Loblaw
COMPANIES LIMITED

LOBLAW COMPANIES LIMITED
2010 SECOND QUARTER REPORT TO SHAREHOLDERS

24 WEEKS ENDING JUNE 19, 2010

LOBLAW COMPANIES LIMITED REPORTS SECOND QUARTER 2010 RESULTS

2010 Second Quarter Summary[1]

- Basic net earnings per common share of $0.64, down 8.6%
- EBITDA[2] margin of 6.5%, an increase of 20 basis points from 6.3%
- Sales of $7,317 million, growth of 1.2%
- Same-store sales declined 0.3%

For the periods ended June 19, 2010 and June 20, 2009 (unaudited) ($ millions except where otherwise indicated)	**2010 (12 weeks)**	2009 (12 weeks)	% Change	**2010 (24 weeks)**	2009 (24 weeks)	% Change
Sales	**$ 7,317**	$ 7,233	1.2%	**$ 14,243**	$ 13,951	2.1%
Gross profit	**1,793**	1,689	6.2%	**3,513**	3,303	6.4%
Operating income	**330**	324	1.9%	**590**	550	7.3%
Net earnings	**180**	193	(6.7%)	**317**	302	5.0%
Basic net earnings per common share ($)	**0.64**	0.70	(8.6%)	**1.14**	1.10	3.6%
Same-store sales growth (%)	**(0.3%)**	2.5%		**0.1%**	2.4%	
Operating margin	**4.5%**	4.5%		**4.1%**	3.9%	
EBITDA[2]	**$ 479**	$ 459	4.4%	**$ 891**	$ 817	9.1%
EBITDA margin[2]	**6.5%**	6.3%		**6.3%**	5.9%	

"We continue to make progress on our overall renewal plan," said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. "However, we are now in the critical period of heightened risk for the infrastructure and information technology components of the plan. As previously stated, we expect investments associated with this to continue to negatively impact our operating income during this period".

- Sales in the second quarter of 2010 were positively impacted by 1.9% by the acquisition of T&T Supermarket Inc. ("T&T"), which was completed in the third quarter of 2009.

- In the second quarter of 2010:
  - sales growth in food was flat and in drugstore was modest;
  - sales growth in apparel was strong while sales of other general merchandise declined significantly;
  - gas bar sales increased significantly as a result of higher retail gas prices and strong volume growth; and
  - the Company experienced internal retail food price deflation compared to flat national food price inflation as measured by "The Consumer Price Index for Food Purchased from Stores". The Company's measure showed greater internal retail food price deflation in the second quarter of 2010 than in the first quarter of 2010 and compared to internal retail food price inflation in the second quarter of 2009.

(1) This report contains forward-looking information. See Forward-Looking Statements on page 3 of this report for a discussion of material factors that could cause actual results to differ materially from the conclusions, forecasts and projections herein and of the material factors and assumptions that were used. This report must be read in conjunction with Loblaw Companies Limited's filings with securities regulators made from time to time, all of which can be found at www.sedar.com and at www.loblaw.ca.

(2) See Non-GAAP Financial Measures on page 15 of this report.

- Gross profit increased by $104 million, or 6.2%, to $1,793 million in the second quarter of 2010 compared to the second quarter of 2009. Gross profit as a percentage of sales in the second quarter of 2010 was 24.5% compared to 23.4% in the second quarter of 2009. The increase was primarily attributable to continued buying synergies, disciplined vendor management, improved control label profitability and inventory management and a stronger Canadian dollar, partially offset by investments in pricing.

- Operating income in the second quarter of 2010 included a charge related to the effect of stock-based compensation net of equity forwards of $11 million in 2010 compared with income of $7 million in 2009. The effect on basic net earnings per common share was a charge of $0.02 (2009 – income of $0.03).

- The Company incurred an incremental cost of $41 million in the second quarter of 2010 related to its investment in information technology and supply chain, which negatively impacted basic net earnings per common share by $0.10. Included in these costs was $16 million related to changes in the Company's distribution network in Quebec.

- In connection with the changes to the Company's distribution network, a distribution centre was closed and an asset impairment charge of $23 million was recorded. Basic net earnings per share were negatively impacted by $0.06.

- Operating income and operating margin were positively influenced by improved gross profit, partially offset by the charge related to stock-based compensation net of the equity forwards, the impairment charge related to the closure of the distribution centre and incremental costs related to the investment in information technology and supply chain.

Contents

1 2010 Second Quarter Summary
3 Forward-Looking Statements
5 Management's Discussion and Analysis
17 Consolidated Statements of Earnings
18 Consolidated Statements of Changes in Shareholders' Equity
18 Consolidated Statements of Comprehensive Income
19 Consolidated Balance Sheets
20 Consolidated Cash Flow Statements
21 Notes to the Unaudited Interim Period Consolidated Financial Statements
29 Earnings Coverage Exhibit to the Unaudited Interim Consolidated Financial Statements

Forward-Looking Statements

This Quarterly Report for Loblaw Companies Limited contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects and opportunities. Words such as "anticipate", "expect", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management, are intended to identify forward-looking statements. These forward-looking statements are not historical facts but reflect the Company's current expectations concerning future results and events.

These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, including, but not limited to:

- the possibility that the Company's plans and objectives will not be achieved;
- changes in economic conditions including the rate of inflation or deflation;
- changes in consumer spending and preferences; heightened competition, whether from new competitors or current competitors;
- changes in the Company's or its competitors' pricing strategies;
- failure of the Company's franchised stores to perform as expected;
- risks associated with the terms and conditions of financing programs offered to the Company's franchisees;
- failure of the Company to realize the anticipated benefits of business acquisitions or divestitures;
- failure to realize sales growth, anticipated cost savings or operating efficiencies from the Company's major initiatives, including investments in the Company's information technology systems, supply chain investments and other cost reduction initiatives, or unanticipated results from these initiatives;
- increased costs relating to utilities, including electricity and fuel;
- the inability of the Company to successfully implement its infrastructure and information technology components of its plan;
- the inability of the Company's information technology infrastructure to support the requirements of the Company's business;
- the inability of the Company to manage inventory to minimize the impact of obsolete or excess inventory and to control shrink;
- failure to execute successfully and in a timely manner the Company's introduction of innovative and reformulated products or new and renovated stores;
- the inability of the Company's supply chain to service the needs of the Company's stores;
- failure to achieve desired results in labour negotiations, including the terms of future collective bargaining agreements which could lead to work stoppages;
- changes to the regulatory environment in which the Company operates;
- the adoption of new accounting standards and changes in the Company's use of accounting estimates;
- fluctuations in the Company's earnings due to changes in the value of stock-based compensation and equity forward contracts relating to its Common Shares;
- changes in the Company's tax liabilities including changes in tax laws or future assessments;
- detrimental reliance on the performance of third-party service providers;
- public health events including those relating to food safety;
- changes in interest and currency exchange rates;

- the inability of the Company to collect on its credit card receivables;
- any requirement of the Company to make contributions to its registered funded defined benefit pension plans in excess of those currently contemplated;
- the inability of the Company to attract and retain key executives; and
- supply and quality control issues with vendors.

These and other risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including the Enterprise Risks and Risk Management section of the Management's Discussion and Analysis ("MD&A") included in the Company's 2009 Annual Report – Financial Review. These forward-looking statements reflect management's current assumptions regarding these risks and uncertainties and their respective impact on the Company.

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. 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. The Company disclaims any intention or obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Management's Discussion and Analysis

The following Management's Discussion and Analysis ("MD&A") for Loblaw Companies Limited and its subsidiaries (collectively, the "Company" or "Loblaw") should be read in conjunction with the Company's second quarter 2010 unaudited interim period consolidated financial statements and the accompanying notes included in this Quarterly Report and the audited annual consolidated financial statements and the accompanying notes for the year ended January 2, 2010 and the related annual MD&A included in the Company's 2009 Annual Report – Financial Review. The Company's 2010 unaudited interim period consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. These interim period consolidated financial statements include the accounts of the Company and its variable interest entities ("VIEs") that the Company is required to consolidate in accordance with Accounting Guideline 15, "Consolidation of Variable Interest Entities".

A glossary of terms used throughout this Quarterly Report can be found on page 86 of the Company's 2009 Annual Report – Financial Review. In addition, this Quarterly Report includes the following terms: "rolling year net debt(1) to EBITDA(1)" which is defined as net debt(1) divided by cumulative EBITDA(1) for the latest four quarters; "rolling year return on average net assets(1)", which is defined as cumulative operating income for the latest four quarters divided by average net assets(1); "rolling year return on average shareholders' equity", which is defined as cumulative net earnings available to common shareholders for the latest four quarters divided by average total common shareholders' equity; and "operating working capital", which is defined as the sum of accounts receivable, inventories and prepaid expenses and other assets less accounts payable and accrued liabilities.

The information in this MD&A is current to July 21, 2010, unless otherwise noted.

Results of Operations

Sales Sales for the second quarter increased by 1.2% to $7,317 million compared to $7,233 million in the second quarter of 2009. The following factors explain the major components of the increase:

- T&T sales positively impacted the Company's sales by 1.9%;
- same-store sales decline of 0.3%;
- sales growth in food was flat and in drugstore was modest;
- sales growth in apparel was strong while sales of other general merchandise declined significantly due to reductions in assortment and square footage;
- gas bar sales increased significantly as a result of higher retail gas prices and strong volume growth;
- the Company experienced internal retail food price deflation compared to flat national food price inflation of 0.3% 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. The Company's measure showed greater internal retail food price deflation in the second quarter of 2010 than in the first quarter of 2010 and compared to internal retail food price inflation in the second quarter of 2009; and
- during the second quarter of 2010, net retail square footage remained flat, as 3 stores opened and 6 stores closed. During the last four quarters, 39 stores were opened, including 17 acquired T&T stores, and 32 stores were closed, resulting in a net increase of 0.7 million square feet, or 1.4%.

