Annual Report. Unless otherwise stated, the interim report is based on information as at August 2, 2019.

Additional information, including the Certification of Interim Filings letters for quarter ended July 6, 2019 signed by the President and Chief Executive Officer and the Executive Vice-President, Chief Financial Officer and Treasurer, is also available on the SEDAR website at: www.sedar.com.

OPERATING RESULTS

The Jean Coutu Group (PJC) Inc. ("Jean Coutu Group") acquisition was completed on May 11, 2018, and its results were consolidated with the Corporation's results as of that date. Therefore, the results for the third quarter and the first 40 weeks of 2018 presented herein for comparison purposes include the results of the Jean Coutu Group for slightly more than 8 weeks. In addition, the results for the first quarter of 2018 include significant gains following the disposal of our investment in Alimentation Couche-Tard (ACT).

SALES

Sales in the third quarter of fiscal 2019 reached $5,229.3 million, up 12.8% compared to $4,636.4 million in the third quarter of fiscal 2018. Excluding from 2019 and 2018 sales of $965.4 million and $467.0 million, respectively, generated by the Jean Coutu Group, sales were up 2.3%. Food same-store sales were up 3.1% (2.0% in 2018) and inflation in our food basket was approximately 2.5% (0.5% in 2018). Pharmacy same-store sales were up 3.4% (1.8% in 2018), with a 2.9% increase in prescription drugs (number of prescriptions were up 2.7%) and a 4.3% increase in front-store sales.

Sales in the first 40 weeks of fiscal 2019 totalled $12,908.6 million versus $10,647.2 million for the corresponding period of fiscal 2018, an increase of 21.2%. Excluding from fiscal 2019 and fiscal 2018 sales of $2,408.9 million and $467.0 million, respectively, generated by the Jean Coutu Group, sales were up 3.1%.

OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATES' EARNINGS

This earnings measurement excludes financial costs, taxes, depreciation and amortization, the share of earnings and gain on disposal of investments in associates as well as the gain on revaluation and disposal of an investment at fair value.

Operating income before depreciation and amortization and associates' earnings for the third quarter of fiscal 2019 totalled $423.1 million, or 8.1% of sales, versus $320.3 million, or 6.9% of sales, for the third quarter last year. During the third quarter of fiscal 2018, we recorded a $25.1 million expense related to the Jean Coutu Group acquisition. Excluding this item, adjusted operating income before depreciation and amortization and associates' earnings[(2)] for the third quarter of fiscal 2018 totalled $345.4 million, or 7.4% of sales. This increase was largely driven by the Jean Coutu Group acquisition.

Operating income before depreciation and amortization and associates' earnings for the first 40 weeks of fiscal 2019 totalled $999.9 million or 7.7% of sales compared with $744.6 million or 7.0% of sales for the corresponding period of fiscal 2018. During the first 40 weeks of fiscal 2019, we recorded retail network restructuring expenses of $36.0 million and generated a net gain of $6.0 million on the divestiture of pharmacies while for the same period of fiscal 2018, we recorded a $28.7 million expense related to the Jean Coutu Group acquisition and a $11.4 million expense for distribution network modernization. Excluding those items, adjusted operating income before depreciation and amortization and associates' earnings[(2)] for the first 40 weeks of fiscal 2019 totalled $1,029.9 million or 8.0% of sales, compared with $784.7 million or 7.4% for the corresponding period of fiscal 2018. This increase was largely driven by the Jean Coutu Group acquisition.

[(1)] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[(2)] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[(3)] See section on "Forward-looking Information"

Synergies related to the Jean Coutu acquisition generated for the third quarter and the first 40 weeks of fiscal 2019 amounted to $15.7 million and $40.0 million, respectively, and to date, we have generated annualized synergies of $61 million[3].

Operating income before depreciation and amortization and associates' earnings adjustments (OI)[2]

	16 weeks / Fiscal Year					
	2019			2018		
(Millions of dollars, unless otherwise indicated)	**OI**	**Sales**	***(%)***	OI	Sales	*(%)*
Operating income before depreciation and amortization and associates' earnings	**423.1**	**5,229.3**	**8.1**	320.3	4,636.4	6.9
Business acquisition-related expenses	**—**			25.1		
Adjusted operating income before depreciation and amortization and associates' earnings[2]	**423.1**	**5,229.3**	**8.1**	345.4	4,636.4	7.4

	40 weeks / Fiscal Year					
	2019			2018		
(Millions of dollars, unless otherwise indicated)	**OI**	**Sales**	***(%)***	OI	Sales	*(%)*
Operating income before depreciation and amortization and associates' earnings	**999.9**	**12,908.6**	**7.7**	744.6	10,647.2	7.0
Retail network restructuring expenses	**36.0**			—		
Gain on divestiture of pharmacies	**(6.0)**			—		
Business acquisition-related expenses	**—**			28.7		
Distribution network modernization project expenses	**—**			11.4		
Adjusted operating income before depreciation and amortization and associates' earnings[2]	**1,029.9**	**12,908.6**	**8.0**	784.7	10,647.2	7.4

Gross margin on sales for the third quarter and the first 40 weeks of fiscal 2019 were 19.7% versus 19.4% and 19.6% for the corresponding periods of fiscal 2018.

Operating expenses as a percentage of sales for the third quarter of 2019 were 11.6% versus 12.5% for the corresponding quarter of fiscal 2018 (11.9% excluding $25.1 million expense related to the Jean Coutu Group acquisition). This variation resulted from the inclusion of the Jean Coutu Group partially offset by higher transportation costs.

For the first 40 weeks of fiscal 2019, operating expenses as a percentage of sales was 12.0% compared with 12.6% for the corresponding period of fiscal 2018. Excluding from the first 40 weeks of fiscal 2019 the retail network restructuring expenses of $36.0 million and the $6.0 million net gain generated from the divestiture of pharmacies, and excluding from the same period of fiscal 2018 the $28.7 million expense related to the Jean Coutu Group acquisition and the $11.4 million expense for distribution network modernization, operating expenses as a percentage of sales was 11.8% in 2019 compared with 12.3% in 2018. This difference is attributable to the inclusion of the Jean Coutu Group, partially offset by an increase in the minimum wages, particularly in Ontario, as well as higher transportation costs.

DEPRECIATION AND AMORTIZATION AND NET FINANCIAL COSTS

Total depreciation and amortization expense for the third quarter and first 40 weeks of fiscal 2019 were $88.6 million and $217.9 million respectively versus $74.4 million and $168.5 million for the corresponding period of fiscal 2018. Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition amounted to $11.9 million for the third quarter and $29.7 million for the first 40 weeks of fiscal 2019 compared with $6.0 million for both the third quarter and the first 40 weeks of fiscal 2018.

Net financial costs for the third quarter and the first 40 weeks of fiscal 2019 were $31.8 million and $80.4 million respectively compared with $29.8 million and $56.3 million for the corresponding periods of fiscal 2018. This increase stemmed primarily from the notes issued for the Jean Coutu Group acquisition.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[2] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[3] See section on "Forward-looking Information"

SHARE OF EARNINGS, GAIN ON DISPOSAL OF INVESTMENTS IN ASSOCIATES AND GAIN ON REVALUATION AND DISPOSAL OF AN INVESTMENT AT FAIR VALUE

During the first quarter of fiscal 2019, the Company disposed of its investment in Colo-D Inc., an associate presented in other assets. A $1.0 million selling price adjustment was made during the third quarter, bringing the total cash consideration to $59.0 million. Gains before income taxes of $1.0 million and $36.4 million, respectively, on disposal of this investment were included in the results for the third quarter and the first 40 weeks of fiscal 2019.

During the first quarter of fiscal 2018, to fund a portion of the Jean Coutu Group acquisition, we disposed of most of our investment in ACT, and recorded a gain of $1,107.4 million. As a result of this disposal, the Corporation no longer has significant influence over ACT. Consequently, the investment was revalued at fair value and the Corporation recorded a $225.6 million fair value revaluation gain in net earnings. In the fourth quarter of fiscal 2018, we disposed of the majority of this investment at fair value and entered into a forward agreement with a financial institution for the disposal of the remaining shares. The disposal was completed in the first quarter of fiscal 2019 and the final revaluation of the financial liability resulted in a gain of $1.5 million recognized in net earnings.