For the first two quarters of the year, sales increased by 2.1%, or $292 million, to $14,243 million compared to the same period in 2009. The following factors, in addition to the quarterly factors mentioned above, further explain the increase:

- T&T sales positively impacted the Company's sales by 1.9%;
- same-store sales growth of 0.1%; and
- sales and same-store sales growth were positively impacted by approximately 0.3% as a result of a labour disruption during the first quarter of 2009 in certain *Maxi* stores in Quebec. These stores reopened in the first quarter of 2009, except for two stores that were permanently closed.

(1) See Non-GAAP Financial Measures on page 15.

Gross Profit Gross profit increased by $104 million to $1,793 million in the second quarter of 2010 compared to $1,689 million in the second quarter of 2009. Gross profit as a percentage of sales was 24.5% in the second quarter of 2010 compared to 23.4% in the second quarter of 2009. Year-to-date gross profit increased by $210 million to $3,513 million compared to $3,303 in the comparable period of 2009. Year-to-date gross profit as a percentage of sales was 24.7% compared to 23.7% in the comparable period of 2009. In the first two quarters of 2010, the increase in gross profit and gross profit as a percentage of sales was primarily attributable to continued buying synergies, disciplined vendor management, improved control label profitability and inventory management and a stronger Canadian dollar, partially offset by investments in pricing in the second quarter of 2010.

Operating Income Operating income was $330 million for the second quarter of 2010 compared to $324 million in the same period in 2009, an increase of 1.9%. Operating margin was 4.5% for the second quarter of 2010 and the second quarter of 2009. The increase in operating income was primarily due to the increase in gross profit, partially offset by an increase in depreciation and amortization of $14 million, a charge of $11 million (2009 – income of $7 million) related to stock-based compensation net of the equity forwards and incremental costs of $41 million related to the Company's investment in information technology and supply chain. Included in the incremental costs was $16 million of costs related to changes in the Company's distribution network in Quebec. In addition, in connection with the distribution network changes a $23 million asset impairment charge was recorded for the closure of a distribution centre. The second quarter of 2009 was positively impacted by a gain of $8 million from the sale of financial investments by President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company.

EBITDA[(1)] increased by $20 million, or 4.4%, to $479 million in the second quarter of 2010 compared to $459 million in the second quarter of 2009. EBITDA margin[(1)] increased in the second quarter of 2010 to 6.5% from 6.3% in the comparable period of 2009. The increases in EBITDA[(1)] and EBITDA margin[(1)] were primarily due to the increases in gross profit and gross profit as a percentage of sales, partially offset by costs related to changes in the Company's distribution network including the $23 million asset impairment charge.

Year-to-date operating income for 2010 increased by $40 million, or 7.3%, to $590 million, and resulted in an operating margin of 4.1% compared to 3.9% in the comparable period in 2009. The year-to-date increases in operating income and operating margin were primarily due to the increases in gross profit and gross profit as a percentage of sales, partially offset by an increase in depreciation and amortization of $34 million, a charge of $20 million (2009 - $12 million) related to stock-based compensation net of the equity forwards, incremental costs of $69 million related to the Company's investment in information technology and supply chain and the $23 million asset impairment charge recorded in the second quarter of 2010. Year-to-date operating income in 2009 included a gain of $8 million from the sale of financial investments by PC Bank.

Year-to-date EBITDA[(1)] increased by $74 million, or 9.1% to $891 million compared to $817 million in the comparable period in 2009. EBITDA margin[(1)] improved to 6.3% compared to 5.9% for the same period last year. The year-to-date increases in EBITDA[(1)] and EBITDA margin[(1)] were primarily due to the improvements in gross profit and gross profit as a percentage of sales, partially offset by costs related to changes in the Company's distribution network including the $23 million asset impairment charge recorded in the second quarter of 2010.

Interest Expense and Other Financing Charges Interest expense and other financing charges increased to $64 million in the second quarter of 2010 compared to $60 million in the second quarter of 2009 primarily due to lower net short term interest income. Year-to-date interest expense and other financing charges increased to $132 million compared to $121 million in the comparable period of 2009 primarily due to an increase in interest on long term debt and lower net short term interest income.

Income Taxes The effective income tax rate in the second quarter of 2010 was 29.3% (2009 - 25.8%) and 29.9% (2009 – 30.1%) year-to-date. The quarter over quarter increase in the effective income tax rate was primarily due to an increase in the current year income tax expense over the prior year income tax recoveries relating to certain prior year income tax matters and the change in the proportions of taxable income earned across different tax jurisdictions. The year over year decrease in the effective income tax rate was primarily due to the proportions of taxable income earned across different tax jurisdictions which was partially offset by an increase in income tax accruals relating to certain prior year income tax matters.

(1) See Non-GAAP Financial Measures on page 15.

In March 2010, the federal budget proposed changes that impact the tax deductibility of cash-settled stock options. As at June 19, 2010, the Company has $10 million in current and future tax assets relating to outstanding employee stock options that will be expensed when the proposed changes are substantively enacted.

Net Earnings Net earnings for the second quarter of 2010 decreased by $13 million, or 6.7%, to $180 million from $193 million in the second quarter of 2009 and year-to-date increased by $15 million, or 5.0%, to $317 million from $302 million in 2009. Basic net earnings per common share for the second quarter decreased by $0.06, or 8.6%, to $0.64 from $0.70 in the second quarter of 2009 and year-to-date increased by $0.04, or 3.6%, to $1.14 compared to $1.10 for the same period last year.

Basic net earnings per common share were affected in the second quarter of 2010 compared to the second quarter of 2009 by the following:

- a charge of $0.02 (2009 – income of $0.03) per common share for the net effect of stock-based compensation net of equity forwards; and
- a charge of $0.06 (2009 – nil) per common share for the distribution centre asset impairment.

Year-to-date basic net earnings per common share for 2010 compared to the same period in 2009 were affected by the following:

- a charge of $0.04 (2009 –$0.04) per common share for the net effect of stock-based compensation net of equity forwards; and
- a charge of $0.06 (2009 – nil) per common share for the distribution centre asset impairment.

Financial Condition

Financial Ratios The Company's net debt[1] to equity[1] ratio continued to be within the Company's internal guideline of less than 1:1. The net debt[1] to equity[1] ratio was 0.40:1 at the end of the second quarter of 2010 compared to 0.43:1 at year end 2009. The decreases in these ratios at the end of the second quarter of 2010 compared to year end 2009 were primarily due to the decrease in net debt[1] and the increase in cumulative operating income for the latest four quarters. The rolling year net debt[1] to EBITDA[1] ratio was 1.4 times at the end of the second quarter of 2010 compared to 1.7 times at the end of the second quarter of 2009 and 1.6 times at year end 2009.

The interest coverage ratio was 4.2 times for the second quarters of 2010 and 2009. This ratio was unchanged compared to the prior year due to the improvement in year-to-date operating income which was offset by an increase in year-to-date interest expense.

The rolling year return on net assets[1] at the end of the second quarter of 2010 was 12.1%, compared to 11.8% at the end of the second quarter of 2009 and 12.0% at year end 2009. This ratio was positively impacted by the increase in cumulative operating income for the latest four quarters partially offset by the increase in net assets[1]. The rolling year return on shareholders' equity at the end of the second quarter of 2010 was 10.8%, compared to 11.3% at the end of the second quarter of 2009 and 10.9% at year end 2009. This ratio decreased due to the increase in average shareholders' equity partially offset by the increase in cumulate net earnings over the latest four quarters.

Capital Securities 12.0 million non-voting Second Preferred Shares, Series A, are authorized, 9.0 million of which were outstanding at the end of the second quarter of 2010.

First Preferred Shares 1.0 million non-voting First Preferred Shares are authorized, none of which was outstanding at the end of the second quarter of 2010.

Common Share Capital An unlimited number of common shares is authorized, 277,308,711 of which were outstanding at the end of the second quarter of 2010.

Further information on the Company's outstanding share capital is provided in note 13 to the unaudited interim period consolidated financial statements.

(1) See Non-GAAP Financial Measures on page 15.

Dividends During the second quarter of 2010, the Company's Board of Directors declared a dividend of $0.21 per common share with a payment date of July 1, 2010 and $0.37 per Second Preferred Share, Series A payable on July 31, 2010. Subsequent to the end of the second quarter of 2010, the Board declared a quarterly dividend of $0.21 per common share payable on October 1, 2010 and a quarterly dividend of $0.37 per Second Preferred Share, Series A payable on October 31, 2010.

Dividend Reinvestment Plan ("DRIP") During the second quarter of 2010, the Company issued 1,120,453 (2009 – nil) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in net cash savings and incremental common share equity to the Company of approximately $41 million (2009 – nil). Subsequent to the second quarter of 2010, the Company issued 1,122,833 (2009 – 1,163,201) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in net cash savings and incremental common share equity to the Company of approximately $42 million (2009 – $39 million).

Liquidity and Capital Resources

Cash flows from Operating Activities Second quarter cash flows from operating activities were $614 million in 2010 compared to $831 million in the second quarter of 2009. On a year-to-date basis, cash flows from operating activities were $404 million compared to $475 million in the comparable period in 2009. The decreases in cash flows from operating activities were primarily due to the change in non-cash working capital. Also impacting 2009 cash flows from operating activities was a $38 million payment to a counterparty to extinguish a portion of the liability associated with equity forwards by Glenhuron Bank Limited ("Glenhuron"), a wholly owned subsidiary of the Company.