No share of an associate's earnings was recorded in the first 40 weeks of fiscal 2019 in comparison with a $30.8 million share recorded in the corresponding period of fiscal 2018.

INCOME TAXES

The income tax expense of $81.3 million for the third quarter of fiscal 2019 represented an effective tax rate of 26.8% compared with an income tax expense of $48.6 million in the third quarter of fiscal 2018 which represented an effective tax rate of 22.5%. The lower rate for the third quarter of fiscal 2018 resulted from tax savings of $9.2 million related to the disposal of the investment in ACT.

The 40-week period income tax expense of $192.5 million for fiscal 2019 and $310.1 million for fiscal 2018 represented an effective tax rate of 26.0% and 16.5% respectively. The low effective rate in 2018 resulted from the gain on disposal of the majority of our investment in ACT and the gain on fair value revaluation and disposal of our residual investment.

NET EARNINGS AND ADJUSTED NET EARNINGS[1]

Net earnings for the third quarter of fiscal 2019 were $222.4 million, an increase of 32.8% from $167.5 million for the third quarter of fiscal 2018, while fully diluted net earnings per share were $0.86, compared with $0.69 for the corresponding quarter of fiscal 2018. Excluding the specific items shown in the table below, adjusted net earnings[1] for the third quarter of fiscal 2019 totalled $230.3 million compared with $183.4 million for the corresponding quarter of fiscal 2018, and adjusted fully diluted net earnings per share[1] amounted to $0.90 versus $0.75, up 25.6% and 20.0%, respectively.

Net earnings for the first 40 weeks of fiscal 2019 were $547.0 million, a decrease of 65.2 % from $1,573.5 million for the corresponding period of fiscal 2018. Fully diluted net earnings per share were $2.12 compared with $6.70 last year, down 68.4%. Excluding the specific items shown in the table below, adjusted net earnings[1] for the first 40 weeks of fiscal 2019 totalled $557.6 million compared with $418.2 million for the corresponding period of fiscal 2018, and adjusted fully diluted net earnings per share[1] amounted to $2.16 versus $1.78, up 33.3% and 21.3%, respectively.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[2] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[3] See section on "Forward-looking Information"

Net earnings adjustments[1]

	16 weeks / Fiscal Year					
	2019		2018		Change (%)	
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**222.4**	**0.86**	167.5	0.69	32.8	24.6
Business acquisition-related expenses, after taxes	**—**		20.1			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**8.8**		4.4			
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**		(4.6)			
Interest on notes issued in connection with a business acquisition, after taxes	**—**		5.2			
Gain on the disposal of investments in associates after taxes	**(0.9)**		(9.2)			
Adjusted net earnings[1]	**230.3**	**0.90**	183.4	0.75	25.6	20.0

	40 weeks / Fiscal Year					
	2019		2018		Change (%)	
	(Millions of dollars)	**Fully diluted EPS (Dollars)**	(Millions of dollars)	Fully diluted EPS (Dollars)	Net earnings	Fully diluted EPS
Net earnings	**547.0**	**2.12**	1,573.5	6.70	(65.2)	(68.4)
Retail network restructuring expenses, after taxes	**26.4**		—			
Gain on divestiture of pharmacies, after taxes	**(4.7)**		—			
Business acquisition-related expenses, after taxes	**—**		22.7			
Distribution network modernization project expenses, after taxes	**—**		8.4			
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**21.9**		4.4			
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**		(15.6)			
Interest on notes issued in connection with a business acquisition, after taxes	**—**		14.0			
Financial costs on the balance payable for the buyout of minority interests, after taxes	**—**		1.3			
Gain on the disposal of investments in associates after taxes	**(31.9)**		(968.1)			
Gain on revaluation and disposal of an investment at fair value, after taxes	**(1.1)**		(195.7)			
Share of an associate's earnings, after taxes	**—**		(26.7)			
Adjusted net earnings[1]	**557.6**	**2.16**	418.2	1.78	33.3	21.3

[1] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[2] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[3] See section on "Forward-looking Information"

QUARTERLY HIGHLIGHTS

(Millions of dollars, unless otherwise indicated)	**2019**	2018	2017	Change *(%)*
Sales				
Q3[6]	**5,229.3**	4,636.4		12.8
Q2[4]	**3,701.6**	2,899.0		27.7
Q1[4]	**3,977.7**	3,111.8		27.8
Q4[5]		3,736.2	3,228.4	15.7
Net earnings				
Q3[6]	**222.4**	167.5		32.8
Q2[4]	**121.5**	106.9		13.7
Q1[4]	**203.1**	1,299.1		(84.4)
Q4[5]		145.0	154.9	(6.4)
Adjusted net earnings[1]				
Q3[6]	**230.3**	183.4		25.6
Q2[4]	**155.1**	108.1		43.5
Q1[4]	**172.2**	126.7		35.9
Q4[5]		161.0	131.1	22.8
Fully diluted net earnings per share ***(Dollars)***				
Q3[6]	**0.86**	0.69		24.6
Q2[4]	**0.47**	0.47		—
Q1[4]	**0.79**	5.67		(86.1)
Q4[5]		0.56	0.66	(15.2)
Adjusted fully diluted net earnings per share[1] ***(Dollars)***				
Q3[6]	**0.90**	0.75		20.0
Q2[4]	**0.60**	0.47		27.7
Q1[4]	**0.67**	0.55		21.8
Q4[5]		0.63	0.56	12.5

[4] 12 weeks
[5] 2018 - 12 weeks, 2017 - 13 weeks
[6] 16 weeks

Sales in the third quarter of fiscal 2019 reached $5,229.3 million, up 12.8% compared to $4,636.4 million in the third quarter of fiscal 2018. Excluding from 2019 and 2018 sales of $965.4 million and $467.0 million, respectively, generated by the Jean Coutu Group, sales were up 2.3%. Food same-store sales were up 3.1% (2.0% in 2018) and inflation in our food basket was approximately 2.5% (0.5% in 2018). Pharmacy same-store sales were up 3.4% (1.8% in 2018), with a 2.9% increase in prescription drugs (number of prescriptions were up 2.7%) and a 4.3% increase in front-store sales.

Sales in the second quarter of fiscal 2019 reached $3,701.6 million, up 27.7% compared to $2,899.0 million in the second quarter of fiscal 2018. Excluding $686.4 million in sales for the second quarter of 2019 resulting from the Jean Coutu Group, sales were up 4.0%. In the second quarter, food same-store sales were up 4.3% and inflation in our food basket was approximately 2.5%. Pharmacy same-store sales were up 1.1%, with a 0.1% decline in prescription drugs (number of prescriptions were up 2.2%) and a 3.6% increase in front-store sales.

Sales in the first quarter of fiscal 2019 reached $3,977.7 million, up 27.8% compared with $3,111.8 million in the first quarter of fiscal 2018. Excluding $757.1 million in sales for the first quarter of 2019 resulting from the Jean Coutu Group, sales were up 3.5%. In the first quarter, food same-store sales were up 3.2% and inflation in our food basket was approximately 1.8%. Pharmacy same-store sales were up 1.5%, 0.8% for prescription drugs (2.2% for number of prescriptions) and 2.0% for front store sales.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[2] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[3] See section on "Forward-looking Information"

Sales in the fourth quarter of fiscal 2018 reached $3,736.2 million, up 15.7% compared with $3,228.4 million in the fourth quarter of fiscal 2017. Excluding $690.7 million in sales for 2018 resulting from the Jean Coutu Group and the 13th week of 2017, sales were up 2.5%. In the fourth quarter, food same-store sales were up 2.1% (up 0.4% in the same quarter of 2017) and our food basket experienced inflation of approximately 0.8%. Pharmacy same-store sales were up 1.8%, 0.7% for prescription drugs (2.5% for number of prescriptions) and 3.9% for front store sales.