Cash flows used in Investing Activities Second quarter cash flows used in investing activities were $270 million compared to $102 million in the second quarter of 2009. The increase in cash flows used in investing activities in the second quarter was primarily due to an increase in fixed asset purchases and the change in short term investments and security deposits included in other assets. On a year-to-date basis, cash flows used in investing activities were $127 million compared to $132 million in the comparable period in 2009. The year-to-date decrease in cash flows used in investing activities was primarily due to the change in short term investments and a decrease in credit card receivables, partially offset by an increase in fixed asset purchases, the change in security deposits included in other assets and PC Bank's repurchase of $90 million of co-ownership interest in securitized receivables from an independent trust in the first quarter of 2010. Capital investment for the second quarter amounted to $236 million (2009 – $199 million) and $384 million (2009 – $322 million) year-to-date including $19 million, which was financed through a capital lease in the second quarter of 2010. The Company expects to invest approximately $1.0 billion in capital expenditures in 2010.

Cash Flows from (used in) Financing Activities Second quarter cash flows from financing activities were $31 million in 2010 compared to cash flows used in financing activities of $360 million in the second quarter of 2009. The change was primarily due to the issuance of $350 million of 5.22% Medium Term Notes in the second quarter of 2010, the repayment of the Company's short term debt and bank indebtedness in the second quarter of 2009 and the cash savings associated with the DRIP, partially offset by the repayment of the $300 million, 7.10% Medium Term Note in the second quarter of 2010 and the issuance of $350 million of 4.85% Medium Term Notes in the second quarter of 2009. On a year-to-date basis, cash flows from financing activities were $44 million compared to cash flows used in financing activities of $78 million in the comparable period in 2009. The year-to-date change was primarily due to the issuance of $350 million of 5.22% Medium Term Notes in the second quarter of 2010, the repayment of the Company's short term debt and bank indebtedness in the second quarter of 2009, the repayment of the $125 million, 5.75% Medium Term Note in the first quarter of 2009 and the cash savings associated with the DRIP, partially offset by the repayment of the $300 million, 7.10% Medium Term Note in the second quarter of 2010 and the issuance of $350 million at 4.85% Medium Term Notes in the second quarter of 2009.

During the second quarter of 2010, the Company issued $350 million principal amount of 10 year unsecured Medium Term Notes, Series 2-B pursuant to its Medium Term Notes, Series 2 program. Interest on the notes is payable semi-annually at a fixed rate of 5.22%. The notes are unsecured obligations and are redeemable at the option of the Company. In the second quarter of 2009, the Company issued $350 million principal amount of 5 year unsecured Medium Term Notes, Series 2-A which pay a fixed rate of interest of 4.85% payable semi-annually.

During the second quarter of 2010, the $300 million, 7.10% Medium Term Note due May 11, 2010 matured and was repaid. In the first quarter of 2009, the $125 million 5.75% Medium Term Note matured and was repaid.

Net Debt(1) As at June 19, 2010, net debt(1) was $2,665 million compared to $2,783 million as at January 2, 2010. The decrease of $118 million was primarily due to positive cash flows from operating activities partially offset by fixed asset purchases.

Sources of Liquidity

The Company expects that cash and cash equivalents, short term investments, future operating cash flows and the amounts available to be drawn against its credit facility will enable the Company to finance its capital investment program and fund its ongoing business requirements, including working capital, pension plan funding and financial obligations over the next twelve months. In addition, given reasonable access to capital markets, the Company does not foresee any impediments in securing financing to satisfy its long term obligations.

PC Bank participates in bank supported and term securitization programs which provide the primary source of funds for the operation of its business. Under these securitization programs, a portion of the total interest in the credit card receivables is sold to independent trusts. During the first quarter of 2010, PC Bank repurchased $90 million (2009 – nil) of co-ownership interest in securitized receivables from an independent trust. The independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral (June 19, 2010 – $114 million; June 20, 2009 – $124 million; January 2, 2010 – $121 million) as well as standby letters of credit issued (June 19, 2010 – $103 million; June 20, 2009 – $116 million; January 2, 2010 – $116 million) on a portion of the securitized amount. A portion of the securitized receivables that is held by an independent trust facility with a term of 364 days is subject to renewal during the third quarter of 2010. If the facility is not renewed, collections must be accumulated on behalf of the trust prior to the expiry. In the absence of renewal or other securitization, the Company would be required to use its cash and short term investments or raise alternative financing by issuing additional debt or equity instruments.

The Company has traditionally obtained its long term financing primarily through a Medium Term Notes program. The Company may refinance maturing long term debt with Medium Term Notes if market conditions are appropriate or it may consider other alternatives.

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

	Dominion Bond Rating Service		Standard & Poor's	
Credit Ratings (Canadian Standards)	Credit Rating	Trend	Credit Rating	Outlook
Commercial paper	R-2 (middle)	Stable	A-2	Stable
Medium term notes	BBB	Stable	BBB	Stable
Preferred shares	Pfd-3	Stable	P-3 (high)	Stable
Other notes and debentures	BBB	Stable	BBB	Stable

The rating organizations listed above base their credit ratings on quantitative and qualitative considerations. These credit ratings are forward-looking and intended to give an indication of the risk that the Company will not fulfill its obligations in a timely manner.

The Company's and PC Bank's ability to obtain funding from external sources may be restricted by downgrades in the Company's current credit ratings should the Company's financial performance and condition deteriorate. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its financial and other liabilities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, committed lines of credit and diversifying its sources of funding and the maturity profile of its debt and capital obligations.

During the second quarter of 2010, Loblaw renewed its Normal Course Issuer Bid to purchase on the Toronto Stock Exchange ("TSX"), or to enter into equity derivatives to purchase, up to 13,865,435 of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the requirements of the TSX, any purchases must be at the then market prices of such shares. The Company did not purchase any shares under its Normal Course Issuer Bid during the first two quarters of 2010.

(1) See Non-GAAP Financial Measures on page 15.

Independent Funding Trusts

Certain independent franchisees of the Company obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. These trusts are administered by a major Canadian chartered bank.

The gross principal amount of loans issued to the Company's independent franchisees by the independent trusts as at June 19, 2010 was $390 million (June 20, 2009 – $387 million; January 2, 2010 - $390 million) including $178 million (June 20, 2009 – $149 million; January 2, 2010 - $163 million) of loans payable by VIEs consolidated by the Company. The Company has agreed to provide credit enhancement of $66 million (June 20, 2009 – $66 million; January 2, 2010 - $66 million) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 15% of the principal amount of the loans outstanding. This standby letter of credit has never been drawn upon. This credit enhancement allows the independent funding trust to provide financing to the Company's independent franchisees. As well, each independent franchisee provides security to the independent funding trust for its obligations by way of a general security agreement. In the event that an independent franchisee defaults on its loan and the Company has not, within a specified time period, assumed the loan, or the default is not otherwise remedied, the independent funding trust would assign the loan to the Company and draw upon this standby letter of credit.

During the second quarter of 2010, the $475 million, 364-day revolving committed credit facility that is the source of funding to the independent trusts was renewed. The financing structure has been reviewed and the Company determined there were no additional VIEs to consolidate as a result of this financing.

Equity Forward Contracts

As at June 19, 2010, Glenhuron had equity forward contracts to buy 1.5 million (June 20, 2009 – 3.2 million; January 2, 2010 – 1.5 million) of the Company's common shares at an average forward price of $66.73 (June 20, 2009 – $53.82; January 2, 2010 – $66.25) including $10.51 (June 20, 2009 – $9.20; January 2, 2010 – $10.03) per common share of interest expense. As at June 19, 2010, the interest and unrealized market loss of $40 million (June 20, 2009 – $62 million; January 2, 2010 – $48 million) was included in accounts payable and accrued liabilities. In the second quarter of 2009, Glenhuron paid $38 million to a counterparty to terminate a portion of the equity forwards representing 1.6 million shares, which led to the extinguishment of a corresponding portion of the associated liability.

Employee Future Benefit Contributions

During the first two quarters of 2010, the Company contributed $42 million (2009 – $43 million) to its registered funded defined benefit pension plans. The Company expects to contribute $100 million to these plans during 2010. The actual amount paid may vary from the estimate based on actuarial valuations being completed, market performance and regulatory requirements. The Company regularly monitors and assesses plan experience and the impact of changes in participant demographics, changes in capital markets and other economic factors that may impact funding requirements, employee future benefit costs and actuarial assumptions.

Quarterly Results of Operations

Under an accounting convention common in the food distribution industry the Company follows a 52-week reporting cycle which periodically necessitates a fiscal year of 53 weeks. 2008 was a 53-week fiscal year. 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. The following is a summary of selected consolidated financial information derived from the Company's unaudited interim consolidated financial statements for each of the eight most recently completed quarters. This information was prepared in accordance with Canadian GAAP.

Summary of Quarterly Results
(unaudited)

($ millions except where otherwise indicated)	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2010 (12 weeks)	2009 (12 weeks)	2010 (12 weeks)	2009 (12 weeks)	2009 (12 weeks)	2008 (13 weeks – restated)	2009 (16 weeks)	2008 (16 weeks – restated)
Sales	**$ 7,317**	$ 7,233	$ 6,926	$ 6,718	$ 7,311	$ 7,745	$ 9,473	$ 9,493
Net earnings	**$ 180**	$ 193	$ 137	$ 109	$ 165	$ 190	$ 189	$ 157
Net earnings per common share								
Basic ($)	**$ 0.64**	$ 0.70	$ 0.50	$ 0.40	$ 0.60	$ 0.70	$ 0.69	$ 0.57
Diluted ($)	**$ 0.64**	$ 0.70	$ 0.49	$ 0.40	$ 0.59	$ 0.70	$ 0.69	$ 0.57

Sales growth was positive in the second quarter of 2010 compared to the second quarter of 2009. Same-store sales decline in the second quarter of 2010 was 0.3%. Same-store sales growth in the first quarter of 2010 was 0.3%. Sales and same-store sales increased in the second quarter of 2009 and declined in the third and fourth quarters of 2009 compared to 2008. Quarterly same-store sales increases were 2.1% and 2.5% for the first two quarters of 2009 compared to 2008, respectively. Quarterly same-store sales declines were 0.6% and 7.8% for the third and fourth quarters of 2009 compared to 2008, respectively. The acquisition of T&T in the third quarter of 2009 positively impacted the Company's sales by 0.2% and 1.8% for the third and fourth quarters of 2009 compared to 2008, respectively. T&T sales positively impacted the Company's sales by 1.9% in the second quarter of 2010 and 2.0% in the first quarter of 2010 compared to the second and first quarters of 2009, respectively. The sale of the Company's food service business in the fourth quarter of 2008 negatively impacted sales in 2009 compared to 2008 by 0.5% for each of the first three quarters of 2009 and by 0.3% in the fourth quarter of 2009. The extra selling week in the fourth quarter of 2008 negatively impacted sales and same-store sales by approximately 7.0% in the fourth quarter of 2009 compared to 2008. Quarterly sales and same-store sales are also impacted by seasonality and the timing of holidays.

Internal retail food price inflation decreased throughout each of the last six quarters and was lower than national food price inflation as measured by CPI throughout each of the last eight quarters. In the fourth quarter of 2009 and the first and second quarters of 2010, the Company experienced internal retail food price deflation. CPI decreased to 0.3% in the second quarter of 2010 from 7.4% in the second quarter of 2009 and increased to 9.0% in the first quarter of 2009 from 5.4% in the third quarter of 2008. This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods sold in Loblaw stores.

Fluctuations in quarterly net earnings reflect the underlying operations of the Company as well as the impact of a number of specific charges including the impact of stock-based compensation including the equity forwards and costs related to the incremental investment in information technology and supply chain. Since the third quarter of 2008, quarterly net earnings have benefited from the Company's cost reduction initiatives. Earnings in the third and fourth quarters of 2009 and the second quarter of 2010 were pressured by investments in pricing. Quarterly net earnings are also affected by seasonality and the timing of holidays. The impact of seasonality is greatest in the fourth quarter and least in the first quarter.

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 financial statements for external purposes in accordance with Canadian GAAP.

In designing such controls, it should be recognized that due to inherent limitations, any controls, 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 necessarily required to use judgement in evaluating controls and procedures.

Management has evaluated whether there were changes in the Company's internal controls over financial reporting that occurred during the period beginning March 28, 2010 and ended June 19, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Management has determined that no material changes occurred during this period.

Enterprise Risks and Risk Management

Detailed descriptions of the operating and financial risks and risk management strategies are included in the Enterprise Risks and Risk Management Section on page 19 of the MD&A as well as note 26 to the Consolidated Financial Statements included in the Company's 2009 Annual Report – Financial Review. The following is an update to those risks and risk management strategies:

Labour Relations A majority of the Company's store level and distribution centre workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. In 2010, 73 collective agreements affecting approximately 35,000 colleagues will expire including the Company's single largest agreement covering approximately 13,700 colleagues in Ontario which expired in July, 2010. The Company has commenced negotiations for the renewal of the Ontario agreements. During the second quarter a provincial conciliator was appointed to assist the Company and its unions to reach an agreement in Ontario. No agreement was reached and subsequent to the end of the quarter the unions received strike mandates from their members. The Company and union continue to negotiate with the assistance of a provincial mediator. No strike deadlines have been communicated. The negotiations are expected to continue through the third quarter of 2010. There can be no assurance as to the outcome of these negotiations or the timing of their completion. The Company will also continue to negotiate the 66 collective agreements carried over from prior years. Although the Company attempts to mitigate work stoppages and disputes through early negotiations, work stoppages or slowdowns remain possible.

Regulatory Recently, the provincial governments of Ontario, Alberta, Nova Scotia and British Columbia introduced amendments to the regulation of generic prescription drug prices paid by provincial governments pursuant to their public drug benefit plans. Under these amendments, manufacturer costs of generic drugs paid by the provincial drug plans will be reduced and in Ontario the current system of drug manufacturers paying professional allowances to pharmacies will be eliminated. The amendments also reduce the manufacturer costs of generic drugs purchased out-of-pocket or through private employer drug plans. The Company is assessing the potential impact of these amendments and is exploring opportunities throughout the business to mitigate their impact. These changes could have a material impact on the financial results of the Company if it is not able to effectively mitigate the negative impact of the current amendments.

Future Accounting Standards

Business Combinations In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Section 1582, "Business Combinations," which will replace Section 1581 of the same title and issued Sections 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests". These standards will harmonize Canadian GAAP with International Financial Reporting Standards ("IFRS"). The amendments establish principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interests, contingent consideration, and certain acquired contingencies. The amendments also require that acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. The impact of implementing these amendments is currently being assessed.

International Financial Reporting Standards

The Canadian Accounting Standards Board will require all public companies to adopt IFRS for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

Project Status

A detailed description of the Company's IFRS project structure and status is included in section 13.3 "International Financial Reporting Standards" on page 33 of the 2009 annual MD&A included in the Company's 2009 Annual Report – Financial Review.

The IFRS conversion project continues to progress. Targeted training regarding anticipated changes resulting from IFRS implementation continues to be provided to appropriate business units and finance colleagues. In addition, the Company will continue its quarterly and additional IFRS information sessions for the Board of Directors which provide updates on the changes to IFRS standards in 2010, transitional adjustments (including policy choices), implications of IFRS standards to the business, and their impact on the financial statements. The Company also intends to provide an information session to key external stakeholders regarding the impacts of IFRS.

The IFRS conversion project is integrated with the Company's enterprise resource planning system (ERP) implementation. As ERP phases are deployed, the Company is ensuring that the requirements of IFRS adoption are incorporated.

The Company has commenced integration of IFRS into certain business processes to ensure that it will be ready to address the broader impact of IFRS on its business. For instance, the implementation of IFRS is expected to have an impact on financial metrics that are used in calculating the Company's financial covenants under certain of its debt agreements. These debt agreements provide for adjustments to the covenants to neutralize the impact of the transition to IFRS. The Company will be working with the lenders under these debt agreements to formalize the required adjustments in conjunction with the implementation of IFRS. To the extent that the Company and its lenders under these agreements are unable to agree upon the covenant adjustments, the existing covenants will continue to apply and will be calculated on the basis of Canadian GAAP as it exists immediately prior to the conversion to IFRS. The Company has also commenced the education process to enable the integration of IFRS adjustments into its budgeting and internal reporting processes.

Key milestones for the remainder of the year which are in line with our original plan include: completion of the opening transitional balance sheet, compilation of the quarterly financial statements and changes to the Company's internal controls over financial reporting, which may include enhancement of existing controls or the design and implementation of new controls. The Company continues to progress on its IFRS transition plan as expected except for the finalization of the documentation of internal controls related to accounting policy changes which is now expected to be completed in the fourth quarter of 2010.

The information below is provided as an update to allow investors and others to obtain a better understanding of the possible effects on the Company's consolidated financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose and the information is subject to change.

Changes in Accounting Policies and First-Time Adoption of IFRS

The Company continues to assess the aggregate effect of adopting IFRS, and the relevant changes in accounting policies. The changes identified below should not be regarded as a complete list of changes that will result from the transition to IFRS as it is intended to highlight those areas where significant progress has been made and that are believed to be most significant at this point in the project. The International Accounting Standards Board has significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS and their impact on the Company's consolidated financial statements. Therefore, the Company's analysis of changes and accounting policy decisions have been made based on the accounting standards that are currently effective.

The adoption of IFRS will require the application of IFRS 1, "First Time Adoption of IFRS" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of all IFRS effective at the reporting date, with the exception of certain mandatory exceptions and limited optional exemptions provided in the standard.

The Company is currently assessing the quantitative impact of the transitional adjustments on the consolidated financial statements as a result of changes in accounting policies as well as the certain IFRS 1 elections and exemptions, and has provided preliminary indication as to the impact of certain standards, elections and exemptions in the 2009 annual MD&A. The impacts provided below represent updates to those provided in the 2009 annual MD&A. As further impacts are determined throughout 2010, additional updates will be provided:

Securitization of Receivables International Accounting Standard ("IAS") 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"), contains criteria that are different from Canadian GAAP for the derecognition of financial assets and requires an evaluation of the extent to which an entity retains the risks and rewards of ownership. Under Canadian GAAP these financial assets qualify for sale treatment. The Company has determined that under IFRS certain securitized credit card receivables will not qualify for derecognition. The Company expects to record, upon implementation of IFRS, an increase in credit card receivables of approximately $1.2 billion before the provision for loan losses. The quantification of the provision for the loan loss has commenced during the second quarter of 2010.

Under IAS 27, "Consolidated and Separate Financial Statements" and Standing Interpretations Committee 12, "Consolidation – Special Purpose Entities" consolidation is assessed using a control model. Under IFRS, Eagle Credit Card Trust, the independent trust that funds the purchase of asset interests from PC Bank through the issuance of notes, will be consolidated resulting in an increase of approximately $500 million of credit card receivables before the provision for loan losses. The quantification of the provision for the loan loss has commenced during the second quarter of 2010.

Employee Benefits IAS 19 "Employee Benefits" provides a policy choice regarding recognition of actuarial gains and losses for defined benefit pension plans and post retirement benefit plans, permitting deferred recognition using the corridor method or immediate recognition in either other comprehensive income within equity or through earnings. Under Canadian GAAP the Company applies the corridor method. Upon adoption of IFRS the Company currently intends to recognize actuarial gains and losses immediately through other comprehensive income within equity for defined benefit pension plans and post retirement benefit plans and through earnings for post employment and long term disability benefit plans.