Net earnings for the third quarter of fiscal 2019 were $222.4 million, an increase of 32.8% from $167.5 million for the third quarter of fiscal 2018, while fully diluted net earnings per share were $0.86, compared with $0.69 for the corresponding quarter of fiscal 2018. Excluding from the third quarter of 2019 the $1.0 million gain resulting from the selling price adjustment related to the investment in associate Colo-D Inc. and $11.9 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, and excluding from the third quarter of fiscal 2018 $25.1 million expenses related to the Jean Coutu Group acquisition, $6.0 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, $6.3 million in interest income on business acquisition-related short-term investments and security deposits and $7.1 million in interest expense on the notes issued to complete the acquisition, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the third quarter of fiscal 2019 totalled $230.3 million compared with $183.4 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share[(1)] amounted to $0.90 compared with $0.75, up 25.6% and 20.0%, respectively.

Net earnings for the second quarter of fiscal 2019 were $121.5 million, an increase of 13.7% from $106.9 million for the second quarter of fiscal 2018, while fully diluted net earnings per share were $0.47, the same as for the corresponding quarter of fiscal 2018. Excluding from the second quarter of 2019 the retail network restructuring expenses of $36.0 million, the $1.4 million loss on divestiture of pharmacies and $8.8 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, and excluding from the second quarter of fiscal 2018 $1.6 million expenses related to the Jean Coutu Group acquisition, $9.7 million in interest income on business acquisition-related short-term investments and security deposits and $9.8 million in interest expense on the notes issued to complete the acquisition, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the second quarter of fiscal 2019 totalled $155.1 million compared with $108.1 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share[(1)] amounted to $0.60 compared with $0.47, up 43.5% and 27.7%, respectively.

Net earnings for the first quarter of fiscal 2019 were $203.1 million, a decrease of 84.4% from $1,299.1 million for the first quarter of fiscal 2018. Fully diluted net earnings per share decreased by 86.1% to $0.79 from $5.67 in 2018. Excluding from the first quarter of fiscal 2019 the $7.4 million gain on divestiture of pharmacies, $9.0 million in amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, the $35.4 million gain on disposal of the investment in associate Colo-D Inc., and the $1.5 million gain on revaluation and disposal of an investment at fair value, and excluding from the first quarter of fiscal 2018 business acquisition-related expenses of $2.0 million, distribution network modernization project expenses of $11.4 million, the $1,107.4 million gain on disposal of the majority of our investment in ACT, the $225.6 million fair value revaluation gain on our residual investment in ACT, the $30.8 million share of an associate's earnings (ACT), $5.3 million in interest income on business acquisition-related short-term investments and security deposits, $2.2 million in interest expense on the notes issued to complete the acquisition, $1.8 million in financial costs on the balance payable in connection with the buyout of minority interests in Adonis and Phoenicia, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the first quarter of fiscal 2019 totalled $172.2 million compared with $126.7 million for the corresponding quarter of fiscal 2018 and adjusted fully diluted net earnings per share[(1)] amounted to $0.67 compared with $0.55, up 35.9% and 21.8%, respectively.

Net earnings for the fourth quarter of fiscal 2018 were $145.0 million, down 6.4% from $154.9 million for the fourth quarter of fiscal 2017. Fully diluted net earnings per share decreased by 15.2% to $0.56 from $0.66 in 2017. Excluding from the fourth quarter of fiscal 2018, the pharmacy network closure and restructuring expenses of $31.4 million, the amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition of $9.0 million and the gain on revaluation and disposal of an investment at fair value of $15.5 million, and excluding from the fourth quarter of fiscal 2017 the share of an associate's earnings (ACT) of $27.5 million, as well as income taxes relating to all these items, adjusted net earnings[(1)] for the fourth quarter of fiscal 2018 totalled $161.0 million compared with $131.1 million for the corresponding quarter of fiscal 2017 and adjusted fully diluted net earnings per share[(1)] amounted to $0.63 compared with $0.56, up 22.8% and 12.5%, respectively. If net earnings related to the 13th week of the fourth quarter of fiscal 2017 are also excluded, adjusted net earnings[(1)] for the fourth quarter of fiscal 2018 compares with $119.2 million for the corresponding quarter of fiscal 2017 and adjusted fully diluted net earnings per share[(1)] compares with $0.51, up 35.1% and 23.5%, respectively.

[(1)] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[(2)] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[(3)] See section on "Forward-looking Information"

(Millions of dollars)	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
Net earnings	**222.4**	**121.5**	**203.1**	145.0	167.5	106.9	1,299.1	154.9
Retail network restructuring expenses, after taxes	**—**	**26.4**	**—**	—	—	—	—	—
Loss (gain) on divestiture of pharmacies, after taxes	**—**	**0.7**	**(5.4)**	—	—	—	—	—
Pharmacy network closure and restructuring expenses, after taxes	**—**	**—**	**—**	23.0	—	—	—	—
Business acquisition-related expenses, after taxes	**—**	**—**	**—**	—	20.1	1.1	1.5	—
Distribution network modernization project expenses, after taxes	**—**	**—**	**—**	—	—	—	8.4	—
Amortization of intangible assets acquired in connection with the Jean Coutu Group acquisition, after taxes	**8.8**	**6.5**	**6.6**	6.6	4.4	—	—	—
Income on business acquisition-related short-term investments and security deposits, after taxes	**—**	**—**	**—**	—	(4.6)	(7.1)	(3.9)	—
Interest on notes issued in connection with a business acquisition, after taxes	**—**	**—**	**—**	—	5.2	7.2	1.6	—
Financial costs on the balance payable for the buyout of minority interests, after taxes	**—**	**—**	**—**	—	—	—	1.3	—
Gain on disposal of investments in associates, after taxes	**(0.9)**	**—**	**(31.0)**	—	(9.2)	—	(958.9)	—
Gain on revaluation and disposal of an investment at fair value, after taxes	**—**	**—**	**(1.1)**	(13.6)	—	—	(195.7)	—
Share of an associate's earnings, after taxes	**—**	**—**	**—**	—	—	—	(26.7)	(23.8)
Adjusted net earnings[1]	**230.3**	**155.1**	**172.2**	161.0	183.4	108.1	126.7	131.1

(Dollars)	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4
Fully diluted net earnings per share	**0.86**	**0.47**	**0.79**	0.56	0.69	0.47	5.67	0.66
Adjustments impact	**0.04**	**0.13**	**(0.12)**	0.07	0.06	—	(5.12)	(0.10)
Adjusted fully diluted net earnings per share[1]	**0.90**	**0.60**	**0.67**	0.63	0.75	0.47	0.55	0.56

CASH POSITION

OPERATING ACTIVITIES

Operating activities generated cash inflows of $356.4 million in the third quarter and $458.8 for the first 40 weeks of fiscal 2019 compared with $284.8 million and $499.5 for the corresponding periods of fiscal 2018. The difference for the first 40 weeks resulted primarily from the payment in the first quarter of 2019 of taxes payable as at September 29, 2018, which were higher due to the gain realized on the disposal of our investment in ACT in fiscal 2018.

INVESTING ACTIVITIES

Investing activities required cash outflows of $116.4 million for the third quarter of fiscal 2019 compared with $1,922.1 million for the corresponding quarter of fiscal 2018. The difference resulted mainly from the $3,033.0 million business acquisition, net of cash acquired, offset by the release of $1,198.5 million in security deposits from the issuance of Series F, G et H notes in 2018.

[1] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[2] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[3] See section on "Forward-looking Information"

In the first 40 weeks of fiscal 2019, investing activities required cash outflows of $162.4 million compared with cash inflows of $1,884.6 million for the corresponding period of fiscal 2018. This variation stemmed mainly from the $3,033.0 million business acquisition, net of cash acquired, the $221.2 million settlement of the buyout of minority interests in Adonis and Phoenicia, and $1,534.0 million in net proceeds on disposal of the investment in ACT, all in 2018, compared with $59.0 million in proceeds on disposal of the investment in associate Colo-D Inc. in 2019.

During the first 40 weeks of 2019, we and our retailers opened 4 stores and carried out major expansions and renovations of 17 stores, 2 stores were relocated and 6 stores were closed for a net decrease of 60,000 square feet or 0.3% of our food retail network.