In addition, IFRS 1 provides an optional election, which the Company expects to apply, that will result in the recognition of all cumulative actuarial gains and losses through retained earnings on transition to IFRS. The Company's choice must be applied to all defined benefit pension plans and other benefit plans consistently. As a result of this election the Company has engaged its external actuaries to quantify this amount and will reclassify the unamortized net actuarial loss to retained earnings on transition to IFRS.

Hedging Relationships IAS 39 requires the incorporation of credit value adjustments in the measurement of effectiveness and ineffectiveness of a hedging relationship. Glenhuron has entered into cross-currency and interest rate swaps which were designated as effective cash flow hedging relationships under Canadian GAAP. Certain tranches of the swaps that were part of the hedging relationship have expired in 2010 and will continue to expire up to mid-2011. For this hedging relationship, the Company has concluded to not assess hedge effectiveness under IFRS which will result in de-recognition at the date of transition to IFRS. A transitional adjustment of approximately $17 million from accumulated other comprehensive income to retained earnings will be recorded.

Impairment of Assets IAS 36 requires that assets be tested for impairment at the level of cash generating units (CGU), which are defined as the lowest level of assets that generate largely independent cash inflows. The Company has completed its analysis and concluded that the cash generating unit will predominantly be an individual store compared to Canadian GAAP where store net cash flows are grouped together by primary market areas, where they are largely dependent on each other. The Company has also completed the assessment of the events triggering potential impairments (including potential reversals of impairments) and is in the process of determining the fair value and value in use of these CGUs.

Enterprise Resource Planning System Implementation

On July 18, 2010, the Company implemented the second phase of its enterprise resource planning system which involved integrating its general ledger and related reporting for finance across the business and launching additional functionality including its Corporate Administrative function's accounts payable and marketing procurement processes.

Outlook[1]

The Company continues to make progress on its overall renewal plan. As it has just entered the critical period of heightened risk for the infrastructure and information technology components of the plan, the Company continues to expect associated investments to negatively impact operating income during this period. For the remainder of 2010, the Company expects sales and margins will remain challenged by deflation and increased competitive intensity.

Additional Information

Additional information about the Company has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and is available online at www.sedar.com and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator of the Company's subsidiary, PC Bank.

Non-GAAP Financial Measures

The Company uses the following non-GAAP financial measures: EBITDA and EBITDA margin, net debt, rolling year net debt to EBITDA, net debt to equity and rolling year return on average net assets. The Company believes these non-GAAP financial measures provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below. These measures do not have a standardized meaning prescribed by Canadian 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 Canadian GAAP.

EBITDA and EBITDA Margin The following table reconciles earnings before minority interest, income taxes, interest expense, depreciation and amortization ("EBITDA") to operating income, which is reconciled to Canadian GAAP net earnings measures reported in the unaudited interim period consolidated statements of earnings for the twelve and twenty-four week periods ended June 19, 2010 and June 20, 2009. EBITDA is useful to management in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to fund cash requirements, including the Company's capital investment program.

EBITDA margin is calculated as EBITDA divided by sales.

($ millions)	**2010 (12 weeks)**	2009 (12 weeks)	**2010 (24 weeks)**	2009 (24 weeks)
Net earnings	**$ 180**	$ 193	**$ 317**	$ 302
Add (deduct) impact of the following:				
Minority interest	**8**	3	**4**	(2)
Income taxes	**78**	68	**137**	129
Interest expense and other financing charges	**64**	60	**132**	121
Operating income	**330**	324	**590**	550
Add impact of the following:				
Depreciation and amortization	**149**	135	**301**	267
EBITDA	**$ 479**	$ 459	**$ 891**	$ 817

Net Debt The following table reconciles net debt used in the net debt to equity and the rolling year net debt to EBITDA ratios to Canadian GAAP measures reported as at the periods ended as indicated. The Company calculates net debt as the sum of bank indebtedness, short term debt, long term debt, certain other liabilities and the fair value of financial derivatives less cash and cash equivalents, short term investments, security deposits included in other assets and the fair value of financial derivatives. The Company believes that this measure is useful in assessing the amount of financial leverage employed.

(1) To be read in conjunction with "Forward-Looking Statements" on page 3.

($ millions)	As at June 19, 2010	As at June 20, 2009	As at January 2, 2010
Bank indebtedness	**$ 8**	$ 1	$ 2
Long term debt due within one year	**403**	340	343
Long term debt	**4,169**	4,091	4,162
Other liabilities	**37**	–	36
Fair value of financial derivatives related to the above	**49**	56	58
	4,666	4,488	4,601
Less: Cash and cash equivalents	**1,301**	770	993
Short term investments	**324**	308	397
Security deposits included in other assets	**194**	308	250
Fair value of financial derivatives related to the above	**182**	112	178
	2,001	1,498	1,818
Net debt	**$ 2,665**	$ 2,990	$ 2,783

The Second Preferred Shares, Series A are classified as capital securities and are excluded from the calculation of net debt. For the purpose of calculating net debt, fair value of financial derivatives is not credit value adjusted in accordance with Emerging Issues Committee ("EIC") 173. As at June 19, 2010, the credit value adjustment was a loss of $5 million (June 20, 2009 – $7 million; January 2, 2010 – $4 million).

Net Assets The following table reconciles net assets used in the rolling year return on average net assets ratio to Canadian GAAP measures reported as at the periods ended as indicated. The Company believes that the rolling year return on average net assets is useful in assessing the return on productive assets.

Net assets is calculated as total assets less cash and cash equivalents, short term investments, security deposits included in other assets and accounts payable and accrued liabilities.

($ millions)	As at June 19, 2010	As at June 20, 2009	As at January 2, 2010
Canadian GAAP total assets	**$ 15,128**	$ 13,974	$ 14,991
Less: Cash and cash equivalents	**1,301**	770	993
Short term investments	**324**	308	397
Security deposits included in other assets	**194**	308	250
Accounts payable and accrued liabilities	**3,106**	2,740	3,279
Net assets	**$ 10,203**	$ 9,848	$ 10,072

Equity The following table reconciles equity used in the net debt to equity ratio to Canadian GAAP measures reported as at the periods ended.

Equity is calculated as the sum of capital securities and shareholder's equity.

($ millions)	As at June 19, 2010	As at June 20, 2009	As at January 2, 2010
Capital securities	**$ 220**	$ 219	$ 220
Shareholders' equity	**6,510**	5,969	6,273
Equity	**$ 6,730**	$ 6,188	$ 6,493

Consolidated Statements of Earnings

(unaudited)

For the periods ended June 19, 2010 and June 20, 2009 ($ millions except where otherwise indicated)	**2010** **(12 weeks)**	2009 (12 weeks)	**2010** **(24 weeks)**	2009 (24 weeks)
Sales	**$ 7,317**	$ 7,233	**$ 14,243**	$ 13,951
Cost of Merchandise Inventories Sold (note 10)	**5,524**	5,544	**10,730**	10,648
Gross Profit	**1,793**	1,689	**3,513**	3,303
Operating Expenses				
Selling and administrative expenses (note 4)	**1,314**	1,230	**2,622**	2,486
Depreciation and amortization	**149**	135	**301**	267
	1,463	1,365	**2,923**	2,753
Operating Income	**330**	324	**590**	550
Interest expense and other financing charges (note 5)	**64**	60	**132**	121
Earnings before Income Taxes and Minority Interest	**266**	264	**458**	429
Income taxes (note 6)	**78**	68	**137**	129
Net Earnings before Minority Interest	**188**	196	**321**	300
Minority interest	**8**	3	**4**	(2)
Net Earnings	**$ 180**	$ 193	**$ 317**	$ 302
Net Earnings Per Common Share ($) (note 7)				
Basic and diluted	**$ 0.64**	$ 0.70	**$ 1.14**	$ 1.10

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

Consolidated Statements of Changes in Shareholders' Equity

(unaudited)

For the periods ended June 19, 2010 and June 20, 2009 ($ millions except where otherwise indicated)	**2010** **(24 weeks)**	2009 (24 weeks)
Common Share Capital, Beginning of Period	**$ 1,308**	$ 1,196
Common shares issued (note 13)	**41**	–
Common Share Capital, End of Period	**1,349**	$ 1,196
Retained Earnings, Beginning of Period	**$ 4,948**	$ 4,577
Cumulative impact of implementing new accounting standards (note 2)	**–**	(6)
Net earnings	**317**	302
Dividends declared per common share – 42¢ (2009 – 42¢)	**(116)**	(115)
Retained Earnings, End of Period	**$ 5,149**	$ 4,758
Accumulated Other Comprehensive Income, Beginning of Period	**$ 17**	$ 30
Cumulative impact of implementing new accounting standards (note 2)	**–**	(2)
Other comprehensive loss	**(5)**	(13)
Accumulated Other Comprehensive Income, End of Period (note 15)	**$ 12**	$ 15
Total Shareholders' Equity	**$ 6,510**	$ 5,969

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

Consolidated Statements of Comprehensive Income

(unaudited)

For the periods ended June 19, 2010 and June 20, 2009 ($ millions)	**2010** **(12 weeks)**	2009 (12 weeks)	**2010** **(24 weeks)**	2009 (24 weeks)
Net earnings	**$ 180**	$ 193	**$ 317**	$ 302
Other comprehensive income, net of income taxes				
Net unrealized loss on available-for-sale financial assets	**(1)**	(18)	**(5)**	(11)
Reclassification of net loss (gain) on available-for-sale financial assets to net earnings	**4**	(10)	**8**	(24)
	3	(28)	**3**	(35)
Net (loss) gain on derivatives designated as cash flow hedges	**–**	9	**(2)**	6
Reclassification of net (gain) loss on derivatives designated as cash flow hedges to net earnings	**(3)**	11	**(6)**	16
	(3)	20	**(8)**	22
Other comprehensive loss	**–**	(8)	**(5)**	(13)
Total Comprehensive Income	**$ 180**	$ 185	**$ 312**	$ 289

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

Consolidated Balance Sheets

($ millions)	As at June 19, 2010 (unaudited)	As at June 20, 2009 (unaudited)	As at January 2, 2010 (audited)
Assets			
Current Assets			
Cash and cash equivalents (note 8)	**$ 1,301**	$ 770	$ 993
Short term investments	**324**	308	397
Accounts receivable (note 9)	**643**	644	774
Inventories (note 10)	**2,085**	2,115	2,112
Income taxes	**–**	49	–
Future income taxes	**45**	34	38
Prepaid expenses and other assets	**127**	122	92
Total Current Assets	**4,525**	4,042	4,406
Fixed Assets	**8,599**	8,103	8,559
Goodwill and Intangible Assets	**1,024**	819	1,026
Other Assets	**980**	1,010	1,000
Total Assets	**$ 15,128**	$ 13,974	$ 14,991
Liabilities			
Current Liabilities			
Bank indebtedness	**$ 8**	$ 1	$ 2
Accounts payable and accrued liabilities	**3,106**	2,740	3,279
Income taxes payable	**28**	–	41
Long term debt due within one year	**403**	340	343
Total Current Liabilities	**3,545**	3,081	3,665
Long Term Debt (note 12)	**4,169**	4,091	4,162
Other Liabilities	**520**	441	497
Future Income Taxes	**138**	155	143
Capital Securities	**220**	219	220
Minority Interest	**26**	18	31
Total Liabilities	**8,618**	8,005	8,718
Shareholders' Equity			
Common Share Capital	**1,349**	1,196	1,308
Retained Earnings	**5,149**	4,758	4,948
Accumulated Other Comprehensive Income (note 15)	**12**	15	17
Total Shareholders' Equity	**6,510**	5,969	6,273
Total Liabilities and Shareholders' Equity	**$ 15,128**	$ 13,974	$ 14,991

Contingencies, commitments and guarantees (note 16).

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

Consolidated Cash Flow Statements
(unaudited)

For the periods ended June 19, 2010 and June 20, 2009 ($ millions)	**2010** **(12 weeks)**	2009 (12 weeks)	**2010** **(24 weeks)**	2009 (24 weeks)
Operating Activities				
Net earnings before minority interest	**$ 188**	$ 196	**$ 321**	$ 300
Depreciation and amortization	**149**	135	**301**	267
Future income taxes	**22**	(3)	**(12)**	3
Settlement of equity forward contracts (note 14)	**–**	(38)	**–**	(38)
Change in non-cash working capital	**196**	526	**(274)**	(58)
Other	**59**	15	**68**	1
Cash Flows from Operating Activities	**614**	831	**404**	475
Investing Activities				
Fixed asset purchases	**(217)**	(199)	**(365)**	(322)
Short term investments	**(52)**	(15)	**62**	(104)
Proceeds from fixed asset sales	**3**	1	**16**	6
Credit card receivables, after securitization (note 9)	**(9)**	(21)	**124**	208
Franchise investments and other receivables	**6**	8	**7**	(9)
Other	**(1)**	124	**29**	89
Cash Flows used in Investing Activities	**(270)**	(102)	**(127)**	(132)
Financing Activities				
Bank indebtedness	**7**	(76)	**6**	(51)
Short term debt	**–**	(574)	**–**	(190)
Long term debt				
Issued (note 12)	**352**	352	**377**	360
Retired (note 12)	**(311)**	(4)	**(322)**	(139)
Dividends	**(17)**	(58)	**(17)**	(58)
Cash Flows from (used in) Financing Activities	**31**	(360)	**44**	(78)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**(2)**	(37)	**(13)**	(23)
Change in Cash and Cash Equivalents	**373**	332	**308**	242
Cash and Cash Equivalents, Beginning of Period	**928**	438	**993**	528
Cash and Cash Equivalents, End of Period	**$ 1,301**	$ 770	**$ 1,301**	$ 770

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

Notes to the Unaudited Interim Period Consolidated Financial Statements

($ millions except where otherwise indicated)

Note 1. Summary of Significant Accounting Principles

Basis of Presentation The unaudited interim period consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods of application as those used in the preparation of the 2009 audited annual consolidated financial statements and related notes for the year ended January 2, 2010 contained in the Annual Report – Financial Review ("2009 Annual Report"). Under Canadian GAAP, additional disclosure is required in annual financial statements and accordingly the unaudited interim period consolidated financial statements should be read together with the audited annual consolidated financial statements and the accompanying notes included in the Loblaw Companies Limited 2009 Annual Report.

Basis of Consolidation The unaudited consolidated interim financial statements include the accounts of Loblaw Companies Limited and its subsidiaries, collectively referred to as the "Company". The Company's interest in the voting share capital of its subsidiaries is 100%.

The Company also consolidates variable interest entities ("VIEs") pursuant to Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, "Consolidation of Variable Interest Entities" ("AcG 15"), that are subject to control by Loblaw on a basis other than through ownership of a majority of voting interest. AcG 15 defines a variable interest entity as an entity that either does not have sufficient equity at risk to finance its activities without subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. AcG 15 requires the primary beneficiary to consolidate VIEs and considers an entity to be the primary beneficiary of a VIE if it holds variable interests that expose it to a majority of the VIEs' expected losses or that entitle it to receive a majority of the VIEs' expected residual returns or both.

Presentation Certain prior year information has been reclassified to conform with current year presentation.

Use of Estimates and Assumptions The preparation of the unaudited interim period consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosures made in the unaudited interim period consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's historical experience, best knowledge of current events and conditions and activities that may be undertaken in the future. Actual results could differ from these estimates.

Certain estimates, such as those related to valuation of inventories, goodwill and intangible assets, income taxes, fixed asset impairment and employee future benefits, depend upon subjective or complex judgments about matters that may be uncertain, and changes in those estimates could materially impact the consolidated financial statements. Illiquid credit markets, volatile equity, foreign currency, energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Future Accounting Standards

Business Combinations In January 2009, the CICA issued Section 1582, "Business Combinations," which will replace Section 1581 of the same title and issued Sections 1601 "Consolidated Financial Statements" and 1602 "Non-Controlling Interests". These standards will harmonize Canadian GAAP with International Financial Reporting Standards. The amendments establish principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including non-controlling interests, contingent consideration, and certain acquired contingencies. The amendments also require that acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. The impact of implementing these amendments is currently being assessed.

Note 2. Implementation of New Accounting Standards

Accounting Standards Implemented in 2009

Goodwill and Intangible Assets In November 2007, the CICA issued amendments to Section 1000 "Financial Statement Concepts", and Accounting Guideline 11 "Enterprises in the Development Stage", issued a new Handbook Section 3064 "Goodwill and Intangible Assets" ("Section 3064") to replace Section 3062 "Goodwill and Other Intangible Assets", withdrew Section 3450 "Research and Development Costs" and amended Emerging Issues Committee ("EIC") 27 "Revenues and Expenditures During the Pre-operating Period" to not apply to entities that have adopted Section 3064. These amendments, in conjunction with Section 3064, provide guidance for the recognition of intangible assets, including internally developed assets from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The Company implemented these requirements effective 2009, retroactively with restatement of comparative periods.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities On January 20, 2009 EIC 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" was issued. The committee reached a consensus that a company's credit risk and the credit risk of its counterparties should be considered when determining the fair value of its financial assets and financial liabilities, including derivative instruments. The transitional provisions require the abstract to be applied retrospectively without restatement of prior periods. Financial assets and financial liabilities, including derivative instruments, have been remeasured as at January 4, 2009 to take into account the appropriate Company's credit risk and counterparty credit risk. As a result, a decrease in other assets of $12, a decrease in other liabilities of $4, a decrease net of income taxes in accumulated other comprehensive income of $2 and a decrease in retained earnings of $6 were recorded in the consolidated balance sheet.

Financial Instruments – Disclosures In June 2009, the CICA amended Section 3862, "Financial Instruments – Disclosures," to include additional disclosure relating to the measurement of fair value for financial instruments and liquidity risk. The amendment establishes a three level hierarchy that reflects the significance of the inputs used in fair value measurements on financial instruments. The amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009, and was implemented by the Company as part of the 2009 annual report. See note 2 of the 2009 Annual Report for more information.

Note 3. Business Acquisitions

In the first quarter of 2010, the Company finalized the purchase price allocation related to the acquisition of T&T Supermarket Inc. acquired in 2009 which resulted in a reduction of goodwill of $2.

Note 4. Distribution Network Costs

On April 27, 2010, the Company announced changes to its distribution network in Quebec. In connection with these changes a certain distribution centre was closed and an asset impairment charge of $23 was recorded as the carrying value of the facility exceeded the fair value. In addition, employee termination charges and other costs of $16 were incurred. As at June 19, 2010, $12 was recorded on the consolidated balance sheet in accounts payable and accrued liabilities related to these charges.

Note 5. Interest Expense and Other Financing Charges

($ millions)	**2010 (12 weeks)**	2009 (12 weeks)	**2010 (24 weeks)**	2009 (24 weeks)
Interest on long term debt	**$ 64**	$ 64	**$ 133**	$ 127
Interest expense on financial derivative instruments	**1**	–	**3**	1
Net short term interest income	**–**	(3)	**(1)**	(3)
Interest income on security deposits	**–**	–	**–**	(1)
Dividends on capital securities	**4**	4	**7**	7
Capitalized to fixed assets	**(5)**	(5)	**(10)**	(10)
Interest expense	**$ 64**	$ 60	**$ 132**	$ 121

Interest and dividends on capital securities paid in the second quarter of 2010 was $110 (2009 – $106), and interest received was $14 (2009 − $23). Interest and dividends on capital securities paid year-to-date was $181 (2009 – $190) and interest received year-to-date was $23 (2009 – $44).