FINANCING ACTIVITIES

In the third quarter of 2019, financing activities required cash outflows of $110.0 million compared with cash inflows of $104.3 million in the corresponding quarter of 2018. This difference resulted primarily from a $141.5 million net increase in debt in 2018 and $63.8 million in share repurchases in 2019.

In the first 40 weeks of fiscal 2019, financing activities required cash outflows of $260.0 million compared with cash inflows of $1,355.9 million in the corresponding quarter of fiscal 2018. This difference stemmed primarily from a $1,476.5 million net increase in debt in 2018 owing to the issuance of Series F, G and H notes and to the term credit facility used to partly finance the Jean Coutu Group acquisition.

FINANCIAL POSITION

We do not anticipate[3] any liquidity risk and consider our financial position at the end of the third quarter of 2019 as very solid. We had an unused authorized revolving credit facility of $598.8 million. Our non-current debt represented 30.9% of the combined total of non-current debt and equity (non-current debt/total capital).

At the end of the third quarter of fiscal 2019, the main elements of our non-current debt were as follows:

	Interest Rate	Maturity	Balance *(Millions of dollars)*
Revolving Credit Facility	Rates fluctuate with changes in bankers' acceptance rates	November 3, 2023	1.2
Series E Notes	Rates fluctuate with changes in bankers' acceptance rates	February 27, 2020	400.0
Series C Notes	3.20% fixed rate	December 1, 2021	300.0
Series F Notes	2.68% fixed rate	December 5, 2022	300.0
Series G Notes	3.39% fixed rate	December 6, 2027	450.0
Series B Notes	5.97% fixed rate	October 15, 2035	400.0
Series D Notes	5.03% fixed rate	December 1, 2044	300.0
Series H Notes	4.27% fixed rate	December 4, 2047	450.0

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

Our main financial ratios were as follows:

	As at July 6, 2019	As at September 29, 2018
Financial structure		
Non-current debt *(Millions of dollars)*	**2,635.0**	2,630.4
Equity *(Millions of dollars)*	**5,891.4**	5,656.0
Non-current debt/total capital *(%)*	**30.9**	31.7

	40 weeks / Fiscal Year	
	2019	2018
Results		
Operating income before depreciation and amortization and associates' earnings/Financial costs *(Times)*	**12.4**	13.2

CAPITAL STOCK, STOCK OPTIONS AND PERFORMANCE SHARE UNITS

	As at July 6, 2019	As at September 29, 2018
Number of Common Shares outstanding *(Thousands)*	**253,991**	255,650
Stock options:		
Number outstanding *(Thousands)*	**2,676**	3,067
Exercise prices *(Dollars)*	**20.30 to 48.68**	17.72 to 44.73
Weighted average exercise price *(Dollars)*	**35.17**	30.30
Performance share units:		
Number outstanding *(Thousands)*	**607**	579

BUYOUT OF NON-CONTROLLING INTEREST

The Corporation will acquire the minority interest in Groupe Première Moisson Inc. effective at the end of the current fiscal year. Consequently, the liability for this non-controlling interest has been reclassified in current liabilities.

NORMAL COURSE ISSUER BID PROGRAM

Under the current normal course issuer bid program, the Corporation may repurchase up to 7,000,000 of its Common Shares between November 23, 2018 and November 22, 2019. Between November 23, 2018 and August 2, 2019, the Corporation has repurchased 2,600,000 Common Shares at an average price of 49.07 $, for a total consideration of $127.6 million.

DIVIDENDS

On August 13, 2019, the Corporation's Board of Directors declared a quarterly dividend of $0.20 per Common Share payable on September 25, 2019, an increase of 11.1% over the dividend declared for the same quarter last year.

SHARE TRADING

The value of METRO shares remained in the $39.04 to $51.64 range over the first 40 weeks of fiscal 2019. During this period, a total of 110.8 million shares were traded on the Toronto Stock Exchange. The closing price on August 2, 2019 was $52.15 compared with $40.18 at the end of fiscal 2018.

CONTINGENCY

In the normal course of business, the Corporation is exposed to various contingencies as described in the Corporation's audited annual consolidated financial statements dated September 29, 2018.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

In May 2019, two proposed class actions relating to opioids were filed in Ontario and in Québec against a large group of defendants including a subsidiary of the Corporation, Pro Doc Ltée. The allegations in these proposed class actions are similar to the allegations contained in the proposed class action filed by the province of British Columbia in August 2018 against numerous manufacturers and distributors of opioids, including subsidiaries of the Corporation, Pro Doc Ltée and The Jean Coutu Group (PJC) Inc. These proposed class actions contain allegations of breach of the Competition Act, of fraudulent misrepresentation and deceit, and of negligence. The province of British Columbia seeks damages (unquantified) on behalf of all federal, provincial and territorial governments and agencies for expenses allegedly incurred in paying for opioid prescriptions and other healthcare costs that would be related to opioid addiction and abuse while the Ontario and Québec proposed claims seek recovery of damages on behalf of opioid users directly. The Corporation believes these proceedings are without merit and that, in certain cases, there is no jurisdiction. The above-mentioned subsidiaries of the Corporation are therefore vigorously defending against these proceedings. No accruals or provisions for these matters have been recorded in the interim period condensed consolidated financial statements.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN 2019

Financial instruments
Effective the first quarter of 2019, the Corporation adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted the new classification and valuation, impairment and general hedging requirements on September 30, 2018 by applying the classification and valuation, including impairment, requirements retrospectively, with the cumulative effect of initially applying the standard recognized in opening retained earnings as at September 30, 2018 and without restatement of comparative information.

Classification of financial instruments
The adoption of IFRS 9 changes the Corporation's accounting policies with respect to the classification of financial instruments.

Following adoption, the Corporation's classification is as follows:

- Cash and cash equivalents were classified as "Financial assets at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Accounts receivable and loans to certain customers were classified as "Loans and receivables" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- The investment at fair value was classified as an "Available-for-sale financial asset" before the adoption of IFRS 9 and is now classified as subsequently measured at fair value through other comprehensive income. Accumulated other comprehensive income of $4.9 million was therefore reclassified to retained earnings as at September 30, 2018.
- Bank loans, accounts payable excluding deferred revenues, the revolving credit facility, notes and loans payable were classified as "Other financial liabilities" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Non-controlling interests were classified as "Financial liabilities held for trading" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss. Gains or losses resulting from the revaluation at the end of each period recorded may be recognized in net earnings or retained earnings. The Corporation has elected to record them in retained earnings.
- Derivative financial instruments not designated as hedges were classified as "Financial assets and liabilities at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss.

The changes in classification and measurement criteria resulting from the adoption of IFRS 9 had no impact on the measurement of financial instruments.

Impairment of financial assets
The adoption of IFRS 9 changes the method used to calculate the impairment of accounts receivable and loans to certain customers.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

At each reporting date, the Corporation estimates expected credit losses based on its credit loss history. Those expected loses are adjusted to reflect factors that are specific to the accounts receivable and loans to certain customers, general economic conditions as well as an assessment of both current and forecasted economic conditions at the reporting date, including time value of money when appropriate. The net change in expected credit losses on accounts receivable and loans to certain customers is recognized in net earnings.

The adoption of IFRS 9 had no impact on the impairment of accounts receivable and loans to certain customers.

Hedge accounting
IFRS 9 establishes a new hedge accounting model to align hedge accounting relationships with corresponding risk management activities. The new hedge accounting requirements have not resulted in an adjustment to the Corporation's interim condensed consolidated financial statements.

Revenue from contracts with customers
Effective the first quarter of 2019, the Corporation adopted IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted IFRS 15 retrospectively in accordance with the transitional provisions thereof. The application of IFRS 15 had no impact on the amounts recognized in the Corporation's interim condensed consolidated financial statements, and no amounts have been reclassified or restated.

Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer. Retail sales made by corporate stores and by stores qualifying as structured entities are recognized at the time of sale to the customer, and sales to affiliated or franchised stores and to other customers are recognized when the goods are delivered to them. Rebates granted by the Corporation are recorded as a reduction in sales.

FORWARD-LOOKING INFORMATION

We have used, throughout this report, different statements that could, within the context of regulations issued by the Canadian Securities Administrators, be construed as being forward-looking information. In general, any statement contained herein that does not constitute a historical fact may be deemed a forward-looking statement. Expressions such as "annualize", "pursue", "anticipate" and other similar expressions are generally indicative of forward-looking statements. The forward-looking statements contained herein are based upon certain assumptions regarding the Canadian food industry, the general economy, our annual budget, as well as our 2019 action plan.

These forward-looking statements do not provide any guarantees as to the future performance of the Corporation and are subject to potential risks, known and unknown, as well as uncertainties that could cause the outcome to differ significantly. The arrival of a new competitor is an example described under the "Risk Management" section of the 2018 Annual Report which could have an impact on these statements. We believe these statements to be reasonable and pertinent as at the date of publication of this report and represent our expectations. The Corporation does not intend to update any forward-looking statement contained herein, except as required by applicable law.

NON-IFRS MEASUREMENTS

In addition to the International Financial Reporting Standards (IFRS) earnings measurements provided, we have included certain non-IFRS earnings measurements. These measurements are presented for information purposes only. They do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measurements presented by other public companies.

(1) See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
(2) See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
(3) See section on "Forward-looking Information"

ADJUSTED OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION AND ASSOCIATES' EARNINGS, ADJUSTED NET EARNINGS AND ADJUSTED FULLY DILUTED NET EARNINGS PER SHARE

Adjusted operating income before depreciation and amortization and associates' earnings, adjusted net earnings and adjusted fully diluted net earnings per share are earnings measurements that exclude some items that must be recognized under IFRS. They are non-IFRS measurements. We believe that presenting earnings without these items, which are not necessarily reflective of the Corporation's performance, leaves readers of financial statements better informed as to the current period and corresponding prior year's period's operating earnings, thus enabling them to better perform trend analysis, evaluate the Corporation's financial performance and judge its future outlook. The exclusion of these items does not imply that they are non-recurring.

OUTLOOK

We're very pleased with our third quarter results as our key performance indicators all showed progress. We executed well on our business plans while realizing synergies from the acquisition of the Jean Coutu Group, which have now reached $61 million[(3)] on an annualized basis. We're confident that our sustained investments and customer-focused strategies will enable us to reach[(3)] our long-term growth objectives.

Montréal, August 14, 2019

[(1)] See table on "Net earnings adjustments" and section on "Non-IFRS Measurements"
[(2)] See table on "Operating income before depreciation and amortization and associates' earnings adjustments" and section on "Non-IFRS Measurements"
[(3)] See section on "Forward-looking Information"

Interim Condensed Consolidated Financial Statements

METRO INC.

July 6, 2019

metro

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Condensed consolidated statements of income

Periods ended July 6, 2019 and July 7, 2018

(Unaudited) (Millions of dollars, except for net earnings per share)

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2019	2018	**2019**	2018
Sales	**5,229.3**	4,636.4	**12,908.6**	10,647.2
Cost of sales and operating expenses *(note 3)*	**(4,806.2)**	(4,316.1)	**(11,878.7)**	(9,891.2)
Retail network restructuring expenses *(note 3)*	**—**	—	**(36.0)**	—
Gain on divestiture of pharmacies *(note 3)*	**—**	—	**6.0**	—
Distribution network modernization project expenses *(note 3)*	**—**	—	**—**	(11.4)
Operating income before depreciation and amortization and associates' earnings	**423.1**	320.3	**999.9**	744.6
Depreciation and amortization *(note 3)*	**(88.6)**	(74.4)	**(217.9)**	(168.5)
Financial costs, net *(note 3)*	**(31.8)**	(29.8)	**(80.4)**	(56.3)
Gain on disposal of investments in associates *(note 3)*	**1.0**	—	**36.4**	1,107.4
Gain on revaluation and disposal of an investment at fair value *(note 3)*	**—**	—	**1.5**	225.6
Share of an associate's earnings	**—**	—	**—**	30.8
Earnings before income taxes	**303.7**	216.1	**739.5**	1,883.6
Income taxes *(note 4)*	**(81.3)**	(48.6)	**(192.5)**	(310.1)
Net earnings	**222.4**	167.5	**547.0**	1,573.5
Attributable to:				
Equity holders of the parent	**221.2**	167.4	**544.4**	1,571.7
Non-controlling interests	**1.2**	0.1	**2.6**	1.8
	222.4	167.5	**547.0**	1,573.5
Net earnings per share *(Dollars) (note 5)*				
Basic	**0.87**	0.69	**2.13**	6.74
Fully diluted	**0.86**	0.69	**2.12**	6.70

See accompanying notes

metro

Condensed consolidated statements of comprehensive income

Periods ended July 6, 2019 and July 7, 2018

(Unaudited) (Millions of dollars)

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2019	2018	**2019**	2018
Net earnings	**222.4**	167.5	**547.0**	1,573.5
Other comprehensive income				
Items that will not be reclassified to net earnings				
Changes in defined benefit plans				
Actuarial losses	**(32.4)**	(19.4)	**(85.5)**	(18.3)
Asset ceiling effect	**3.5**	3.9	**4.7**	4.5
Minimum funding requirement	**—**	—	**0.2**	—
Loss on disposal of the investment at fair value *(note 3)*	**—**	—	**(1.3)**	—
Corresponding income taxes	**7.6**	4.3	**21.6**	3.7
	(21.3)	(11.2)	**(60.3)**	(10.1)
Items that will be reclassified later to net earnings				
Fair value revaluation of investment	**—**	(37.5)	**—**	(14.9)
Share of an associate's other comprehensive income	**—**	—	**—**	(3.9)
Corresponding income taxes	**—**	4.9	**—**	2.3
	—	(32.6)	**—**	(16.5)
	(21.3)	(43.8)	**(60.3)**	(26.6)
Comprehensive income	**201.1**	123.7	**486.7**	1,546.9
Attributable to:				
Equity holders of the parent	**199.9**	123.6	**484.1**	1,545.1
Non-controlling interests	**1.2**	0.1	**2.6**	1.8
	201.1	123.7	**486.7**	1,546.9

See accompanying notes

metro

Condensed consolidated statements of financial position

(Unaudited) (Millions of dollars)

	As at July 6, 2019	As at September 29, 2018
ASSETS		
Current assets		
Cash and cash equivalents	**263.3**	226.9
Accounts receivable	**512.3**	538.1
Inventories	**1,089.4**	1,099.1
Prepaid expenses	**48.9**	32.1
Current taxes	**22.6**	20.6
	1,936.5	1,916.8
Non-current assets		
Fixed assets	**2,568.4**	2,523.4
Investment properties	**45.6**	46.1
Intangible assets	**2,883.0**	2,914.4
Goodwill	**3,306.4**	3,302.2
Deferred taxes	**4.8**	4.5
Defined benefit assets	**31.1**	55.1
Investment at fair value *(note 3)*	**—**	66.9
Other assets *(note 3)*	**62.5**	92.8
	10,838.3	10,922.2
LIABILITIES AND EQUITY		
Current liabilities		
Bank loans	**0.1**	0.1
Accounts payable	**1,203.8**	1,358.5
Current taxes	**34.9**	254.8
Provisions *(note 3)*	**14.6**	8.0
Current portion of debt	**11.3**	13.3
Non-controlling interests *(note 7)*	**39.6**	—
	1,304.3	1,634.7
Non-current liabilities		
Debt	**2,635.0**	2,630.4
Defined benefit liabilities	**142.6**	81.3
Provisions *(note 3)*	**34.0**	22.3
Deferred taxes	**818.1**	846.5
Other liabilities	**12.3**	11.7
Non-controlling interests *(note 7)*	**0.6**	39.3
	4,946.9	5,266.2
Equity		
Attributable to equity holders of the parent	**5,877.4**	5,642.8
Attributable to non-controlling interests	**14.0**	13.2
	5,891.4	5,656.0
	10,838.3	10,922.2

See accompanying notes

metro

Condensed consolidated statements of changes in equity

Periods ended July 6, 2019 and July 7, 2018

(Unaudited) (Millions of dollars)