Note 6. Income Taxes

The effective income tax rate in the second quarter of 2010 was 29.3% (2009 - 25.8%) and 29.9% (2009 – 30.1%) year-to-date. The quarter over quarter increase in the effective income tax rate was primarily due to an increase in the current year income tax expense over the prior year income tax recoveries relating to certain prior year income tax matters and the change in the proportions of taxable income earned across different tax jurisdictions. The year over year decrease in the effective income tax rate was primarily due to the proportions of taxable income earned across different tax jurisdictions which was partially offset by an increase in income tax accruals relating to certain prior year income tax matters.

Net income taxes paid in the second quarter were $56 (2009 – $24), and $156 (2009 – $124) year-to-date.

Note 7. Basic and Diluted Net Earnings per Common Share ($, except where otherwise indicated)

	2010 (12 weeks)	2009 (12 weeks)	**2010 (24 weeks)**	2009 (24 weeks)
Net earnings ($ millions)	**$ 180**	$ 193	**$ 317**	$ 302
Dividends on capital securities ($ millions)	**4**	4	**7**	7
Net earnings for diluted earnings per share ($ millions)	**184**	197	**324**	309
Weighted average common shares outstanding (in millions)	**277.2**	274.2	**276.9**	274.2
Dilutive effect of stock-based compensation (in millions)	**0.7**	0.2	**0.5**	0.2
Dilutive effect of capital securities (in millions)	**5.9**	6.9	**5.9**	6.9
Dilutive effect of dividend reinvestment plan (in millions)	**0.6**	0.7	**0.3**	0.3
Dilutive effect of certain other liabilities (in millions)	**0.9**	–	**0.9**	–
Diluted weighted average common shares outstanding (in millions)	**285.3**	282.0	**284.5**	281.6
Basic and diluted net earnings per common share ($)	**$ 0.64**	$ 0.70	**$ 1.14**	$ 1.10

Stock options outstanding with an exercise price greater than the market price of the Company's common shares at the end of the second quarter were not recognized in the computation of diluted net earnings per common share. Accordingly, in the second quarter of 2010, 2,782,578 (2009 – 4,259,475) stock options, with a weighted average exercise price of $52.81 (2009 – $52.86) per common share, were excluded from the computation of diluted net earnings per common share.

Note 8. Cash and Cash Equivalents

The components of cash and cash equivalents were as follows:

	As at June 19, 2010	As at June 20, 2009	As at January 2, 2010
Cash	**$ 71**	$ 136	$ 219
Cash equivalents – short term investments with a maturity of 90 days or less:			
Bank term deposits	**751**	185	385
Government treasury bills	**138**	256	168
Government-sponsored debt securities	**114**	89	40
Corporate commercial paper	**227**	104	181
Cash and cash equivalents	**$ 1,301**	$ 770	$ 993

In the second quarter of 2010, the Company recognized an unrealized foreign currency exchange loss of $4 (2009 – $92) and $29 (2009 – $63) year-to-date as a result of translating United States dollar denominated cash and cash equivalents, short term investments and security deposits, of which a loss of $2 (2009 – $37) in the quarter and $13 (2009 – $23) year-to-date related to cash and cash equivalents. The resulting quarter and year-to-date loss on cash and cash equivalents, short term investments and security deposits was partially offset in operating income and other comprehensive income by the unrealized foreign currency exchange gains of $4 (2009 – $90) in the quarter and $29 (2009 – $62) year-to-date on the cross currency swaps.

Note 9. Accounts Receivable

The components of accounts receivable were as follows:

($ millions)	**As at June 19, 2010**	As at June 20, 2009	As at January 2, 2010
Credit card receivables	**$ 1,906**	$ 1,991	$ 2,128
Amount securitized	**(1,635)**	(1,775)	(1,725)
Net credit card receivables	**271**	216	403
Other receivables	**372**	428	371
Accounts receivable	**$ 643**	$ 644	$ 774

Credit Card Receivables From time to time, President's Choice Bank ("PC Bank"), a wholly owned subsidiary of the Company, securitizes certain credit card receivables by selling them to independent trusts that issue interest bearing securities. During the second quarter of 2010, PC Bank repurchased nil (2009 – nil) and $90 (2009 – nil) year-to-date of co-ownership interest in securitized receivables from an independent trust. The independent trusts' recourse to PC Bank's assets is limited to PC Bank's excess collateral of $114 (June 20, 2009 – $124; January 2, 2010 – $121) as well as standby letters of credit issued of $103 (June 20, 2009 – $116; January 2, 2010 – $116) on a portion of the securitized amount. A portion of the securitized receivables that is held by an independent trust facility with a term of 364 days is subject to renewal during the third quarter of 2010.

Other Receivables Other receivables consist mainly of receivables from independent franchisees, associated stores and independent accounts.

Note 10. Inventories

For inventories recorded as at June 19, 2010, the Company recorded $16 (June 20, 2009 – $32) as an expense for the write-down of inventories below cost to net realizable value.

Note 11. Employee Future Benefits

The Company's total net benefit plan cost recognized in operating income was $42 (2009 – $41) for the second quarter and $87 (2009 – $85) year-to-date. The total net benefit plan cost included costs for the Company's defined benefit pension and other benefit plans, defined contribution pension plans and multi-employer pension plans.

Note 12. Long Term Debt

During the second quarter of 2010, the Company issued $350 principal amount of unsecured Medium Term Notes, Series 2-B pursuant to its Medium Term Notes, Series 2 program. The Series 2-B notes pay a fixed rate of interest of 5.22% payable semi-annually commencing on December 18, 2010 until maturity on June 18, 2020. During the second quarter of 2009, the Company issued $350 principal amount of unsecured Medium Term Notes, Series 2-A which pay a fixed rate of interest of 4.85% payable semi-annually. The Series 2-A and 2-B notes are subject to certain covenants and are unsecured obligations of Loblaw and rank equally with all the unsecured indebtedness that has not been subordinated. The Series 2-A and 2-B notes may be redeemed at the option of the Company, in whole at any time or in part from time to time, upon not less than 30 days and not more than 60 days notice to the holders of the notes.

During the second quarter of 2010, the $300 7.10% Medium Term Note matured and was repaid. In the first quarter of 2009, the $125 5.75% Medium Term Note matured and was repaid.

As at June 19, 2010, $307 (USD $300) of fixed rate notes was recorded in long term debt on the consolidated balance sheet.

Note 13. Share Capital ($, except where otherwise indicated)

Common Share Capital At the end of the second quarter of 2010, the Company's outstanding common share capital was comprised of common shares, an unlimited number of which were authorized and 277,308,711 (June 20, 2009 – 274,173,564; January 2, 2010 – 276,188,258) were issued and outstanding.

Dividends During the second quarter of 2010, the Board of Directors declared dividends of $0.21 (2009 – $0.21) with a payment date of July 1, 2010 and $0.42 (2009 – $0.42) year-to-date per common share. In addition, during the second quarter of 2010 dividends of $0.37 (2009 – $0.37) and $0.74 (2009 – $0.74) year-to-date per Second Preferred Share, Series A were declared with a payment date of July 31, 2010. For financial statement presentation purposes, second preferred share dividends of $4 million (2009 – $4 million) and $7 million (2009 – $7 million) are included for the twelve and twenty-four weeks ended June 19, 2010, respectively, as a component of interest expense and other financing charges on the Consolidated Statement of Earnings (see note 5). Subsequent to the end of the second quarter of 2010, the Board of Directors declared a quarterly dividend of $0.21 per common share payable October 1, 2010, and a quarterly dividend of $0.37 per Second Preferred Share, Series A, payable October 31, 2010.

Dividend Reinvestment Plan ("DRIP") During the second quarter of 2010, the Company issued 1,120,453 (2009 – nil) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in an increase in common share capital of $41 million (2009 – nil). Subsequent to the second quarter of 2010, the Company issued 1,122,833 (2009 – 1,163,201) common shares from treasury under the DRIP at a three percent (3%) discount to market resulting in an increase in common share capital of $42 million (2009 – $39 million).

Normal Course Issuer Bid ("NCIB") During the second quarter of 2010, the Company renewed its NCIB to purchase on the Toronto Stock Exchange, or enter into equity derivatives to purchase, up to 13,865,435 of the Company's common shares, representing approximately 5% of the common shares outstanding. In accordance with the rules and by-laws of the Toronto Stock Exchange, the Company may purchase its shares at the then market price of such shares. The Company did not purchase any shares under its NCIB during the first two quarters of 2010.

Note 14. Stock-Based Compensation ($, except where otherwise indicated)

The Company's net stock-based compensation cost recognized in operating income related to its stock option and restricted share unit plans, including Glenhuron Bank Limited's ("Glenhuron") equity forwards, was:

($ millions)	**June 19, 2010 (12 weeks)**	June 20, 2009 (12 weeks)	**June 19, 2010 (24 weeks)**	June 20, 2009 (24 weeks)
Stock option plan expense (income)	**$ 10**	$ 4	**$ 23**	$ 3
Equity forwards (income) loss	**(4)**	(14)	**(10)**	5
Restricted share unit plan expense	**5**	3	**7**	4
Net stock-based compensation (income) expense	**$ 11**	$ (7)	**$ 20**	$ 12

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

Number of options	**June 19, 2010 (12 weeks)**	June 20, 2009 (12 weeks)	**June 19, 2010 (24 weeks)**	June 20, 2009 (24 weeks)
Outstanding options, beginning of period	**9,835,263**	10,199,254	**9,207,816**	7,892,660
Granted	**10,525**	24,769	**2,489,095**	2,665,615
Exercised	**(125,195)**	(71,756)	**(424,975)**	(81,408)
Forfeited/cancelled	**(135,587)**	(591,586)	**(1,686,930)**	(916,186)
Outstanding options, end of period	**9,585,006**	9,560,681	**9,585,006**	9,560,681
Share appreciation value paid ($ millions)	**$ 1**	$ 0	**$ 3**	$ 0

Stock options were granted in the second quarter of 2010 at an exercise price of $37.92 (2009 – $36.17).