	Attributable to the equity holders of the parent							
	Capital stock *(note 6)*	Treasury shares *(note 6)*	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
Balance as at September 29, 2018	**1,724.1**	**(24.9)**	**20.3**	**3,918.4**	**4.9**	**5,642.8**	**13.2**	**5,656.0**
Net earnings	**—**	**—**	**—**	**544.4**	**—**	**544.4**	**2.6**	**547.0**
Other comprehensive income	**—**	**—**	**—**	**(60.3)**	**—**	**(60.3)**	**—**	**(60.3)**
Comprehensive income	**—**	**—**	**—**	**484.1**	**—**	**484.1**	**2.6**	**486.7**
Stock options exercised	**17.5**	**—**	**(2.6)**	**—**	**—**	**14.9**	**—**	**14.9**
Shares redeemed	**(16.2)**	**—**	**—**	**—**	**—**	**(16.2)**	**—**	**(16.2)**
Share redemption premium	**—**	**—**	**—**	**(101.5)**	**—**	**(101.5)**	**—**	**(101.5)**
Acquisition of treasury shares	**—**	**(5.6)**	**—**	**—**	**—**	**(5.6)**	**—**	**(5.6)**
Share-based compensation cost	**—**	**—**	**7.0**	**—**	**—**	**7.0**	**—**	**7.0**
Performance share units settlement	**—**	**5.8**	**(5.6)**	**(0.2)**	**—**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**(148.1)**	**—**	**(148.1)**	**(1.1)**	**(149.2)**
Adoption of IFRS 9 "Financial instruments" on the investment at fair value *(note 2)*	**—**	**—**	**—**	**4.9**	**(4.9)**	**—**	**—**	**—**
Change in fair value of non-controlling interests liability	**—**	**—**	**—**	**—**	**—**	**—**	**(0.9)**	**(0.9)**
Sale of shares in joint ventures	**—**	**—**	**—**	**—**	**—**	**—**	**0.2**	**0.2**
	1.3	**0.2**	**(1.2)**	**(244.9)**	**(4.9)**	**(249.5)**	**(1.8)**	**(251.3)**
Balance as at July 6, 2019	**1,725.4**	**(24.7)**	**19.1**	**4,157.6**	**—**	**5,877.4**	**14.0**	**5,891.4**

metro

Condensed consolidated statements of changes in equity

Periods ended July 6, 2019 and July 7, 2018

(Unaudited) (Millions of dollars)

	Attributable to the equity holders of the parent							
	Capital stock	Treasury shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total	Non-controlling interests	Total equity
Balance as at September 30, 2017	565.8	(21.9)	19.8	2,343.9	3.5	2,911.1	12.8	2,923.9
Net earnings	—	—	—	1,571.7	—	1,571.7	1.8	1,573.5
Other comprehensive income	—	—	—	(10.1)	(16.5)	(26.6)	—	(26.6)
Comprehensive income	—	—	—	1,561.6	(16.5)	1,545.1	1.8	1,546.9
Shares issued	1,147.9	—	—	(0.2)	—	1,147.7	—	1,147.7
Stock options exercised	10.3	—	(1.6)	—	—	8.7	—	8.7
Acquisition of treasury shares	—	(10.2)	—	—	—	(10.2)	—	(10.2)
Share-based compensation cost	—	—	7.0	—	—	7.0	—	7.0
Performance share units settlement	—	7.2	(7.0)	(0.2)	—	—	—	—
Dividends	—	—	—	(118.8)	—	(118.8)	(4.2)	(123.0)
Change in fair value of non-controlling interests liability	—	—	—	3.1	—	3.1	2.5	5.6
Sale of shares in joint ventures	—	—	—	—	—	—	0.3	0.3
	1,158.2	(3.0)	(1.6)	(116.1)	—	1,037.5	(1.4)	1,036.1
Balance as at July 7, 2018	1,724.0	(24.9)	18.2	3,789.4	(13.0)	5,493.7	13.2	5,506.9

See accompanying notes

metro

Condensed consolidated statements of cash flows

Periods ended July 6, 2019 and July 7, 2018

(Unaudited) (Millions of dollars)

	16 weeks Fiscal Year		40 weeks Fiscal Year	
	2019	2018	**2019**	2018
Operating activities				
Earnings before income taxes	**303.7**	216.1	**739.5**	1,883.6
Non-cash items				
Gain on disposal of investments in associates *(note 3)*	**(1.0)**	—	**(36.4)**	(1,107.4)
Gain on revaluation and disposal of an investment at fair value *(note 3)*	**—**	—	**(1.5)**	(225.6)
Share of an associate's earnings	**—**	—	**—**	(30.8)
Loss (gain) on divestiture of pharmacies *(note 3)*	**—**	—	**(6.0)**	—
Depreciation and amortization	**88.6**	74.4	**217.9**	168.5
Loss (gain) on disposal and write-offs of fixed and intangible assets and investment properties	**—**	0.2	**1.1**	(10.7)
Impairment losses on fixed assets	**0.7**	—	**1.6**	5.8
Impairment loss reversals on fixed assets	**(0.1)**	—	**(0.1)**	—
Share-based compensation cost	**2.9**	2.0	**7.0**	7.0
Difference between amounts paid for employee benefits and current period cost	**1.6**	0.1	**3.1**	0.9
Retail network restructuring expenses (note 3)	**—**	—	**36.0**	—
Distribution network modernization project expenses *(note 3)*	**—**	—	**—**	11.4
Financial costs, net	**31.8**	29.8	**80.4**	56.3
	428.2	322.6	**1,042.6**	759.0
Net change in non-cash working capital items	**56.6**	69.3	**(58.9)**	(50.5)
Interest paid	**(49.9)**	(53.1)	**(103.4)**	(86.2)
Income taxes paid	**(78.5)**	(54.0)	**(421.5)**	(122.8)
	356.4	284.8	**458.8**	499.5
Investing activities				
Business acquisitions, net of cash acquired *(note 2)*	**—**	(3,033.0)	**—**	(3,033.0)
Net proceeds on disposal of investments in associates *(note 3)*	**1.0**	—	**59.0**	1,534.0
Proceeds on divestiture of pharmacies *(note 3)*	**—**	—	**14.0**	—
Security deposits	**—**	1,198.5	**—**	—
Sale of shares in joint ventures	**—**	—	**0.2**	0.1
Buyout of minority interests	**—**	—	**—**	(221.2)
Net change in other assets	**(1.2)**	1.7	**7.7**	2.0
Additions to fixed assets and investment properties	**(107.1)**	(76.9)	**(214.8)**	(172.2)
Disposal of fixed assets and investment properties	**0.4**	—	**0.6**	26.1
Additions to intangible assets	**(9.5)**	(12.4)	**(29.1)**	(20.4)
	(116.4)	(1,922.1)	**(162.4)**	(1,884.6)
Financing activities				
Net change in bank loans	**(0.3)**	0.1	**—**	(0.8)
Shares issued	**3.7**	3.9	**14.9**	8.7
Shares redeemed	**(63.8)**	—	**(117.7)**	—
Acquisition of treasury shares *(note 6)*	**—**	—	**(5.6)**	(10.2)
Increase in debt	**3.9**	757.3	**45.8**	2,168.8
Repayment of debt	**(4.3)**	(615.8)	**(49.9)**	(692.3)
Net change in other liabilities	**1.7**	(0.2)	**0.6**	0.5
Dividends	**(50.9)**	(41.0)	**(148.1)**	(118.8)
	(110.0)	104.3	**(260.0)**	1,355.9
Net change in cash and cash equivalents	**130.0**	(1,533.0)	**36.4**	(29.2)
Cash and cash equivalents — beginning of period	**133.3**	1,652.7	**226.9**	148.9
Cash and cash equivalents — end of period	**263.3**	119.7	**263.3**	119.7

See accompanying notes

1. STATEMENT PRESENTATION

METRO INC. (the Corporation) is a company incorporated under the laws of Québec. One of Canada's leading food and pharmacy retailers and distributors, the Corporation operates a network of supermarkets, discount stores and drugstores. Its head office is located at 11011 Maurice-Duplessis Blvd., Montréal, Québec, Canada, H1C 1V6. Its two business segments, food operations and pharmacy operations, are combined into one reportable operating segment due to the similar nature of their operations.

The unaudited interim condensed consolidated financial statements for the 16 and 40-week periods ended July 6, 2019 have been prepared by management in accordance with IAS 34 *Interim Financial Reporting* and using the same accounting policies and methods of computation as those used in preparing the audited annual consolidated financial statements for the year ended September 29, 2018 except for changes presented in note 2. They should be read in conjunction with the audited annual consolidated financial statements and accompanying notes which were presented in the Corporation's 2018 Annual Report.

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING STANDARDS ADOPTED IN 2019

Financial instruments
Effective the first quarter of 2019, the Corporation adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted the new classification and valuation, impairment and general hedging requirements on September 30, 2018 by applying the classification and valuation, including impairment, requirements retrospectively, with the cumulative effect of initially applying the standard recognized in opening retained earnings as at September 30, 2018 and without restatement of comparative information.

Classification of financial instruments
The adoption of IFRS 9 changes the Corporation's accounting policies with respect to the classification of financial instruments.

Following adoption, the Corporation's classification is as follows:

- Cash and cash equivalents were classified as "Financial assets at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Accounts receivable and loans to certain customers were classified as "Loans and receivables" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- The investment at fair value was classified as an "Available-for-sale financial asset" before the adoption of IFRS 9 and is now classified as subsequently measured at fair value through other comprehensive income. Accumulated other comprehensive income of $4.9 was therefore reclassified to retained earnings as at September 30, 2018.
- Bank loans, accounts payable excluding deferred revenues, the revolving credit facility, notes and loans payable were classified as "Other financial liabilities" before the adoption of IFRS 9 and are now classified as subsequently measured at amortized cost.
- Non-controlling interests were classified as "Financial liabilities held for trading" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss. Gains or losses resulting from the revaluation at the end of each period recorded may be recognized in net earnings or retained earnings. The Corporation has elected to record them in retained earnings.
- Derivative financial instruments not designated as hedges were classified as "Financial assets and liabilities at fair value through profit and loss" before the adoption of IFRS 9 and are now classified as subsequently measured at fair value through profit and loss.

The changes in classification and measurement criteria resulting from the adoption of IFRS 9 had no impact on the measurement of financial instruments.

Impairment of financial assets
The adoption of IFRS 9 changes the method used to calculate the impairment of accounts receivable and loans to certain customers.

At each reporting date, the Corporation estimates expected credit losses based on its credit loss history. Those expected loses are adjusted to reflect factors that are specific to the accounts receivable and loans to certain customers, general economic conditions as well as an assessment of both current and forecasted economic conditions at the reporting date, including time value of money when appropriate. The net change in expected credit losses on accounts receivable and loans to certain customers is recognized in net earnings.

The adoption of IFRS 9 had no impact on the impairment of accounts receivable and loans to certain customers.

Hedge accounting
IFRS 9 establishes a new hedge accounting model to align hedge accounting relationships with corresponding risk management activities. The new hedge accounting requirements have not resulted in an adjustment to the Corporation's interim condensed consolidated financial statements.

Revenue from contracts with customers
Effective the first quarter of 2019, the Corporation adopted IFRS 15, *Revenue from Contracts with Customers*. IFRS 15 replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and related interpretations. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

The Corporation adopted IFRS 15 retrospectively in accordance with the transitional provisions thereof. The application of IFRS 15 had no impact on the amounts recognized in the Corporation's interim condensed consolidated financial statements, and no amounts have been reclassified or restated.

Under IFRS 15, revenue is recognized when control of the goods or services is transferred to the customer. Retail sales made by corporate stores and by stores qualifying as structured entities are recognized at the time of sale to the customer, and sales to affiliated or franchised stores and to other customers are recognized when the goods are delivered to them. Rebates granted by the Corporation are recorded as a reduction in sales.

3. ADDITIONAL INFORMATION ON THE NATURE OF EARNINGS COMPONENTS

	16 weeks Fiscal Year				40 weeks Fiscal Year			
	2019	**%**	2018	%	**2019**	**%**	2018	%
Sales	**5,229.3**		4,636.4		**12,908.6**		10,647.2	
Cost of sales	**(4,197.5)**		(3,737.3)		**(10,361.0)**		(8,555.8)	
Gross margins	**1,031.8**	**19.7**	899.1	19.4	**2,547.6**	**19.7**	2,091.4	19.6
Operating expenses								
Wages and fringe benefits	**(273.0)**		(250.4)		**(681.4)**		(581.8)	
Employee benefits expense	**(25.4)**		(26.3)		**(64.2)**		(62.6)	
Rents and occupancy charges	**(160.5)**		(152.0)		**(402.4)**		(352.1)	
Gain on divestiture of pharmacies	**—**		—		**6.0**		—	
Retail network restructuring expenses	**—**		—		**(36.0)**		—	
Distribution network modernization project expenses	**—**		—		**—**		(11.4)	
Others	**(149.8)**		(150.1)		**(369.7)**		(338.9)	
	(608.7)	**11.6**	(578.8)	12.5	**(1,547.7)**	**12.0**	(1,346.8)	12.6
Operating income before depreciation and amortization and associates' earnings	**423.1**	**8.1**	320.3	6.9	**999.9**	**7.7**	744.6	7.0
Depreciation and amortization								
Fixed assets	**(65.2)**		(57.8)		**(159.6)**		(137.4)	
Investment properties	**(0.2)**		(0.1)		**(0.5)**		(0.1)	
Intangible assets	**(23.2)**		(16.5)		**(57.8)**		(31.0)	
	(88.6)		(74.4)		**(217.9)**		(168.5)	
Financial costs, net								
Current interest	**(0.9)**		(1.1)		**(2.3)**		(3.9)	
Non-current interest	**(32.0)**		(34.9)		**(79.9)**		(74.9)	
Interest on defined benefit obligations net of plan assets	**(0.6)**		(1.0)		**(1.6)**		(2.4)	
Amortization of deferred financing costs	**(0.9)**		(0.8)		**(2.2)**		(1.6)	
Interest income	**2.6**		8.0		**5.7**		26.7	
Passage of time	**—**		—		**(0.1)**		(0.2)	
	(31.8)		(29.8)		**(80.4)**		(56.3)	
Gain on disposal of investments in associates	**1.0**		—		**36.4**		1,107.4	
Gain on revaluation and disposal of an investment at fair value	**—**		—		**1.5**		225.6	
Share of an associate's earnings	**—**		—		**—**		30.8	
Earnings before income taxes	**303.7**		216.1		**739.5**		1,883.6	

During the second quarter of fiscal 2019, the Corporation recorded retail network restructuring expenses of $36.0 before taxes, comprising a $24.9 provision for severance and occupancy costs and a $11.1 provision, netted against assets, for asset and inventory write-offs resulting from the conversion, relocation or closure of a dozen stores.

During the second quarter of fiscal 2019, pursuant to the agreement reached with the Competition Bureau following the Jean Coutu Group acquisition, the Corporation completed the divestiture of rights in the 10 locations where pharmacies are in operation. Consequently, the Corporation recorded in the 40-week period ended July 6, 2019 a $6.0 gain before income taxes following the disposition of leases and buildings and the termination of franchise agreements related to these pharmacies, for a total consideration in cash of $14.0.

During the first quarter of fiscal 2019, the Company disposed of its investment in Colo-D Inc., an associate presented in other assets, for a total cash consideration of $58.0 and a gain of $35.4 before income taxes ($31.0 after income taxes). A selling price adjustment was made during the third quarter, bringing the total cash consideration to $59.0 and the gain before income taxes to $36.4 ($31.9 after taxes).

In addition, during the first quarter of 2019, the Corporation finalized the disposal of the entire investment at fair value in Alimentation Couche Tard Inc. (ACT) for final proceeds of $65.7, an amount of $68.4 was received in the fourth quarter of fiscal 2018 upon entering into a forward agreement. The completion of this agreement following the disposal of the investment resulted in a revaluation gain of $1.5 before income taxes presented in earnings as a gain on revaluation and disposal of an investment at fair value. A loss on disposal of $1.3 before income taxes was recognized in accumulated other comprehensive income.