At the end of the second quarter of 2010, the outstanding stock options represented approximately 3.5% (2009 – 3.5%) of the Company's issued and outstanding common shares, which was within the Company's guideline of 5%. The Company's market price per common share at the end of the second quarter was $40.21 (2009 − $34.50).

Equity Forward Contracts As at June 19, 2010, Glenhuron had equity forward contracts to buy 1.5 million (June 20, 2009 – 3.2 million; January 2, 2010 – 1.5 million) of the Company's common shares at an average forward price of $66.73 (June 20, 2009 – $53.82; January 2, 2010 – $66.25) including $10.51 (June 20, 2009 – $9.20; January 2, 2010 – $10.03) per common share of interest expense. As at June 19, 2010, the interest and unrealized market loss of $40 million (June 20, 2009 – $62 million; January 2, 2010 – $48 million) was included in accounts payable and accrued liabilities. In the second quarter of 2009, Glenhuron paid $38 million to terminate equity forwards representing 1.6 million shares which led to the extinguishment of a corresponding portion of the associated liability.

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

Number of Awards	**June 19, 2010 (12 weeks)**	June 20, 2009 (12 weeks)	**June 19, 2010 (24 weeks)**	June 20, 2009 (24 weeks)
RSUs, beginning of period	**1,097,910**	1,054,156	**973,351**	829,399
Granted	**1,469**	3,994	**372,725**	429,087
Cancelled	**(9,398)**	(55,511)	**(92,403)**	(73,533)
Cash settled	**(8,072)**	(5,021)	**(171,764)**	(187,335)
RSUs, end of period	**1,081,909**	997,618	**1,081,909**	997,618
RSUs Cash Settled ($ millions)	**$ –**	$ –	**$ 6**	$ 6

Note 15. Accumulated Other Comprehensive Income

The following table provides further detail regarding the composition of accumulated other comprehensive income:

	24 weeks ended					
	June 19, 2010			June 20, 2009		
($ millions)	**Cash Flow Hedges**	**Available-for-sale Assets**	**Total**	Cash Flow Hedges	Available-for-sale Assets	Total
Balance, beginning of period	**$ 22**	**$ (5)**	**$ 17**	$ 14	$ 16	$ 30
Cumulative impact of implementing new accounting standards [net of income taxes recovered of nil (2009 − $1)] (see note 2)	**–**	**–**	**–**	(2)	–	(2)
Net unrealized loss on available-for-sale financial assets [net of income taxes of nil (2009 − nil)]	**–**	**(5)**	**(5)**	–	(11)	(11)
Reclassification of net loss (gain) on available-for-sale financial assets [net of income taxes of nil (2009 − $2)]	**–**	**8**	**8**	–	(24)	(24)
Net (loss) gain on derivatives designated as cash flow hedges [net of income taxes recovered of nil (2009 – $4)]	**(2)**	**–**	**(2)**	6	–	6
Reclassification of net (gain) loss on derivatives designated as cash flow hedges [net of income taxes recovered of $1 (2009 – $2)]	**(6)**	**–**	**(6)**	16	–	16
Balance, end of period	**$ 14**	**$ (2)**	**$ 12**	$ 34	$ (19)	$ 15

Note 16. Contingencies, Commitments and Guarantees

Guarantees − Independent Funding Trusts Certain independent franchisees of the Company obtain financing through a structure involving independent trusts, which were created to provide loans to the independent franchisees to facilitate their purchase of inventory and fixed assets, consisting mainly of fixtures and equipment. The trusts are administered by a major Canadian chartered bank.

The gross principal amount of loans issued to the Company's independent franchisees outstanding as at June 19, 2010 was $390 (June 20, 2009 – $387; January 2, 2010 – $390) including $178 (June 20, 2009 – $149; January 2, 2010 – $163) of loans payable by VIEs consolidated by the Company. The Company has agreed to provide credit enhancement of $66 (June 20, 2009 – $66; January 2, 2010 − $66) in the form of a standby letter of credit for the benefit of the independent funding trust representing not less than 15% of the principal amount of the loans outstanding. The standby letter of credit has never been drawn upon.

During the second quarter of 2010, the $475 million, 364-day revolving committed credit facility that is the source of funding to the independent trusts was renewed. The financing structure has been reviewed and the Company determined there were no additional VIEs to consolidate as a result of this financing.

Standby Letters of Credit Standby letters of credit for the benefit of independent trusts with respect to the credit card receivables securitization program of PC Bank have been issued by major Canadian chartered banks. These standby letters of credit could be drawn upon in the event of a major decline in the income flow from or in the value of the securitized credit card receivables. The Company has agreed to reimburse the issuing banks for any amount drawn on the standby letters of credit. The aggregate gross potential liability under these arrangements, which represents 9% (June 20, 2009 – 9%; January 2, 2010 – 9%) on a portion of the securitized credit card receivables amount, is approximately $103 (June 20, 2009 – $116; January 2, 2010 – $116) (see note 9).

Legal Proceedings The Company is the subject of various legal proceedings and claims that arise in the ordinary course of business. The outcome of all of these proceedings and claims is uncertain. However, based on information currently available, these proceedings and claims, individually and in the aggregate, are not expected to have a material impact on the Company.

Earnings Coverage Exhibit to the Unaudited Interim Consolidated Financial Statements

The following is the Company's updated earnings coverage ratio for the rolling 52 week period ended June 19, 2010 in connection with the Company's Short Form Base Shelf Prospectus dated June 5, 2008.

Earnings Coverage on long term debt obligations and capital securities[(1)]	4.12 times

The earnings coverage ratio on long term debt (including any current portion) and capital securities is equal to net earnings before interest on long term debt, dividends on capital securities, income taxes and minority interest divided by interest on long term debt and dividends on capital securities as shown in the notes to the consolidated financial statements of the Company for the period.

(1) Preferred shares are classified as capital securities and are included in liabilities on the consolidated balance sheet.

Corporate Profile

Loblaw Companies Limited, a subsidiary of George Weston Limited, is Canada's largest food distributor and a leading provider of drugstore, general merchandise and financial products and services. Loblaw is one of the largest private sector employers in Canada, with over 138,000 full-time and part-time employees executing its business strategy in more than 1,000 corporate and franchised stores from coast to coast. Through its portfolio of store formats, Loblaw is committed to providing Canadians with a wide, growing and successful range of products and services to meet the everyday household demands of Canadian consumers. Loblaw is known for the quality, innovation and value of its food offering. It offers Canada's strongest control (private) label program, including the unique *President's Choice*, *no name* and *Joe Fresh* brands. In addition, through its subsidiaries, the Company makes available to consumers *President's Choice Financial services* and offers the *PC* points loyalty program.

The Company's mission is to be Canada's best food, health and home retailer by exceeding customer expectations through innovative products at great prices. The Company initiated renewal plans three years ago to achieve its mission by transforming into a centralized marketing-led organization focused on customers, value, innovative and fresh products and stores, while leveraging its scale and asset base to drive profitable growth.

Trademarks

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

Shareholder Information

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue
Toronto, Canada
M5J 2Y1

Toll free: 1-800-564-6253
(Canada and US)
International direct dial:
(514) 982-7555
Fax: (416) 263-9394
Toll free fax: 1-888-453-0330

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

Investor Relations

Shareholders, security analysts and investment professionals should direct their requests to Kim Lee, Senior Director, Investor Relations at the Company's National Head Office or by e-mail at investor@loblaw.ca.

Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the Investor Zone section of the Company's website [www.loblaw.ca].

Dividend Reinvestment Program

Loblaw Companies Limited offers a Dividend Reinvestment Plan ("DRIP") that enables eligible shareholders of common shares to automatically reinvest their regular quarterly dividends in additional common shares of the Company.

The full text of the DRIP and an enrolment form are available on the website of the Company's Transfer Agent, Computershare Trust Company of Canada, at www.computershare.com/loblaw.

Shareholders wishing to participate in the DRIP must obtain and sign an enrolment form and return it to the Company's Transfer Agent at the following address prior to the cut-off for the 2010 third quarter, which is the close of business on September 10, 2010.

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario
M5J 2Y1
1-800-564-6253

Beneficial shareholders who hold their shares through a nominee, such as a broker or investment dealer, and who wish to participate in the DRIP should contact their nominee to enquire about enrolment.

Before participating, shareholders are advised to read the complete text of the DRIP and to consult their advisors regarding potential tax implications. At present, only Canadian residents may participate.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 22, 2010 at 11:00am (EST).

To access via tele-conference, please dial (647) 427-7450. The playback will be made available two hours after the event at (416) 849-0833, passcode: 79834676. To access via audio webcast please visit the "Investor Zone" section of www.loblaw.ca. Pre-registration will be available.

Full details are available on the Loblaw Companies Limited website at www.loblaw.ca.

Ce rapport est disponible en français.

This report was printed in Canada on recycled paper

Loblaw
COMPANIES LIMITED

Trading for today while building for tomorrow

Ce rapport est disponible en français.