During the first quarter of fiscal 2018, to fund a portion of the Jean Coutu Group acquisition, the Corporation disposed of most of its investment in ACT, and recorded a gain of $1,107.4. As a result of this disposal, the Corporation no longer has significant influence over ACT. Consequently, the investment was revalued at fair value and the Corporation recorded a $225.6 fair value revaluation gain in net earnings.

4. INCOME TAXES

The effective income tax rates were as follows:

	16 weeks Fiscal Year		40 weeks Fiscal Year	
(Percentage)	**2019**	2018	**2019**	2018
Combined statutory income tax rate	**26.6**	26.7	**26.6**	26.7
Changes				
Gain on disposal of investments in associates *(note 3)*	**—**	(4.2)	**(0.7)**	(8.3)
Gain on revaluation and disposal of an investment at fair value *(note 3)*	**—**	—	**—**	(1.6)
Share of an associate's earnings	**—**	—	**—**	(0.2)
Others	**0.2**	—	**0.1**	(0.1)
	26.8	22.5	**26.0**	16.5

5. NET EARNINGS PER SHARE

Basic net earnings per share and fully diluted net earnings per share were calculated using the following number of shares:

	16 weeks Fiscal Year		40 weeks Fiscal Year	
(Millions)	**2019**	2018	**2019**	2018
Weighted average number of shares outstanding – Basic	**254.6**	242.0	**255.3**	233.2
Dilutive effect under:				
Stock option plan	**0.7**	0.9	**0.8**	1.0
Performance share unit plan	**0.6**	0.6	**0.6**	0.5
Weighted average number of shares outstanding – Fully diluted	**255.9**	243.5	**256.7**	234.7

6. CAPITAL STOCK

COMMON SHARES ISSUED

The Common Shares issued were summarized as follows:

	Number *(Thousands)*	
Balance as at September 30, 2017	227,719	565.8
Shares issued	28,031	1,147.9
Stock options exercised	503	10.4
Balance as at September 29, 2018	**256,253**	**1,724.1**
Shares redeemed for cash, excluding premium of $101.5	**(2,400)**	**(16.2)**
Stock options exercised	**717**	**17.5**
Balance as at July 6, 2019	**254,570**	**1,725.4**

TREASURY SHARES

The treasury shares were summarized as follows:

	Number *(Thousands)*	
Balance as at September 30, 2017	579	(21.9)
Acquisition	250	(10.2)
Release	(226)	7.2
Balance as at September 29, 2018	**603**	**(24.9)**
Acquisition	**115**	**(5.6)**
Release	**(139)**	**5.8**
Balance as at July 6, 2019	**579**	**(24.7)**

The treasury shares are held in trust for the performance share unit plan (PSU). They are released into circulation when the PSUs settle.

Excluding treasury shares from the Common Shares issued, the Corporation had 253,991,000 outstanding Common Shares issued as at July 6, 2019 (255,650,000 as at September 29, 2018).

STOCK OPTION PLAN

The outstanding options were summarized as follows:

	Number	Weighted average exercise price
	(Thousands)	*(Dollars)*
Balance as at September 30, 2017	3,180	26.94
Granted	390	41.16
Exercised	(503)	17.49
Balance as at September 29, 2018	**3,067**	**30.30**
Granted	**416**	**47.56**
Exercised	**(717)**	**20.84**
Cancelled	**(90)**	**40.71**
Balance as at July 6, 2019	**2,676**	**35.17**

The exercise prices of the outstanding options ranged from $20.30 to $48.68 as at July 6, 2019 with expiration dates up to 2026. 1,124,800 of those options could be exercised at a weighted average exercise price of $28.06.

The compensation expense for these options amounted to $0.5 and $1.5 for the 16 and 40-week periods ending July 6, 2019 ($0.7 and $1.6 in 2018).

PERFORMANCE SHARE UNIT PLAN

The number of PSUs outstanding was as follows:

	Number
	(Thousands)
Balance as at September 30, 2017	547
Granted	230
Settled	(193)
Cancelled	(5)
Balance as at September 29, 2018	**579**
Granted	**226**
Settled	**(139)**
Cancelled	**(59)**
Balance as at July 6, 2019	**607**

The compensation expense for the PSU plan amounted to $2.4 and $5.5 for the 16 and 40-week periods ended July 6, 2019 ($1.3 and $5.4 in 2018).

7. CONTINGENCIES

In the normal course of business, the Corporation is exposed to various contingencies as described in the Corporation's audited annual consolidated financial statements dated September 29, 2018.

In May 2019, two proposed class actions relating to opioids were filed in Ontario and in Québec against a large group of defendants including a subsidiary of the Corporation, Pro Doc Ltée. The allegations in these proposed class actions are similar to the allegations contained in the proposed class action filed by the province of British Columbia in August 2018 against numerous manufacturers and distributors of opioids, including subsidiaries of the Corporation, Pro Doc Ltée and The Jean Coutu Group (PJC) Inc. These proposed class actions contain allegations of breach of the Competition Act, of fraudulent misrepresentation and deceit, and of negligence. The province of British Columbia seeks damages (unquantified) on behalf of all federal, provincial and territorial governments and agencies for expenses allegedly incurred in paying for opioid prescriptions and other healthcare costs that would be related to opioid addiction and abuse while the Ontario and Québec proposed claims seek recovery of damages on behalf of opioid users directly. The Corporation believes these proceedings are without merit and that, in certain cases, there is no jurisdiction. The above-mentioned subsidiaries of the Corporation are therefore vigorously defending against these proceedings. No accruals or provisions for these matters have been recorded in the interim period condensed consolidated financial statements.

8. FINANCIAL INSTRUMENTS

The non-current financial instruments' book and fair values, except for non-controlling interests, were as follows:

	As at July 6, 2019		As at September 29, 2018	
	Book value	**Fair value**	Book value	Fair value
Investment at fair value				
Asset measured at fair value through other comprehensive income *(note 3)*	**—**	**—**	66.9	66.9
Other assets				
Amortized cost				
Loans to certain customers	**61.4**	**61.4**	64.5	64.5
Non-controlling interests				
Liability measured at fair value through net earnings	**40.2**	**40.2**	39.3	39.3
Debt				
Liability measured at amortized cost				
Revolving Credit Facility	**1.2**	**1.2**	—	—
Series E Notes	**400.0**	**400.7**	400.0	401.2
Series C Notes	**300.0**	**305.9**	300.0	300.6
Series F Notes	**300.0**	**302.5**	300.0	292.9
Series G Notes	**450.0**	**463.7**	450.0	432.8
Series B Notes	**400.0**	**514.1**	400.0	474.7
Series D Notes	**300.0**	**357.4**	300.0	323.5
Series H Notes	**450.0**	**483.7**	450.0	432.5
Loans	**38.2**	**38.2**	35.2	35.2
	2,639.4	**2,867.4**	2,635.2	2,693.4

The fair value of loans to certain customers, revolving credit facility and loans payable is equivalent to their carrying value since their interest rates are comparable to market rates. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market inputs.

The investment's fair value was measured using the closing quoted bid price of the shares of Alimentation Couche Tard Inc. which are listed on the TSX. The Corporation categorized the fair value measurement in Level 1, as it is derived from quoted prices in active markets.

The fair value of notes represents the obligations that the Corporation would have to meet in the event of the negotiation of similar notes under current market conditions. The Corporation categorized the fair value measurement in Level 2, as it is derived from observable market inputs.

The fair value of the non-controlling interest-related current and non-current liability is equivalent to the estimated price to be paid, which is based mainly on the discounted value of the projected future earnings of Première Moisson and MissFresh, as of the date the options will become exercisable. The Corporation categorized the fair value measurement in Level 3, as it is derived from data that is not observable. During the second quarter of fiscal 2019, the Corporation reclassified as current the liability related to the non-controlling interest in Première Moisson given that under the shareholders' agreement, the Corporation will acquire the minority interest effective at the end of the current fiscal year.

9. APPROVAL OF FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the 16 and 40-week periods ended July 6, 2019 (including comparative figures) were approved for issue by the Board of Directors on August 13, 2019.

INFORMATION

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METRO INC.'s corporate information and press releases
are available on the Internet at the following address: www.metro.ca

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